

CHAPTER I

INTRODUCTION

1.1 Historical Background

The continuity in the flow of aid from the developed to the least developed countries after the Second World War had stamped a distinct position in the global political and the economic relations. In the aftermath of Second World War, most of the developed countries began to think about the economic balance through internal existence existed even before the war. But the activity of aid programs in fact has existed since the World War II. Still the cold war, the post- 1945 struggle between the United States and the Soviet Union continued and lasted until the Soviet Union dissolved in 1991. During the cold war, the United States assisted to more than hundred nations. Whatever has been the surface objective of aid in course of the early years of the cold war, the rationale for foreign aid, primarily was political the United States wanted to stop the spread of communism from Soviet Union and East European Block.

Nepal is the least developed country with per capita GDP only \$706 in the FY 2011/12 (MOF, 2013). About 23.8 percent of people are under the poverty line on the ending of 12th three years plan with annual growth rate of population 1.35 percent (CBS, 2011). The main goal of least developed countries like Nepal is to attain high rate of economic growth, reduction of income inequality and poverty and to improve the standard of living of the people. In order to attain such goal our country needs huge investment in

physical infrastructure, industry, agriculture, transportation, commerce, electricity etc. So it is necessary to get foreign aid as revenue to invest in basic needs.

There are two main sources of foreign aid in Nepal. They are multilateral and bilateral aid. Countries like USA, UK, India, China, France, Germany, The Netherlands, Canada, Russia, GHZ of Germany, DFID of UK etc are bilateral donor agencies whereas WB, IMF, ADB, UNDP, OPEC, UNESCO etc are multilateral donor agencies. In early days, countries get aid to face natural calamities like earthquakes, war and floods etc. The scope of foreign aid has broadened; such aids especially include assistance on socio-economic betterment of a country.

The Development Assistance Committee (DAC) of the Organization of Economic Co-operation and Development (OECD) of UN records has defined it as "The flow of long-term financial resources to less developed countries from multilateral agencies including official flow and private investment, private lending and export credit as constituting foreign aids." This definition seems to be very broad and not all its contents by many economists are put under the topic 'foreign aids'.

To sum up, foreign aid comprises of the foreign resources either capital or technical help provided to less developed countries either by comparatively advanced countries or by multilateral agencies or by foreign private organizations especially in the form of grants or loans. It mainly includes the inflow of economic and technical assistance for relief from poverty war and natural disasters and for the long-term development of the poorer countries

in order to support their population at higher material standard of living. Foreign aid is meant for economic and social development of less developed countries.

In the context of Nepal, receiving foreign aid seems to have started with the adoption of technical assistance of the British Government for the Sundarijal and Pharping hydropower project during Rana regime. The formal initiation of economic assistance is found to start with the 'Point Four Program, in which Nepal formally signed with the US government taking first financial support in 23 January, 1951. In the same year India had also provided fund to systematically collect statistical information for better planning process. In 1952, Nepal took part in the 'Colombo Plan', which gave her sound progress in the field of receiving bilateral aids. After this, the developed countries such as the UK, Japan, Canada, Australia, The USSR, and Germany etc. started to help Nepal with capital assistances in different fields. Nepal began to achieve multilateral aids after she received the membership of UNO in 1955 (Guragain, 2006).

In Nepal, loans, grants and other forms of financial assistance have often gone towards balancing the budget. The United States of America has also been a key aid contributor, but unlike Indian and Chinese donations, there has been little antagonism between it and other players. In more recent years, the aid from International Non-Government Organizations (INGOs) has increased in importance has direct aid from other developed nations.

The economic assistance of India in Nepal began to flow from October 1951 when two Nepalese officials took six months training in statistics in India.

This is the point of departure of the Indian aid in Nepal. The efforts behind the Indian aid are to support government of Nepal to increase the standard of living as well as to develop the national economy. Indian aid is based on humanitarian as economic sectors like agriculture, industry, infrastructure development, education, health technical, manpower, financial and commodity terms. After the establishment of diplomatic relation on August 1955 between Nepal and China, China was supporting financial, technical industry, infrastructure development in Nepal.

1.2 Statement of the Problem

The common characteristics of least developed countries like Nepal are population growth, mass poverty and inequality, increasing unemployment, resource constraint, high dependency in agriculture and poor infrastructure. To solve these problems our country has began plan development since 1956. Nine fifth year Plan and three three-year plans already completed and concept paper of 13th three years plan is under operation.

The government expenditure is increasing every year but the revenue is not growing equivalently as per the expenditure. Every year, there is high resource-gap in the budget of Nepal i.e. the budget of deficit. The expenditure is higher than the revenue collection in the budget. In this situation, foreign aid can only play the crucial role to fulfill this gap. Domestic sources of capital are not enough to meet this gap between developed and least developed countries. So, only the foreign aid plays an important role to raise the nation from its backwardness by the technical

revolution to mobilize resources for economic growth, it can also transfer the resources from developed to least developed countries (Pokhrel, 2011).

Increment of foreign aid is observed every year. As compared to FY 2009/10 and 2010/11 foreign aid increased 14.19 percent. In FY 2011/12 foreign aid decreases 11.7 percent compared to previous FY 2010/11. Similarly, in FY 2011/12 foreign aid commitment was 98178.70 million and disbursement was 51893.40 million it is clearly seen that there is huge gap (46285.30 million) between commitment and disbursement. Donors are not providing their committed aid due to various reasons such as lack of clear commitment from the government, donors own strategic interest rather than economic development, corruption, ineffective monitoring system of recipient country. There is no doubt that foreign aid has been playing a vital role for the economic progress. If foreign aid has been use properly transparently, coordinately with the full co-operation of the people of targeted group, it would change in the socio-economic condition of the people. However, there are many problems in effective uses of foreign aid by least developed country like Nepal.

Hence the main researchable questions in this study are:

- i. What is the role of foreign aid in economic development of Nepal?
- ii. What are the problems of foreign aid in Nepal?
- iii. Is Nepal getting improved economic condition due to Indian and Chinese aid?

1.3 Objectives of the Study

The general objective of this study is to analyze the nature, contribution and areas of foreign aid with specific reference on India and China. However, the specific objectives of the study are as follows:

- i) To explore the history and sectoral allocation of foreign aid to Nepal.
- ii) To analyze the structure and trend of foreign aid to Nepal.
- iii) To analyze the contribution of Chinese and Indian aid to Nepalese economy.

1.4 Significance of the Study

Foreign aid is widely accepted as a means for the development in least developed country like Nepal. In the least developed country, domestic saving and taxation only cannot achieve the required investment for the meaningful economic growth. Nepal faces huge problem of deficiency in resource mobilization due to low saving and high consumption. So, there is resource gap between expenditure and revenue in Nepalese economy. To bridge this gap, foreign aid is very important.

India and China are the major countries, which countries always help Nepal to accelerate the pace of economic development in Nepal. Indian and Chinese aid covers the important sector of the Nepalese economy such as physical infrastructure (Roads, Airports, Bridges, Railways, communication, Hydropower development, Irrigation and drinking water, education and

health, agriculture and forestry, industrial development, good governance etc). Thus this study aims to analyze the overall pattern, major contribution of Indian and Chinese aid in economic development in Nepal.

This is a descriptive, analytical and comparative study. I have chosen china and India, first India and China are emerging big neighbor countries having different political ideologies. Secondly, they are occupying the front line positions among donor countries in Nepal. Thirdly, their cooperation has far-reaching significance not only in its economic but also on socio-political sector of Nepal.

Drawing upon descriptive and analytical studies of government policies adopted by Nepal, India, and China, published books and articles on foreign aid from India and China, recent documents of various analysis groups and think-tank, this thesis addresses the secondary research questions. The findings will be significant for policy makers of Nepal as they formulate foreign policies regarding India and China. They will also help others realize the challenges and opportunities facing small and politically unstable countries like Nepal that are situated between two powerful neighbors with an ongoing rivalry and differing interests.

1.5 Limitations of the Study

Foreign aid is no doubt influences almost all sectors of the Nepalese economy because there is hardly any sector in which such assistance has not been taken. Moreover, Nepal has received so many assistances from bilateral and multilateral agencies.

- i) It covers the foreign assistance to Nepal dating from FY 1985/86 to 2012/13.
- ii) Foreign private investments are not included in the analysis.
- iii) Military assistance also excluded from the study.

1.6 Organization of the Study

The entire thesis is divided into the seven different chapters. The first chapter is about the introduction, which includes background of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and finally organization of the study. The second chapter deals with the literature related to the study starting from the foreign aid. The chapter tries to present to past studies related to foreign aid. The third chapter presents the methodology included research design, sources of data and data processing and analysis. The fourth chapter is related to data analysis, interpretation, and discussion. The fifth chapter is about the Indian aid to Nepal which includes mainly focuses on contribution of Indian aid in Nepalese economy. Similarly chapter six includes the Chinese aid to Nepal which mainly focuses on the contribution of Chinese aid in the Nepalese economy and last chapter is about the summary, conclusion and recommendation in problem regarding the foreign aid.

CHAPTER II

REVIEW OF LITERATURE

This chapter includes theoretical framework of foreign aid, related studies of foreign aid in international context and Nepalese context. A number of books and articles written on the history of foreign aid and its impact on Nepalese economy, the economic relationship of Nepal with India and China, Sino-Indian relations were reviewed and the review is presented in this chapter.

2.1 Theoretical Framework

Though the concept of foreign aid is not a recent phenomenon, it has global significance especially in the least developed countries and is associated normally with the national government and international organization although there are certain private institutions or organizations which extend support to the aid seeking countries.

Foreign aid means transfer of resources from the industrialized to the developing countries. But after the Second World War, the common meaning of foreign aid has changed and also been influenced by the political and economic interest of donor countries. The development assistance committee (DAC) of the OECD of UN records has defined it as "The flow of long-term financial resources for less developed countries from multilateral agencies including official flow and expert credit." In this definition, much emphasis has been given on the transfer of real resource to the developing countries but technical knowledge and its impact on the whole economy seems to be neglected in definition.

The least developed countries report defined foreign assistance as all transaction (for a country or an international organization), which result in a permanent net addition to total resources available for economic development of another country". According to the United Nations, aid consist only outright grants and net loan term by leading international organization. Nowadays giving foreign aid either in the form of grant or loans has been considered as the responsibility of the international community.

In the process of economic development, a country faces the situation where it's domestic saving are short of investment requirements and where its imports needs are longer than its export capacity for the purpose of attaining a targeted rate of economic development. By the help of foreign aid, it can fulfill its desire of development, filling the gap between saving and investment. So, foreign aid plays a supplementary role to solve the foreign exchange problem, the saving gap problem and technology gap problem which are hindrances for such countries at the initial state of economic development.

In the global context, a country can not stand in isolation. It is interdependent with other countries. In case of the developing countries like Nepal, there is saving-investment gap problem, technology gap problem and recourse gap problem in the economy. In this situation, the gap seems to be impossible to fulfill the internal resources and there is need of external capital.

Nevertheless, foreign aid will not be as useful in encouraging economic growth when the donor shapes its program with another goal in mind. The recipient may know that it is considered strategically important and may

therefore be unwilling to adopt policies that would promote long term development, particularly if the policies are painful in the short run. Rather than adopt needed reforms, recipient countries may use the aid to compensate for inefficient economic policies. Nepal is one of such least developed countries whose savings are low because of low economic growth and vice-versa. Because of the low level of income, level of consumption is also low. To increase the consumption, level of income should also be increased.

Over-time, foreign aid has proved to be an effective instrument contributing to significant improvements in the socio-economic development of the country, and much physical infrastructure such as roads, irrigation facilities, hydropower as well as education and health services, drinking water and sanitation facilities, have been constructed with foreign assistance. Foreign aid has also contributed to the development of policy dialogue, catalyzed economic reforms, enhanced the capability of public policymakers and provided financial assistance for public services.

Another early explication of foreign aid is provided by Holl's Chehery, who defines foreign aid as an instrument of bridging various gaps and relieving various bottlenecks existing in a underdeveloped economy. For a country to develop on its own, it would require "skills domestic saving, and export earnings as well as an allocation of these rising levels of income" (Chenery and Strout 1966: 680) which would be almost impossible for a developing country to achieve; the role of foreign aid would be provide capital and other resources to fill these short comings. Chenery, with co-authors Bruno (1962) and Strout (1966) has formalized this fill are the saving investment gap and the foreign exchange gap. Centralized planning and a fixed exchange rate regime seem to be the implicit assumptions behind this concept, for this

model as decision-maker, and assumes away any complications that fluctuations in exports and imports prices (which might affect saving, and thus investment, in a country) could bring about as a result of floating exchange rate for the domestic currency.

The “two gap” model is actually quite simplistic and very intuitive. The model starts with the familiar equation for national accounts.

$$Y = C + I + G + (X-M)$$

Here Y stands for national output (which is the total production within the boundaries of a given country i.e. GDP. The gross national product GNP, would include an additional variable – the net factor income from abroad) C stands for consumption and I stands for investment. G stands for government expenditure, which is exogenous to the consumption decisions made by citizens X stands for exports and M for imports.

Saving in this economy is the excess of production over consumption, both by private citizens and the government symbolically,

$$S = Y - (C + G)$$

Plugging this equation in the national accounts identity gives.

$$S = I + X - M$$

Rearranging this equation gives the required results.

$$I - S = M - X$$

This equation states that the excess of investment over savings should be balanced by the excess of imports over exports.

The left hand side of the equation is the saving-investment gap; it is gap exists between the investment that is thought to be required for the development of country and the saving that has been generated within the country when saving falls short of the amount needed for investment, the planned growth target can not be achieved, this short fall is the gap that foreign aid intends to fill.

2.2 Review of Empirical Studies

Literature review gives a clear idea and relevancy of current study in order to real findings. There has been several study made about the foreign assistance. Many national as well as international writers explain about the foreign aid in national and international context which are as follows:

2.2.1 International Context

Papanek (1913) finds that foreign aid has a greater effect on growth than the other variables after a cross country regression analysis of thirty four countries, treating foreign aid, foreign investment other flows and domestic saving as explanatory variable. He explains, "Aid is supposed to be specifically designed to foster growth and more importantly is biased toward countries with a balance of payment constraint". He also finds a strong negative correlation between foreign aid and domestic saving, which he believes co-contributed to the growth performance.

Higgins (1968) emphasizes the important of foreign aid due to low saving-investment ratio in developing countries. Since it is unlikely that measures to increase voluntarily domestic saving along or even measure for voluntary and compulsory saving together could provided all the financial sources needed

for development of underdeveloped countries. Primarily, foreign aid was in the construction of the social overhead capital such as roads, dams, electric projects etc. In the meanwhile, the development work in LDCs is just equated with public utilities and more often with basic necessities contrary to developed and fast-growing economy. However, foreign aid has been a fundamental aspect without which development process get obstructed in a long run.

Hawkins (1970) has written that foreign aid is only a recent phenomenon originating in the international scene after Second World War. Foreign aid will remain as a permanent part of international economy and will continue to precede development and thinking which will influence the amount and character of foreign aid. The foreign aid and purposes in the modern worlds were new of course and for Americans aid was one of the novel aspects of their involvement in the world as a great power so long as that involvement continues, American aid was likely to continue. The reasons for which aid should be given and in what kind and magnitude aids are indeed the central question. He focused on aid in the form of transactions between rich and poor but independent governments were very restricted about its scope before 1960. The Soviet Union has begun to lend on a small scale to non-communist developing countries with avowedly political objectives. Other countries were just beginning to the involved in aid for social infrastructure as well as economic development.

Meir (2002) describes that “On the positive side of the factor of experience and the knowledge that has come with it. To analyze who has followed aid activity over an extended period, it is evident that the equality of aid

operations has slowly continued to improve. Donor agencies have learned a great deal about the development process. They are doing better policy analysis. There is more emphasis on incentives and finding simpler and more flexible aid procedures. A development advisory committee report concluded that findings of project evaluation show that about 33 percent of aids on capital project are highly successful, 33percent can be judged satisfactorily and 33 percent are disappointing. Of these, last 10 percent of the totals have to be regarded as a total loss”.

Arellano, Gulir, Lale, and Lipshitz (2005) examine the effect of aid and its validity on consumption, investment and structure of production in the content of an inter-temporal tow sector general equilibrium model. A permanent flow of aid finances mainly in consumption a result consistent with the historical failure of aid inflows to translate in to sustained growth. Shocks to aid are reflected mainly in investment fluctuation as a result of consumption smoothing. Aid shocks result in substantial welfare losses, suggesting that aid variability should be taken in to account in designing aid architecture. These results are consistent with the evidence from cross-country regressions of manufacture exports.

Finally, they suggested that aid variability has potentially large welfare effects, which should be taken in to account in designing aid architecture. These effects of aid variability attenuate but do not eliminate the welfare benefits of receiving aid. The benefits against productivity shocks could be very substantial.

2.2.2 Nepalese Context

Aryal (1979) analyzes the objectives of addressing the magnitude of foreign aid in Nepal and gives the historical analysis of Chinese aid in Nepal. He uses the time series data from 1959/60 to 1976/77 and uses the descriptive method for the analysis of data. In his findings, he says that foreign aid has affected the economic development of Nepal. He adds that competition among foreign aid giving countries is a problem for Nepal. He recommends that foreign aid should depend on the absorptive capacity of the recipient country. In his view, aid recipient country should suggest appropriate projects to the donors, which will be beneficial for the rapid development of the country.

Paudyal (1980) concluded that India has been a pioneer and continues to be the foremost in the field of assistance to Nepal in initiating and accelerating the process of her economic development. His study includes the Indian aid to Nepal since initial stage of cooperation up to 1979/80. After 1979/80, many economic activities have been held under India-Nepal cooperation. They are still under the shadow.

Poudyal (1983) explains the foreign aid is heavily concentrated on infrastructures, particularly roads and hence sectoral complementarily is lacking. The relative negligence of others has inhibited the growth in production base of the country. An empirical study shows that there is positive relationship between foreign aid and GDP growth. GDP, domestic saving and consumption are highly stable increasing functions of foreign aid. Elasticity of consumption with respect to foreign aid is lower than the

elasticity of domestic saving with respect to foreign aid. This reveals the positive effect of foreign aid is more on saving than on consumption.

Gurung (1984) describes the foreign assistance to least developed countries is less related with economic consideration but more with strategic and political implication. Economically developed countries are to be externally oriented and most of foreign agencies have to rely on their own infrastructure before planning aid programs. The poor domestic saving rate and economic resources to finance the development expenditure required the external assistance. Thus, there is excess in meeting government expenditure.

Lama (1985) says that the impact of India aid to Nepal has not been as effective as expected mainly because of the lack of foresight in both the countries. He argues that political factor is the root cause of smooth and proper implementation of Indian aided projects. Had the absorptive capacity of Nepal been higher and advanced the impact of Indian aid could have been more. Finally, he says due to the lack in proper planning and presence of leakages of aid in Nepal, have made the Indo-Nepalese co-operation more complex.

Upreti (1988) shows six kinds of aid in different perspective. They are as follows.

- I. Capital Aid: - Capital aid includes grants and loans. It may be given for different purposes such as development & infrastructure maintenance, aid including intermediate good and raw materials, the utilization of already built up capacity and general purpose.

- II. Technical Aid: - Technical aid includes the services of technical expertise, scholarships and fellowships.
- III. Multilateral Aid: This is that form of aid which is given through interactive agencies like IMF, WB, IBRD etc.
- IV. Bilateral Aid: - Bilateral aid is the flow from the government of one country to government of another.
- V. Tied Aid:- Foreign aid given for a specific project is known as 'tied aid'. Tied aids are of two types: source-tied and project-tied.
- VI. Untied Aid:- Untied aid is not related to any specific project. It is given to raise capital for the plans and the annual development budget of the recipient countries. The recipient country is free to utilize such aid according to their needs and priorities.

Khadka (1991) has categorized aid into two kinds: loan and grant. He further says, "Until the late fifties, Nepal received much grants; in early sixties, it also procured some external loan for industrial finance which was mainly indirect obligation of the government. Since the first loan agreement signed by Nepal with the government of US in July 1960, there has been an increasing mix of loan and grants in the aid scene." He claims that if this imperative grows over the years Nepal will fall into the aid trap even to maintain the existing capacity.

Thakur (1994) states that some other factors which are also responsible for determining foreign aid to the least developed countries like Nepal.

- i) Geo – political factor: - Nepal is surrounded by the giant countries India: a democratic republic with capitalized economy on the East west south and China: other republic with socialist economy on the North. The plane in the south is much more developed with better

facilities of electricity, transportation, irrigation etc. while the mountainous region, due to deficiency of even basic infrastructural works, is far behind in development. Such geo – political situation highly affects the attainment of foreign aid from donors which adopt different economic systems.

- ii) Non-aligned Foreign Policy: - The foreign aid in Nepal is guided by the principle of Non-aligned foreign policy. Adherence to the movement means that it has pledged to be honest to the charter of the UN. Nepal has always been against aggressions and interferences. It stands for a peaceful settlement of disputes. Due to this fact, many countries want to stabilize mutual relationship with Nepal.

Singh (1996) examines the importance of foreign aid in Nepal. The main objective of the study is to analyze foreign aid politics and its impact on socio-economic and political structure of Nepal. He uses the time series data from 1951/52 to 1984/85 and analyzes the data by descriptive method. His findings are:

- i) That economic aid failed to hasten the pace of the democratization of Nepalese society,
- ii) That economic aid failed to encourage political stability, and
- iii) Economic aid failed badly in promoting social revolution.

In his analysis Indian aid to Nepal is both economic and technological, and bilateral and semi-bilateral. Bilateral aid though preferred by most of the donor countries serve as an instrument of diplomacy. Bilateral aid to Nepal is also an instrument of diplomacy. India has given most of its aid for specific projects.

Roberts (1997) although the title of this paper might seem to indicate two sets of bilateral aid relations, the reality of the situation concerning Indo-Nepalese and Sino- Nepalese studies is that it represents a triangular affair. It is inadvisable to examine one relationship without making note of the influence of the third party. As such, the foreign policies of India and China are 'fundamental to an understanding of the aid programmes they have sought to implement. These policies therefore form and shape the body of this paper around which aid provides the clothing. It is in the interest of the Indian and Chinese governments to portray their aid donation activities in as impressive light as possible. It is also to be noted that figures supplied are often estimates. Delayed aid projects cause further complications as aid can be promised at the planning stage but not utilized until later - decades later in the case of some projects. This leads to a general picture or pattern for aid to Nepal from her neighbors.

Acharya (2002) indeed, Nepal has been receiving low quantum of foreign aid in comparison with other least developed countries. What much amount she received, that all is not effectively utilized. A research study conducted by Action Aid Nepal reveals, there are many reasons for an ineffective utilization of foreign aid in Nepal. Lack of commitment from the government, donor's own strategic interest rather than economic development, corruption, political interference in the bureaucracy that causes the frequent change of project managers and ineffective monitoring system are some of the important reasons for ineffectiveness of foreign aid. There are so many anomalies in foreign aid administration. It is to be

accepted that Nepal has not been able to properly manage the available foreign aid.

Tiwari (2005) concluded that, in least developed countries, foreign aid is widely accepted as a means for the development. Without foreign aid the adequate mobilization of internal resources could not have been made in order to accelerate the rate of economic development and growth. For developing country like Nepal, foreign aid can play an important role if it is utilized efficiently. The function of aid for a development program should not be to raise the standard of living in the recipient countries directly but to enable them to make the transition from economic stagnation to self-sustaining economic growth. Foreign aid will be effective if it aims to utilize the internal resources to the maximum extent possible to invest the aid in private and public sectors for maximum social and economic progress and to invest in capital formation for the developmental programs.

Thapa (2005) described Nepal as geo-strategically located between India and China, must have appropriate relations with both countries. Prior to 2006, Nepal's monarch maintained a generally balanced approach in dealing with India and China even though in practice Nepal had a closer relationship with India due to key factors, such as geography, socio-cultural closeness, and reliance on trade and transit through India. However, a great political transition occurred in Nepal during 2007, and since 2008, China has increased its activities within Nepal. This study addresses Nepal's strategic dilemma by looking at three policy options: lean towards India; lean towards China; or follow a middle road between these two powers. Through descriptive and analytical studies of government policies adopted by Nepal,

India, and China, published books, and scholarly articles, this research analyzes Nepal's options in terms of the diplomatic-political, informational, military, and economic (DIME) instruments of national power and geographic factors. She must maintain a sharp focus on serving her national interests, promoting stability and prosperity, and preserving her sovereignty and independence while taking into consideration the interests of her two powerful next-door neighbors, China and India.

Saud (2006) analyze trend and structure of foreign aid, sector wise distribution of foreign aid, source of foreign aid contribution of foreign aid to the economic development of Nepal and provide suggestions and recommendation for the proper utilization of foreign aid. He used the descriptive and analytical method with secondary data in his study. He says that foreign aid plays an important role in Nepal's development. But it has been unable to address the specific problem of equity and justice to ensure property in process of aid utilization.

Wagle (2007) presents the trend and composition of foreign aid, share of foreign aid in GDP, role of foreign aid in economic development of Nepal, role of foreign aid in the development of various sectors and problem of foreign aid. He used completely secondary data and analyzed the data by using descriptive method. He concluded that foreign aid helps bridge the gap between the short falls of the national saving to the national investment. It has supported to fill the gap between the excess of imports of goods and service over their exports. Foreign aid has proved to be an effective instrument contributing to significant improvements in various sectors of the roads, irrigation, facilities, hydropower as well as education and health services,

drinking water and sanitation facilities have been built with foreign assistance. It has also contributed to the development of policy dialogue, catalyzed economic reforms, enhanced the capability of public policy makers and provided financial assistance for public services. Notwithstanding these achievements, foreign aid in Nepal has its shortcomings as well. Progress in economic growth and poverty reduction has not been commensurate with the inflow of aid into the country. Foreign aid has thus become very effective in some areas but less effective in others.

Karna (2007) describes the Foreign aid as a much debated and controversial phenomenon. The debate is mainly centered on whose interest aid actually serves—the recipients' or donors'. Intellectuals, thinkers, development practitioners and writers have experienced difficulty on the rationale, adequacy, efficiency and effectiveness of aid. Traditionally, foreign aid is supposed to overcome the savings investment gap. Hard currency and technological shortages in recipient countries, which would ultimately uplift the developing economy and living standards of people. Increased aid over the years has helped reduce poverty and create a just and equal world.

Khanal (2009) has concluded the Indian assistance in social infrastructure as well as in human resource development, it has positive impact. India's assistance in social sectors even during the continued political turmoil's is laudable. India has remained a dominant force in the sphere of aid to Nepal. Indian assistance for the economic development has witnessed significant growth over the years. At present, the assistance to Nepal's economy has been extended to various sectors such as infrastructure, water resources, health, education, sanitation, and communication etc. Nepal can not promote

the economy in absence of foreign aid solely. Neither it is able to avoid the risk of becoming the victim of aid intoxication and debt trap. At this critical situation, India's cooperation to Nepal is necessary not only to sustain developed activities but also for reducing horizontal inequality and deprivation.

OPMCM (2010) focuses on strengthening friendly and cordial relations with both India and China, and on not allowing Nepalese territory to be used against any neighboring countries. It also states the intention to adopt policies that enhance foreign investment for economic development.

MOFA (2010) describes the age-old ties of history, culture, tradition, and religion between Nepal and India. It further explains that Nepal-China relations have always remained good and cordial. It states that the relationships of Nepal with India and China are multi-dimensional and that both China and India are helping Nepal through economic, informational, military, and other forms of activities. China and Nepal have enjoyed over 1,000 years of friendly relations. The Ministry further writes that the leaders of the two countries jointly established a friendly and neighborly partnership for generations into the 21st century, after President Jiang Zemin paid a state visit to Nepal at the end of 1996, thus pushing the Sino-Nepalese friendly relations on to a new high.

By reviewing the literature review on foreign aid, there are no latest data and studies on topic the comparison between India and China so that I m going to research on it. I have included the latest data and finding on this topic the comparative study between India and China.

CHAPTER III

METHODOLOGY

This chapter includes research design, sources of data and data processing and analysis of the study.

3.1 Research Design

This study is based on desk studies; this is a descriptive, analytical and comparative study through the secondary source, published and unpublished research findings, books, donor's evaluation reports, national and international publication on foreign aid etc.

In this study, adopted methodology is purely a desk research. Desk Research is powered by a selection of tools and services that can be used in various contexts. Users can easily analyze individual books or collection of publications, create a co-author network and discovers trend in data. This means, this study is entirely descriptive nature. The main goal of this study is to analyze the historical background, nature, trend, and contribution of Indian and Chinese's aid in Nepalese economy. This study is simply descriptive analytical and explanatory nature, is not used cause and effect and hypothesis testing.

3.2 Sources of Data

This study is based on secondary source of published and unpublished data. The unpublished data such as the record, reports, of statistic gathered or

compile by other prior also a source. The necessary data for the study has been collected from Publication of Ministry of Finance (MOF), Chinese Embassy, Indian Embassy, National Planning Commission (NPC), Central Bureau of Statistics (CBS), World Bank (WB), Nepal Rastra Bank (NRB), Foreign aid division of MOF, Internet / E-mail, various economic survey along with various magazines, newspaper as well as published and unpublished documents of various research institutions.

3.3 Data Processing and Analysis

In the process of data analysis, the available required data from various sources are classified and tabulated to fulfill the requirements of the study. Most of the Data have been presented in percentage, tables, graphs, diagrams; pie charts are used according to situation and requirement of the study.

CHAPTER IV

FOREIGN AID IN NEPAL

This chapter describes historical background of foreign aid to Nepal, Nepalese foreign aid policy, sources of foreign aid, trend of foreign aid in Nepal, commitment and disbursement of foreign aid, resource gap in Nepalese economy and sectoral allocation of foreign aid.

4.1 Historical Background

Before the Second World War or pre-democracy period (i.e. before 1951 A.D.), Nepal was not familiar with integration of aid or not familiar with rest of the world. Whatever Nepal received aid before these periods was more concerned with the war or military assistance. It was not for any clear purpose of economic development.

Nepal started its development or modernization process as national mission in early 1950s when the closed political system of the Rana family rule (1846 – 1950) gone way to openness in internal policies and international relations. During the hundred years of Rana family rule Nepal remained a stagnant society in deep slumber in the context of economic development and foreign affairs. Whole Europe and some American countries went through a period of revolutionary advancement in the field of science and technology during the same time period. Even India to the south of Nepal, under the British colonial rule, was making advancement in educational and industrial sectors. After the overthrow of Rana Regime in 1951 Nepal

entered into the international community and started to interest foreign nation to provide assistance to it.

The first foreign assistance in Nepal started in January 13, 1951 with the sign of an agreement with United State of American under the point four program since then the United States has been providing technical assistance as well as capital aid in order to help implementation of project often every sector of Nepalese economy. At that time, under the point four program agriculture, village development, health and education are the four concern areas had been focused by US assistance. Moreover, various institution building, road transport and manpower development activities had been taken similar priority by US assistance (Singh, 1996).

In October 1956, it was reported that Nepal would receive economic assistance worth 60 million rupees (\$ 12,600,000) from China; one third of the aid was direct money grant, and the rest consist of capital goods. It was alleged by Indian sources that Nepal's premier Tanka Prasad Acharya was playing India against China to gain advantage from both countries. It was remarkable that political friction did not halt the flow of aid and experts into Nepal. About 83 percent (1962) of Nepal's development funds get from abroad. The United States was, as usual, the largest contributor; India was second, followed by China, the Soviet Union and Great Britain (Thapa, 2005).

The formation of “Nepal Aid Group” in 1976, the quantum of foreign aid increased more significantly in Nepal. This group was formed to provide a forum to coordinate the growing level of foreign aid in line with the

country's development priorities. Nepal development forum comprise countries like Australia, Canada, Denmark, Italy, France, UK, USA, Germany, Switzerland, Norway, Japan and International agencies namely IPA, WB, IMF, EU, UNCTAD, ADB and UNDP. Though China and India were not the members of the Nepal Aid Group they are donors for. Nepal received multilateral aid since 1954 when, World Health Organization (WHO) provided aid in social sector. The major multilateral agencies who provided aid to Nepal are; UNICEF, ADB, UNDP, WB, UNFPA, IMF, OPEC Fund, EEC, SDF, IFAD, UNCTAD, IDA, IBRD, WFP, OECD, Kuwait fund etc. Nepal Aid Group accounts for about three-fourth of the total aid disbursement. The restoration of democracy in Nepal after 1990s further gave impetus for the expansion of more and more economic aid.

In recent years, most of the prime sectors of the economy are receiving foreign aid almost in every sector; several bilateral as well as multilateral donors are involved. Nepal has getting foreign aid from two types of donors- bilateral and multilateral in the forms of the grant and loan. In the beginning, large amount of foreign aid was received in the form of grant. But gradually the share of grant is decreasing and the share of loan is increasing since 2010/11.

4.2 Nepal Foreign Aid Policy

After much demand of civil society intellectuals (about 50 year's foreign Aid Practices) the government circulated a draft of foreign Aid policy in July 2000. The policy was finalized in 2002. Its salient features are:-

- i) Foreign Aid will be utilized selectively after careful examination of the purpose, content and benefits of such projects and programs. Foreign loan will be channeled especially in projects having high rate of return and in infrastructure related development projects. Study and study terms will be banned from loan amounts, expenditure on consultants and foreign experts will be minimized from loan proceeds and HMG will not guarantee to provide loan to government owned enterprises or their institutions.
- ii) Grant Aid will be encouraged and utilized effectively co - financing arrangements through grants shall be emphasized for financing grants shall be emphasized for financing the expenses of overhead cost and technical expenses.
- iii) Building domestic institutional capacity, technical and expertise transfer and making appropriate selection of technical assistance shall gradually reduce reliance on technical assistance and expatriate consultants.
- iv) When Utilizing foreign aid consideration will be given for using foreign aid to finance projects that will bring about improvements in the domestic revenue mobilization capacity through higher GDP, employment growth and acceleration of economic growth.
- v) Foreign aid will be accepted to improve the efficiency in the utilization of the country's capital stock, especially by financing critical inputs supplies and all over relevant capital expenditure items except general expenditure.
- vi) Partnership among government, private sector, civil society and donors will be fostered to strengthen aid management capacity.

- vii) The role of donor will be promoted as facilitators and supporters in the development endeavors of the country.
- viii) Foreign aid will be utilized as an important tool for private sector development in agreement with the spirit and framework of economic liberalization.

In sum, the government's foreign aid policy 2002, appears sound extensive and wide in scope, its long list of objectives and strategies, however make it complex and may occur problems during implementation. One of the problems in getting aid is accepting unnecessary conditions of the donor agencies. In receiving debt, there are no more economical survey from the side of government so nation may be fall on debt trap.

4.3 Sources of Foreign Aid

Nepal has been receiving foreign aid from various sources ever since the time of receiving of aid. Those sources include bilateral, multilateral and international non-governmental organizations (INGOs). The bilateral aid refers to foreign government or their aid administering bodies in Nepal such as Japan, JICA, United State's US AID, Germany's GHZ, Switzerland's SDC, Denmark's DANEDA, Finland's FINIDA, and the government of India, China, UK, USSR, France, Australia, Austria, New Zealand, Netherlands, Kuwait etc. Multilateral aid includes assistance from international agencies or official groups such as WB, IMF, ADB, UNDP, UNICEF, OECD, IDA, OPEC Fund, etc. and the third type includes private organizations such as Plan International, CARE International etc. The volume of aid flow

from bilateral and multilateral sources during the review period is shown in the table 4.1.

Table No. 4.1

Bilateral and Multilateral aid in the % of total aid. (Rs. in millions)

Date	Bilateral aid	% of bilateral source in total aid	Multilateral aid	% of Multilateral source in total aid	Total aid
1984/85	1156.3	43.2	1520.1	56.8	2676.4
1985/86	1481.1	42.4	2110.4	57.6	3591.5
1986/87	1078.4	32.5	2236.1	67.5	3314.5
1987/88	2251.6	44.3	2826.9	55.7	5078.5
1988/89	1707.0	30.1	3959.2	69.9	5666.2
1989/90	2544.9	39.6	3882.2	60.4	6427.1
1990/91	2939.9	49.1	3050.1	50.9	5990
1991/92	3597.3	46.1	4203.1	53.9	7800.4
1992/93	3638.5	39.4	5597.1	60.6	9235.6
1993/94	2627.1	22.7	8930.1	77.3	11557.2
1994/95	3988.7	35.4	7260.7	64.5	11249.4
1995/96	3533.3	24.7	10755.7	75.3	14289
1996/97	6012.7	40.0	9019.2	60.0	15031.9
1997/98	6297.7	38.3	10159.4	61.7	16457.1
1998/99	4167.6	25.7	12021.4	74.3	16189
1999/2000	4929.1	28.1	12594.8	71.9	17523.9
2000/01	2771.2	14.7	16026.2	85.3	18797.4
2001/02	4675.3	32.5	9709.5	67.5	14384.8
2002/03	10044.4	63.2	5841.4	36.8	15885.8
2003/04	9013.2	47.7	9899.2	52.3	18912.4
2004/05	9230.8	39.01	14426.5	60.99	23657.3
2005/06	7658.4	34.75	14383.4	65.25	22041.8
2006/07	16406.4	63.46	9447.9	36.54	25854.3
2007/08	10207.7	34.83	19092.9	65.17	29300.6
2008/09	9333.1	25.67	27018.6	74.33	36351.7
2009/10	22901.5	46.02	26867.9	53.98	49769.4
2010/11	25850.4	44.57	32147.3	55.43	57997.7
2011/12	32087.7	61.83	19805.7	38.17	51893.4
2012/13*	31620.0	49.69	32138.5	50.40	63758.5

* First Eight Months

Source: Various issues of Economic Survey, MOF/N.

The table No. 4.1 shows that the bilateral and multilateral sources of aid in various fiscal year. The share of bilateral and multilateral aid in FY 1984/85 was 43.2 percent and 56.8 percent respectively. The share of multilateral assistance in the FY 1993/94 was the highest i.e 77.27 percent. The bilateral and multilateral sources of aid were decrease from 49.1 percent to 24.7 percent in FY 1991/92 to 1995/96 and again reached to 40 percent in 1996/97 then decrease continuously to 14.7 percent from FY 1997/98 to 2000/01. In 2002/03 the bilateral aid increased by 63.22 percent and then decreased till 2005/06 which again increased in FY 2006/07 by 63.83 percent in 2007/08 where as in multilateral aid increased continuously from FY 1990/91 by 50.9 percent and FY 1995/96 by 75.3 percent and then kinked in FY 2002/03, the multilateral source aid was ridiculously decreased and fixed in 2007/08 by 65.17 percent.

In this way above table shows that share of bilateral and multilateral aid are in fluctuation being sometimes increased and sometimes decreased. In FY 2000/01 it was the lowest at 14.7 percent which may be due to the severe conflict of Maoist insurgency. But it was highest in FY 2006/07 at 63.46 percent it may be due to the Maoist ended their armed conflict and came to peace process. So, the bilateral donors provided assistance in order to rehabilitate the Maoist combatants and the destroyed infrastructure.

4.4 Trend of Foreign Aid in Nepal

Nepal has been receiving foreign aid from both the bilateral and multilateral sources in the form of grant or loan. The patterns of foreign aid vary from projects to projects and donor to donor. In other words, the structure of foreign aid corresponding to different sources is different and depends upon the policy of donor countries. Some aid is tied up to projects, while others in the form of commodity assistance and some of the assistance are simply in the form of the technical assistance. But broadly these various form can be grouped into the three headings: grant assistance, loan assistance and technical assistance. The share of grant is continuously decreasing and the share of loan is continuously increasing up to the restoration of democracy. After this the share of grant and loan changes in fluctuation rate. The overall inflow of foreign assistance in the form of grant and loan to Nepal is shown in the following table.

Table No. 4.2
The Inflow of Foreign Aid to Nepal (1984/85-2012/13)
(Rs. in millions)

Fiscal Year	Total Foreign aid (Rs)	Foreign Grant (Rs.)	Grant as a % of Total	Foreign Loan (Rs)	Loan as a % of Total
1984/85	2676.4	923.40	34.48	1753.00	65.50
1985/86	3491.5	1120.60	32.10	2370.90	67.90
1986/87	3314.4	1078.30	28.74	2236.10	67.50
1987/88	5078.5	1984.20	39.07	3094.30	60.90
1988/89	5666.9	1478.30	26.09	4188.60	73.90
1989/90	6427.1	1798.80	27.99	4628.30	72.80
1990/91	5990	1630.00	27.21	4360.00	72.80
1991/92	7800.4	1531.00	19.63	6269.40	80.40
1992/93	9235.6	3273.90	35.45	5964.70	64.50
1993/94	11557.2	2393.60	20.71	9163.60	79.30
1994/95	11249.4	3937.10	35.00	7312.30	65.00
1995/96	14289	4825.10	33.77	9463.90	66.20
1996/97	15031.9	5989.00	39.84	9043.90	60.20
1997/98	16457.1	5402.60	32.83	11054.50	67.20
1998/99	16189	4336.60	26.79	11852.40	73.20
1999/00	17523.9	5711.70	32.59	11812.20	67.40
2000/01	18797.4	6753.40	35.93	12044.00	64.08
2001/02	14384.8	6686.20	46.48	7698.60	53.52
2002/03	15885.5	11339.10	71.38	4546.40	28.62
2003/04	18912.4	11283.40	59.66	7629.00	40.30
2004/05	23657.3	14391.20	60.83	9266.10	39.20
2005/06	22041.8	13827.50	62.73	8214.30	37.27
2006/07	25854.3	15800.80	61.11	10053.5	38.90
2007/08	29360.37	20320.70	69.30	8979.90	30.70
2008/09	36351.70	26382.80	72.57	9968.90	27.42
2009/10	49769.40	38546.00	77.44	11223.40	22.55
2010/11	57997.80	45922.20	79.17	12075.60	20.82
2011/12	51893.40	40810.30	78.64	11083.10	21.36
2012/13	63758.5	30696.5	48.14	33062.0	51.85

*First Eight Months

Source: Various Issues of Economic Survey, MOF/N.

Table No.4.2 shows the increasing trend of foreign aid inflow in Nepal but the other hand it also shows the declining share of grants aid. From FY 1984/85 to 1998/99 the trend is fluctuating in nature. From FY 1999/2000

again it rises up to FY 2010/11, except in FY 2003/04 and 2006/07. In case of loan From FY 1984/85 to FY 2011/12 the trend is fluctuating in nature.

Though Nepal has been receiving foreign assistance from different sources, it has been able to produce good performance in utilizing them. Monitoring and evaluation of foreign aid has not been systematic, so the trend of inflow of foreign aid is quite erratic due to the various reasons like misuse, corruption, political instability, and donor's unnecessary interference.

4.5 Commitment and Disbursement of Foreign Aid

Aid commitment refers to the expression of the donors to provide financial support of specified amount under agreed terms and conditions for the specific purpose to the recipient country whereas disbursement is the time lag because aid for many projects are committed in one year and the committed aid is disbursed in subsequent years. Besides, failure in receiving the committed amount is due to the political instability and lack of commitment on the part of the recipient government. Because of bureaucratic hurdles inefficiency, absence of institutionalization in development administration, corruption and poor management of development projects and absorptive capacity, the capacity to utilize committed amount of aid continues to remain as a crucial problem for the Nepalese government. The following table shows the status of foreign aid commitment and disbursement.

The following table shows the precise figure of foreign aid commitment & disbursement since 1984/85.

Table No. 4.3
Commitment and Disbursement

(Rs in millions)

F.Y.	Total aid Commitment	Total aid disbursement	Disbursement as % of commitments
1984/85	5991.4	2676.4	44.67
1985/86	9504.2	3491.5	36.73
1986/87	8727.5	3314.4	37.97
1987/88	6449.6	5078.3	78.73
1988/89	10403.0	5666.9	54.47
1989/90	15830.0	6427.1	40.60
1990/91	5665.4	5990.0	105.73
1991/92	21084.1	7800.4	36.99
1992/93	20526.7	9235.8	44.99
1993/94	13172.2	11557.2	87.73
1994/95	12876.8	11249.4	87.36
1995/96	16537.3	14289.0	86.40
1996/97	39643.0	15031.9	37.91
1997/98	32022.1	16456.1	51.39
1998/99	18352.5	16189.0	88.21
1999/200	20448.0	17523.9	85.70
2000/01	31286.9	18797.4	60.08
2001/02	33227.8	14384.8	43.29
2002/03	43202.7	15885.5	36.77
2003/04	23738.0	18912.4	79.67
2004/05	38152.3	23657.3	62.00
2005/06	20924.20	22041.80	105.30
2006/07	37022.90	25854.40	69.83
2007/08	49186.20	29300.60	59.6
2008/09	47975.20	36351.70	75.8
2009/10	96609.00	49769.40	51.51
2010/11	106096.70	57997.80	54.67
2011/12	98178.70	51893.40	52.86
2012/13*	63758.5	-	-

*First Eight Months

Source: Various Issues of Economic Survey, MOF/GON

The table 4.3 shows the pattern of commitment and disbursement of foreign aid to Nepal. The aid absorptive capacity of Nepal is found to be quite erratic. For example, the total disbursement of aid exceeded the level of commitment which was higher by 105.3 percent in 1990/91; while it was

just 36.7 percent, the lowest in 1985. In FY 2010/11 and 2011/12, the disbursement of foreign aid is 54.67 percent and 52.86 percent respectively. The volatile nature of foreign aid to Nepal often delayed implementation of various foreign aided projects. The delay in implementation is caused by complicated procedures in finalizing agreements, difficulty in timely obtainment of equipments and components and finding suitable contractors, internal socio political unrest and widespread corruption in administration. Absorptive capacity of the recipient country not only depends on the internal structure, but also on donor country. Recipient country gives priority to invest one sector but donor's desire will be in another sector. Such inefficient economic practices are the main causes behind low disbursement percentage of foreign aid.

4.6 Resource Gap in Nepalese Economy

The resource gap is defined as the total budgetary expenditure less the resource mobilized internally. Resource gap creeps in when a country spends more on investment and expenditure than its internal resource. If this resource gap is not bridged timely then it invites serious problems like unfavorable balance of payment and foreign exchange gap. Nepal has been experiencing a serious and widening resource gap in her regular as well as development finance. The following table reflects the serious position and growing financial resources crisis in Nepal.

Table No.4.4
Resource gap in Nepalese Economy (FY 1984/85- 2012/13)
(RS. in million)

FY	Total expenditur	Total Revenue	Resource gap 1*	Foreign Grants	Resourc e gap	Foreign Loans	Resource gap 3***
1984/85	8394.9	3916	4478.9	923.40	3555.5	1753.00	1802.5
1985/86	10097.1	4644.5	5452.6	1120.60	4332	2370.90	1961.1
1986/87	11513.1	5975.1	5538	1078.30	4459.7	2236.10	2223.6
1987/88	14104.9	5350.9	8754	1984.20	6769.8	3094.30	3675.5
1988/89	18005.0	776.9	17228.1	1478.30	15749.8	4188.60	11561.2
1989/90	19669.3	9287.5	10381.8	1798.80	8583	4628.30	3954.7
1990/91	23549.8	10729.9	12820.30	1630.00	11190.3	4360.00	6830.30
1991/92	26418.2	13512.6	12905.50	1531.00	11374.5	6269.40	5105.1
1992/93	30897.7	15148.7	15749.30	3273.90	12475.4	5964.70	6510.7
1993/94	31335.0	19580.8	14016.50	2393.60	11622.9	9163.60	2459.40
1994/95	41494.6	24704.4	14484.80	3937.10	10547.7	7312.30	3235.40
1995/96	46542.4	27893.1	18679.30	4825.10	13854.2	9463.90	4390.30
1996/97	55723.7	30373.5	20350.30	5989.00	14361.3	9043	5318.30
1997/98	56118.3	32937.9	23180.40	5402.60	17777.8	11054.5	6723.30
1998/99	59579.0	37251.0	23321.60	4336.60	18985	11852.4	7132.6
1999/00	66272.5	42893.8	23378.70	5711.70	17667	11812.2	9846.38
2000/01	79835.1	48893.6	30941.40	6753.40	24188	12044.0	12144.0
2001/02	80072.2	50445.5	29626.70	6686.20	22940.5	7698.60	15242.5
2002/03	84006.1	56229.8	27776.30	11339.10	16437.2	4546.40	22090.6
2003/04	89442.6	62331.0	27111.60	11283.40	15828.2	7629.00	8199.20
2004/05	102560.4	70122.7	32437.80	14391.20	18046.6	9266.10	8780.5
2005/06	110889.2	72282.10	38607.10	13827.50	24779.6	8214.30	16565.30
2006/07	133604.5	87712.10	45892.40	15800.80	30091.6	10053.5	20038.00
2007/08	161350.0	107622.5	53727.4	20320.70	33406.7	8979.90	24826.79
2008/09	219662.0	143474.5	76187.50	26382.80	49804.7	9968.90	39835.80
2009/10	259689.1	179945.8	79743.30	38546.00	41197.3	11223.4	29974.00
2010/11	295363.4	198375.9	96987.5	45922.20	51065.3	12075.6	38989.7
2011/12	339168.0	244374.0	94794.00	40810.30	53983.7	11083.1	42900.6
2012/13*	404825.0	289604.9	115220.1	-	-	-	-

*Estimated

Source: Various Issues of Economic Survey, MOF/GON.

Note:

*Resource Gap 1 = Expenditure- Revenue

** Resource Gap 2 = Resource Gap 1- Foreign grants

*** Resource Gap 3 = resource gap 2- Foreign loan

Table No. 4.4 shows that resource gap 1 which is difference between total expenditure and total revenue is in increasing trend. In the FY 1984/85 the resource gap was Rs. 4478.9 million reached up to 94794.0 million in FY 2011/12. Due to the increment in regular and development expenditure, the resource gap has widened from year to years.

Resource gap 2, which is the difference between expenditure and revenue plus foreign grants, is also in increasing trend. This type of resource gap started since the budget of FY 1956/57. This gap was 3555.5 million in FY 1984/85 and reached to 53983.7 million in FY 2011/12.

Resource gap 3, which is the difference between expenditure and total revenue plus foreign grants plus foreign loan, is still not promising. It was increase from 1802.5 million in FY 1984/85 to 42900.6 million in FY 2011/12. This increasing magnitude of resource gap clearly indicates that there is urgent need for effective mobilization of additional resources.

4.7 Sectoral Allocation of Foreign Aid

The sectoral allocation shows the amount of economic plans and programs in different sectors and identifies the sectors that have received priorities. The sectoral distribution of foreign aid is not smooth and has a fluctuating nature. The largest share of foreign aid had been allocated to develop transports, power and communication at the early three plans. From the beginning of the 4th plan the priority occurs on irrigation. Table 4.5 shows the general information on sectoral aid priority during FY 1984/85 to FY2010/11

Table – 4.5**Sectoral allocation of foreign aid (1984/85 - 2010/11)**

(Percent of total aid)

FY	Agriculture, irrigation & tourism	Transport, power & communication	Industry & commerce	Social service	Other sectors
1984/85	39.35	36.23	7.17	16.41	0.99
1985/86	37.20	37.84	7.90	16.80	0.84
1986/87	31.31	44.46	5.53	17.66	1.03
1987/88	24.15	55.03	8.78	10.28	1.96
1988/89	25.88	55.06	3.37	14.91	0.77
1989/90	23.18	41.68	10.22	24.21	0.71
1990/91	20.90	42.90	23.20	11.10	1.70
1991/92	24.90	31.80	27.80	15.20	0.10
1992/93	20.80	42.60	7.50	28.80	0.10
1993/94	47.50	36.00	3.40	12.70	0.10
1994/95	30.70	40.60	4.20	23.80	0.40
1995/96	23.70	56.30	0.10	18.40	1.20
1996/97	18.80	56.50	0.10	24.30	0.10
1997/98	17.30	54.60	1.20	26.80	0
1998/99	20.90	48.70	2.40	27.40	0.30
1999/2000	18.30	46.50	1.70	33.00	0.30
2000/01	20.00	49.10	0.10	30.60	0.10
2001/02	22.80	41.00	2.60	32.50	0.96
2002/03	13.70	48.90	2.50	33.50	1.34
2003/04	12.80	40.00	0.78	46.20	0.18
2004/05	10.80	41.70	0.52	45.40	1.40
2005/06	10.90	32.40	0.48	50.60	5.90
2006/07	14.40	25.70	0.45	58.70	0.67
2007/08	13.20	22.90	0.20	62.10	1.60
2008/09	6.30	17.22	0.44	67.94	7.99
2009/10	6.19	23.69	0.63	66.35	7.63
2010/11	5.12	25.57	0.0	62.76	6.55

Source: various issues of Economic Survey, MOF, GON.

From the table 4.5 it is obvious that, foreign aid is distributed to agriculture, irrigation and forestry, transport, power and communication, industry and commerce, social service and others. Up to the FY 2004/05 transport, power and communication have continued

to receive a large share of foreign aid. Since last 16 years a sectoral distribution of foreign aid is increasing gradually in social service except in FY 2000/01, 2009/10 and 210/11. In the FY 210/11 it can be seen that the social services sectors has absorbed the largest share i.e 62.76 percent of the total aid. This sector highest priority compared to others in FY 2010/11. It clearly shows that donors are more interested in helping to build infrastructure and social service than other sectors. Because, donors are interested on empowering and enriching the quality life of least developed countries like Nepal.

CHAPTER V

INDIAN AID IN NEPAL

This chapter includes historical background of Indian aid in Nepal, economic and bilateral relationship between Nepal and India, aid from India and contribution of Indian aid on Nepalese economy.

5.1 Historical Background

Nepal and India both are the south Asia countries with similar environmental, physical, religious, cultural and natural heritages. The relationship between two neighboring countries has been strengthening before the Indian Independence Movement at the time of British colony in India. In political history of Nepal, we can get various kinds of help were provided to each other for political and economic betterment of both countries. In the period of Prime Minister Janga Bahadur Rana helped the British government in India providing armed forces for the First World War. This assistance satisfied the then British government and they handed over four districts (Banke, Bardia, Kailali and Kanchanpur) which were lost during the battle of integration process of Nepal. In 1947, when India wanted to free itself from the British colony, many Nepalese citizens who were in India played an active role for their independence. After the end of British colony in India, Nepal could get free from family rule Rana regime. During the revolution of 1950s, the assistance provided by the government of India and Indian people remains in the form of golden letters in the history of Nepal (Guragian, 2006).

India began its economic assistance program in Nepal soon after the end of the Rana regime in 1951. Since the year, when Nepal started on its path to planned economic development process, the government of India has been co-operating His Majesty's Government of Nepal for the economic development. On the request of Nepal, India decided to send planning experts and statisticians to Nepal. After the establishment of democracy, Nepal entered the new modern economic era. Then Nepalese citizens realized how back they were in relation to the other developed countries and even in comparison to India. Under the British colony, whatever the national sovereignty, India had taken the path of economic development; but Nepal's condition was worse than that of India, because the Ranas did not introduce even those changes which the neighbors had introduced. In view of this New Delhi was convinced that democracy itself was not enough unless it was supplemented by sufficient economic growth of the country. Indian policy, thus, was to advance economic aid to Nepal with a view of creating an infrastructure for the successful functioning of the system in the Nepal.

In January 1952, the prime minister of Nepal Mr. M.P. Koirala visited India and received the same affection and admiration. So, the economic cooperation and friendship between the two countries started to boost up significantly after these two visits. But the aid programs started after two years of Mr. Nehru's declaration for help; i.e. in 1953 with the construction of Tribhuvan Rajpath (Kathmandu to Indian border Raxaul) and the Tribhuvan Airport. This was the beginning of economic relationship between Nepal and India with the development of road and air link (Guragain, 2006).

Thus, Nepal- India aid relationship began in 1953 with considerable help for infrastructural development of Nepal. In the light of economic development of Nepal and to increase mutual relationship, Indian Aid Mission was established in Kathmandu in 1954 with the objective of providing technical and financial aid. Indian Aid Mission (1954) was renamed by Prime Minister Indira Gandhi as Indian Cooperation Mission on her visit to Nepal in the year 1966. On her visit, she emphasized that India's assistance for the economic development of Nepal would more be in the nature of co-operation. She stated it was due to the emotional involvement of India in the well being of the people of Nepal and respect which the people of India had for the people of Nepal.

After the Sino-India conflict, India increased her assistance to Nepal considerably both in quality and quantity for expediting its economic development. His majesty the king of Nepal Inaugurated the Indian aided Patan Industrial Estate in November 1963. During the 104 years of Rana Regime, the citizens of Nepal were restricted from the light of education. Some Nepalese studied in India. Almost all Nepalese were illiterate even after the overthrow of the autocratic Rana regime. India was closely observing such miserable situation in Nepal. Considering the necessity of education and technical manpower, India's association with the development of higher education in Nepal started in 1960, with the agreement to establish the first national university, The Tribhuvan University at Kathmandu. Under the Indo – Nepal agreement for the development of this University signed on the 7th October 1960, a sum of R. 20 lakh I.C. was provided for the construction of the various buildings with additional support of technical equipments. In order to improve and provide facilities for students, teachers

and bureaucrats of T.U, it provided additional assistance during the period 1951 – 1957. India also placed increased emphasis on scholarships for Nepalese students. In 1951, 21 scholarships were made available for the Nepali students. By 1954, the number was increased to 76 and to 118 in 1955 (Mihaly 1965).

In addition to this, India initially supplied aid for transport development, airport in Kathmandu and the Tribhuvan highway linking the Indian border to the capital of Nepal. Later, its contribution to the East- West highway has importance that it is the main vein of national economy and development. Indian aid also covered irrigation, hydropower, rural development, industrial estates, hospital and school for engineering, veterinary, forestry etc. There was temporary setback in the aid from India after the advent of the Partyless Panchayat system in 1961/62. But later, aid was increased because Nepal would otherwise be forced to depend more and more on china, the USA and the others (Guru Gharana, 1991).

According to available statistics, the domestic revenue has not covered the development expenses of Nepal. To fulfill such kind of resource gap, foreign assistance has played a major role. During the period between the 1st plan (1956 –1961) and 10th plan (2002 -- 2007), the share of foreign aid in total development expenditure remained 62.9 percent which is from both bilateral and multilateral assistance. India's contribution in the period between FY 1951 and 1980 was 38 percent (Paudyal 1983). Afterwards, India's assistance has increased over the years. Since 1997, annual disbursement has been around Rs.700 million (Pyakuryal, 2005).

Prior to 1951, there were few all-weather roads, and the transportation of goods was difficult. Goods were able to reach Nepal by railroad, trucks, and ropeways, but for other parts of the country such facilities remained almost non-existent. This lack of infrastructure made it hard to expand markets for trade and pursue economic growth. Since 1951 Nepal has tried to expand its contacts with other countries and to improve its infrastructure, although the lack of significant progress was still evident in the early 1990s. The effects of being landlocked and of having to transit goods through India continued to be reflected in the early 1990s. As a result of the lapse of the trade and transit treaties with India in March 1989, Nepal faced shortages of certain consumer goods, raw materials, and other industrial inputs, a situation that led to a decline in industrial production. (Rawat, 1974)

5.2 Economic Relationship between Nepal and India

Economic relationship between Nepal and India is unique. There are historical, geographical, cultural, linguistic, ethnic, social and family links between people living in India and Nepal. Institutions relating to government and the economic activities are also more or less similar. Therefore, the trade and other related relationship between Nepal and India has its own significance.

Nepal-India economic relationship dates back to Nepal's trade with India before the 19th century. The relationship between the two countries was further strengthened by people to people contact through an open and long border which came into force with the advent of India – Nepal peace and friendship treaty 1950. After the introduction of democracy in Nepal in

1951, India was a premier donor country that played an important role in mobilizing aid to Nepal under the Colombo plan (Dahal, 2003).

Historic trade relation, geographical proximity, identical culture, similar agriculture productions are cited few examples quite repeatedly. Economical transport cost is seen as another important factor determining the volume of trade between these countries. In view of the rising energy costs, it often considered that the transport cost are likely to rise so that the transport cost advantage to both these countries trading with each other is likely to increase in future. This would further increase the potential for trade between these countries. On the other hand, notes that the economic cooperation between Nepal and India is based on the movements of goods and services across Nepal-India border. The movement is free and spontaneous. This movement further accelerated by the movement of people for economic pursuits, social and marriage relations. The cultural ties and non-existence of visa system have created better environment for the conduction of free trade between the two countries.

Indo-Nepal trade has its own importance for the economic development of both these countries. Trade relation with India is rather crucial to Nepal particularly due to her landlocked geographic characteristics. Trade statistics show an increasing trend of trade in both the exports and imports. However, it is noteworthy that the trade balance is not in favors of Nepal. As such, it does not present a convincing picture in the macro-economic performance of Nepal. Both the countries have realized the significance of bilateral trade. Trade with India is likely to play further a key role in trade and industrial fronts in the future as well. Trade and transit treaties held between the two

countries are continuously reflecting the fact. And, these treaties have increasingly guided the trade direction, more specifically in the case of Nepal. Taking into account these factors, this study has made an attempt to analyze some of the key issues related with Indo-Nepal trade relation and scope for improving trade relationship between these countries in the future.

Although the relationship between Nepal and India is shaped by geographical factors, strain is caused by economic factors. A close economic relationship between India and Nepal is as old as history and even though until 1974 to recently, about ninety percent of Nepal's trade was conducted with India (Rawat, 1974).

5.3 Bilateral Relationship between Nepal and India

Nepal and India admirable bilateral relations, and treasure very close, comprehensive and multidimensional relations since centuries. The relations are strengthened further by the age-old ties of history, culture, tradition and religion, and pronounced more in political, social, cultural, religious and economic dealings with each other. To add up the formal flavor to this historic relations, Nepal and India established diplomatic relations on 17 June 1947. The unfathomable commitment to the principles of peaceful coexistence, sovereign equality, and understanding of each other's aspirations and interests have been the firm foundations on which our subsisting relations have been moving to a new height.

The open border between the two countries has been a unique paradigm of our ties that rarely exists around the world. Frontier without restriction has

greatly facilitated the free movements of our people to each other's territory. Moreover, such facilitation of the movement of the people has increased more exchanges and interactions at the people-to-people level. In essence, our relations are much more than the sum of treaties and agreements concluded between the two countries. It is therefore natural that our main thrust now has been to further widen and deepen our bonds of ties to the mutual satisfaction of our people.

Both countries have common approach and work in tandem in the United Nations, Non-alignment Movement and other international forum on most of the important international issues that have bearing on us. Furthermore, with the establishment of SAARC and BIMSTEC in South Asia, more avenues for enhancing regional cooperation have been identified so as to leap forward towards regional economic integration, which is considered as a precursor to the Economic Union, through harnessing collectively the potentials and complementarities available in the region.

The Government of India (GOI) strongly supported peaceful People's Movement of April 2006 for the restoration of full democracy in Nepal. The GOI welcomed the promulgation of the Interim Constitution and the formation of the Interim Legislature in Nepal on 15 January 2007 and the Constituent Assembly elections in Nepal on April 10, 2008 (MOFA, 2010). Nepal highly appreciates India for the moral and physical support rendered to the Nepalese people for their arduous tasks to bring a historic change of high proportion in the country and hopes that India will continue to do so in the days to come.

5.4 Aid from India

According to R.K. Das (1886) the primary objective of India's aid to Nepal is based upon the consideration that economic interdependence between neighbors should form part of the greater scheme of South-South cooperation and the creation of a New International Economic Order. India felt that economic development was essential for democracy and stability which, in turn, was essential for India's security. In its aid programme to Nepal, India has often put emphasis on industrialization. In this respect, the 'Memorandum of Joint Investment and Industrial Cooperation concluded between the two countries in 1978 was of considerable importance. Here, for almost the first time, India was to concentrate on small industrial projects which would rival those set up through China's aid policy to Nepal. Under this agreement, India agreed to fund cement, pulp, paper and other such light industrial projects in Nepal. Previously, India had concerned itself with non-visible infrastructural aid. This was an important step in altering the direction of India's aid donation because such projects were previously considered part of the Chinese manner of assistance to Nepal.

On a wider economic interest scale, it should be noted that a large part of India's northern river system originates in Nepal. The potential for tapping the hydro-electric power is enormous and India has already made a series of economic agreements to this effect with her northern neighbor. The original discussions and economic plans were heavily weighted in India's favor, but in the last year there has been a backlash from within the ranks of both Nepalese and Indian academics over the 'abusive paternal stance' that the Indian government has taken, and the water treaties are being reviewed with

a view of giving greater concern to Nepal's economic benefit. As India shares a long and open border with Nepal, tensions rose following the Chinese occupation of Tibet in 1951. The main industrial and agricultural belt of India is not very far from Nepal and this instills a vital interest in the Himalayan kingdom. There was a constant fear that China would exploit these groups for anti-Indian propaganda. China was not the only foreign power that India perceived as a threat to her interests. Aid from Western countries was seen as interference in the regional stability. In 1950, Nehru not only directed his statement at China, but at the US, the USSR and the UK. We do not like and shall not brook any foreign interference in 40 Part of India's concern was to keep Nepal away from Cold War alignment which would have further complicated regional stability. Although the US, the USSR nor the UK represented a direct military threat, India was determined to ensure that Nepalese politics would be conducted on Indian terms, not on the terms of distant Western or Soviet powers. Over more recent decades, India has realized that it can still manipulate Nepalese politics without attempting to dissuade other aid donor nations from their actions (Singh, 1996).

The socio-cultural interaction between the people of the two countries is a further determinant of India's Nepal policy. Nearly eighty percent of Nepalese are Hindus and many of the social customs, beliefs, and festivals of the two countries are similar. This close relationship is reflected in the open border that exists between the two nations. After 1947, India found herself surrounded by smaller, weaker countries and, perhaps naturally, attempted to exert some form of control over them. The 1950 revolution in Nepal that removed the Rana from direct power and instituted a fragile

democracy was important to India, and thus one of her guiding objectives was to assist the economy in the belief that political democracy had to be supported by economic growth. It was also clearly in the Indian perception that her security interests in Nepal were linked with democratic stability. However, attempting to analyze India's policy towards Nepal in the mid twentieth century is difficult as it was prone to mood swings which occasionally altered previous considerations. As I have shown, there seem to have been three main threads.

- i) To help Nepal achieve political and economical stability. Gupta describes this as her best guarantee against foreign intervention under the circumstances.
- ii) To strengthen India's northern border against China's expansionist policy as demonstrated by the annexation of Tibet.
- iii) To keep Nepal away from cold-war tensions. Having examined the objectives of Indian aid to Nepal, I will now move to inspect the nature of the aid which is both economic and technical.

The economic aid has generally been given in the form of grants, although some of the older aid was in loan form. The technological assistance includes scholarships for training Nepalese students in Indian institutions or in foreign countries. Indian aid has mostly been given in bilateral aid agreements, although a part of aid has also been given through multilateral agencies. The first aid that was donated by India to Nepal was assistance in administrative reorganization. In the early 1950s, the majority of aid projects had both strategic relevance and economic value. These projects linked Nepal more closely with the Indian communication and transport system and thus improved access to the kingdom from the south. It was after 1955 that

aid programmes started to become competitive in Nepal. Aid had started to flow in from China and India was forced to increase her aid to various other spheres in order to compensate. After 1975, the emphasis turned to joint-ventures in light industry and water resources. The emphasis on strategic value of aid declined and thus attention became focused on projects of greater economic value. These were in the fields of agriculture, power, industry, education and health and social welfare (Roberts, 1997).

5.5 Contribution of Indian aid on Nepalese economy

This chapter describes the contribution of Indian aid on Transportation, Postal service, Telecommunication and optical fiber cable Projects, Education and Scholarship, health sector, Water, Industrial sector and other sectors.

In the global economic sphere, Nepal is the least developed, landlocked, geographically disadvantageous and economically vulnerable nation with remarkable ecological, cultural and ethnic diversity. Nepal is rich in biodiversity & hydro - power resources. Although there are numerous potentials for development, due to lack of substantial foundation of infrastructural development, the available resources are left unexploited.

In respect of endeavors of Nepal's economic development, many bilateral & multilateral agencies have been providing assistance in the form of grants and loan. If we consider the assistance of bilateral donors, it is not of less importance although their share has much declined in comparison to the previous years. If we observe the history of foreign aids in Nepal, India is seen to occupy the first position among the bilateral sources up to 1980. Although both are developing economies, India has been cooperating Nepal

in almost all the economic sectors. More than 90 percent of composition of Indian assistance is found to consist of grant. Thus, in the situation of excess debt burden to Nepal, Indian aid is of high significance because of its greater amount of grants.

The scope and breath of India's economic assistance programme has been expanding over the years. A snapshot of the number of projects in recent years is as follows:

Table No.5.5.1

Number of projects in recent Indian Aid

N. of projects as on	Small	Large and intermediate	Total
31.3.2004	16	10	26
31.3.2005	56	22	78
31.3.2006	100	24	124
31.3.2007	174	26	200
31.3.2008	247	28	275
31.3.2009	294	30	324
31.3.2010	340	30	370
31.3.2011	366	35	401
31.3.2012	396	35	431
31.3.2013	425	35	460

Source: Indian Embassy in Nepal

Small Development Projects Scheme: The Small Development Projects are implemented on the basis of a MoU signed between GoI and GoN in November 2003 and renewed in June 2006, August 2008 and August 2011. The validity of the current MoU is until 5 August 2014. Projects costing less than NRs. 5 crores (\$ 0.7 Million) approximately are undertaken with focus on areas of Infrastructure Development and Capacity Building in the areas of Education, Health Community Development. The projects are implemented through local bodies of GON viz. District Development Committee (DDC),

Municipality, Divisional office of Department of Urban Development and Building Construction (DUDBC).

India has continued its focus in the power and irrigation sectors, on road and airport construction and in mutual-benefit programs. Its concentration is also on communication and postal services. Indian aid in social sector mainly supports the areas of economic and human resource development such as drinking water, construction of hospitals, and establishment of schools, colleges, research centers, libraries and scholarship program to Nepalese students for higher studies in India as well as in Nepal. Similarly, Indian aid in the industrial sector, although relatively modest, is important for Nepal which is still in the very early stages of industrialization. Thus it is significant to observe India's contribution in the development of different sectors of Nepalese economy.

5.5.1 Transportation

Transportation is key factor for economic development. It is said that if agriculture and industry are the muscles and bones of National organism, transportation links are its nerves. To establish peace, security, law and order and to transport goods and services from one part to another, roads and air transportation play the vital role. Transportation network facilitates the development of agriculture, industry, power, health and other various sectors of the economy. But due to lack of essential development of transportation facilities, Nepal is not able to exploit her natural resources and can not achieve desired level of benefit from industry and commerce. India has provided major portion of its assistance for the development of transport system in Nepal such as road, airports and railway services.

Roads and Bridges

Government of India has constructed 807 kilometres out of the total road length of 1024 Kilometres of the East–West Highway from Mahendranagar to Mechi (Mahendra Raj Marg) which is today a life line of Nepal. Twenty two bridges were constructed by Government of India on Kohalpur–Mahakali section of the East West Highway. These were handed over to the Government of Nepal in 2001. Besides this, in recent times 7 village and urban roads and 2 bridges have been constructed with GOI assistance of NRs.20.05 crores under Small Development Projects Programme to provide easy access to the people of remote villages. Presently work is ongoing for construction of 8 roads and 2 bridges at a cost of NRs. 28.92 crores. GOI is also funding the upgradation of road from Dakshankali (Kathmandu) to Kulekhani (Makwanpur) and Gaur Municipality to Sukhdeo Chowk in Rautahat District at a cost approximately NRs. 10 crores. The road is nearing completion.

Terai Roads Projects: During the visit of the External Affairs Minister of India to Nepal in January 2010, both the Governments signed a Memorandum of Understanding for the development and construction of roads in the Terai area of Nepal. Phase-I of the project covers development of 19 link/postal roads in Terai districts. These 19 roads with a total length of 605 km being constructed under phase-I with Indian assistance of approximately NRs.1100 crores will not only provide easy access to about 88 lakh people but will also help in promotion of trade and industry which will eventually contribute to overall economic development of Nepal. Phase-I will be followed by Phase-II and will cover about 900 kilometres of roads. Physical work has already commenced on all the

Packages of Phase I of the roads. On 22 April 2011, Shri S.M. Krishna, Minister of External Affairs, laid the foundation stone of Postal Road No. 120 from Birgunj to Thori covering 52.83 kms under package III of Phase I of the Terai Roads Project (MOFA, 2010).

Road constructed by the Regional Transport Organization (RTO)

In January 1958, HMG/N, Indian and the USA agreed to develop infrastructure facilities in Nepal with a view to facilitate interchange of technical knowledge and skills and programs of self -help and mutual cooperation. The rationale behind the agreement was to promote economic and social well being and secure basic rights and liberties of the people and to protect their security and independence, which would enable them to maintain an equal status among the nations of the world (Pyakuryal; 2005). As per the agreement, an agency was formed consisting of equal number of representatives from the three governments, i.e. Regional Transport Organization (RIO), to carry out the program. The following 8 roads were constructed under this program.

Table No. 5.5.2

Road Constructed by RTO

Roads	Length in Miles
Raxaul – Bhainse	46
Sunauli – Pokhara	131
Kathmandu – Trishuli	43
Nepalgunj – Surkhet	71
Dharn – Dhankuta	93
Dhangadi - Dadeldhura	150
Kathmandu – Janakpur	130
Krishnanagar – Pyuthan	80

Table No. 5.5.3

Recent Indian assisted projects in Nepal

PRN	Feeder Roads	Actual length (in KM)	Districts of Nepal
101	Mechi highway (charali-chandragadi-	39.62	Jhapa
102	EWH (kanepokhari-Rangeli)	28.00	Morang
103	EWH(kalyanpur- barain subbharanpati)	18.00	Saptari
105	EWH(Birendrabazar-Yadukaha)	32.25	Dhanusha
106	Janakpur- yadukaha Road	17.04	Dhanusha
115	Janakpur- jatahi Road	12.60	Dhanusha
118	Janakpur-Maliwada (Bhhitamod Road)	18.70	Dhanusha
107	EWH(Maithan)- Gaushalabazar- Samsi	26.92	Mahottari
108	Barhathwa (Nayaroad)- Madhubani Road	40.31	Sarlahi
119	EWH (Nawalpur) Malangawa Road	27.00	Sarlahi
109	EWH (Tamagarhi)- Simrungrah Road	39.03	Bara
110	EWH (Manmat)-Kalaiya- Matiyarwa	26.66	Bara
111	EWH (Jitpur)- Taulihawa- Khanuwa	33.22	Kapilvastu
121	EWH(Lamhi)- Koilabas Road	34.00	Dang
113	EWH (Bhurigaon) – Guleria- Murtia	35.51	Bardiya
114	EWH (Lamki)- Tikapur- Khakraula	27.22	Kailali
Postal Roads			
117	Jaleshwor- Hardi River Road	27.22	Mahottari
120	TRP (Birgunj)- Thori Road	68.00	Parsa
112	Nepalgunj-Baghauda Road	44.51	Banke
116	Sati-Bhajaniya- Dhandadhi	61.15	kailali

EWH= East –West Highway

PRN= Project Road Number

Sources:http://www.indianembassy.org.np/uploaded/economic_cooperation/FINAL_MA_P.pdf

Airports

India constructed the following airports in Nepal.

Table No. 5.5.4

Construction of Airports under Indian Aid

Projects	Details	Year of Completion	Cost (Lakhs) IC
Kathmandu	construction	1951	56.11
Pokhara	"	1964	0.76
Biratnagar	"	1968	28.36
Bhairahawa	"	1968	15.52
Janakpur	"	1964	19.45
Simara	"	1964 - 71	3.63
Total			123.83

Cross-Border Railway Links

Government of India has accepted the request of Government of Nepal for establishment of cross-border railway links at five locations on the Indo-Nepal border. These are (i) Jaynagar in India to Bardibas in Nepal, (ii) Jogbani in India to Biratnagar in Nepal, (iii) Nautanwa in India to Bhairahawa in Nepal, (iv) Rupaidiha in India to Nepalgunj in Nepal, and (v) New Jalpaiguri in India to Kakarbhitta in Nepal. Work on the railway connectivity at Jaynagar-Bardibas involving conversion of 51 km railway line from Jaynagar to Bijalpura into broad-gauge and its 17 km extension upto Bardibas is expected to start soon. Both the Governments have also decided to undertake work on the 17.65 km Jogbani – Biratnagar rail link in the first phase itself.

5.5.2 Postal service, Telecommunication and optical fiber cable Projects

The post office at the Indian embassy was the only centre for international mail in 1950s, a window through which the people of Nepal could connect to world outside. The general post office is constructed in the Kathmandu in 1967 at the cost of Rs 19 lakhs 20 thousands Nepalese currency with the Indian assistance. The foreign post office building is also built in 1968 at the cost of Rs 12 lakhs 24 thousands Nepalese currency. After the Nepal became a member of Universal Postal Union (UPU), Indian advisors, subsequently, helped to organize the Nepalese postal system. Nepal and India agreed to establish effective postal services between them in 8th September, 1964. Both the governments also committed to exchange postal parcels between the postal administrations of India and Nepal.

The GOI and HMG agreed to establish continuously open wireless telegraph and radio telephone services between Nepal and Indian on June 25, 1964 (Pyakurayal 2005). Similarly, at the request of HMG/N the GOI agreed to establish a tele printer circuit link between Kathmandu and Calcutta on June 24, 1968. The cost of the project was expected to be approximately Rs.3million IC, which was executed through the post and telegraphs Department of the government of India, as a continuity of assistance in the field of telecommunication. The GOI agreed to provide funds to the extent of IC 1.2 million for the establishment of a 5 k.w. Radio Telephone link between Kathmandu and Delhi on June 24, 1968 in which, the materials for standby power supply transmission line, antenna and local leads at Kathmandu for extending the radio telephone circuit from the wireless station on the central telephone exchange are the significant achievements from the Indian assistance. Communication infrastructure remained a core focus of India- Nepal cooperation in the decades to follow, bringing Nepal its first information superhighway with the Optical fiber cable project in 2004. The Optical Fiber Cables runs along the East-west highway, connecting Bhadrapur to Nepalginj.

5.5.3 Education and Scholarship

Education creates building blocks for the process of nation-building and is the first step towards the development of any country.

Education

School/College/Library buildings: Government of India focuses on the creation on infrastructure to provide good buildings, equipped with furniture, labs, computers etc. for providing proper education. It is also ensured that proper toilets and drinking water facilities is provided for students and staff. Government of India is providing assistance to institutions of all levels, starting from primary schools to universities in Nepal. The total number of educational school projects undertaken by the Government of India in Nepal as SDPs covering nearly all Districts in the country comes to 220 at a cost of approximately NRs. 490 crores.

Some of the large educational projects

- i. Tribhuvan University, Kathmandu
- ii. Trichandra Campus, Kathmandu
- iii. Mahaendra Memorial Polytechnic, Morong.
- iv. Nepal Bharat Maitri Vidyalaya, Kaski
- v. Institute of Engineering, Kathmandu

Some of small educational projects

- i. Bhairahawa Multiple Campus, Rupandehi
- ii. Birendra multiple campus, Chitwan
- iii. C V Raman Auditorium at Kathmandu Univercity, Kavre
- iv. Gaurigunj Campus, Jhapa
- v. Makwanpur Multiple Campus, Makwampur
- vi. Nilkantha Campus, Dhading
- vii. Madan Bhandari College, Kathmandu
- viii. Shree Adarsha Madhamic Vidyaalaya, Mohattari
- ix. Shree Durga Janta Madhamic Vidyalaya, Sarlahi
- x. Shree Saraswati Higher Secondary School, Rautahat

- xi. Shree Mahalaxmi Secondary School, Gorkha
- xii. Shree Chandannath Higher Secondary School, Jumla
- xiii. Shree Bal Janata Higher Secondary, Dang
- xiv. Shree Kalinchock Secondary school, Dolakha
- xv. Shree Sharada Secondary School, Parsa
- xvi. Surkhet Campus, Surkhet
- xvii. Shree Ghatal Secondary School, Kanchanpur

Manmohan Memorial Polytechnic: This is the first polytechnic of its kind in Nepal providing technical education in three engineering streams and several vocational courses to make the people of that area self reliant. The project was inaugurated by the Prime Minister of Nepal on 2nd November 2009. The fully residential institute has a capacity of providing education to almost 500 students at a time. Regular Diploma courses in Electrical, Electronic and Mechanical Engineering commenced from November 6, 2008. GOI is extending a faculty support to the Polytechnic for a period of 5 years. A 6-member Indian faculty team is positioned at MMP for the fourth academic year. Some additional works at the project site, including the construction of a Rain Water Harvesting System, are underway. Total cost of project is NRs. 40 crore.

Polytechnic at Hetauda: Government of India has approved the proposal for the construction of a government polytechnic at Hetauda which will impart mid-level technical courses in four engineering fields. Land measuring 32 acre has been acquired by the Government of Nepal for the project. A Memorandum of Understanding between the two countries for the implementation of the project was signed during the visit of President of Nepal to India in February 2010. The estimated cost of the project is

expected to be NRs. 40 crores. Consultant for the project has already been appointed. GoN is currently engaged in processing the Environment Impact Assessment for the project before physical work on the project starts.

Establishment of a Science Learning Centre at Kathmandu: Nepal Academy of Science and Technology (NAST) and National Council of Science Museums of India (NCSM) signed an MOU in 2002. A Trilateral MoU for the implementation of the project was signed between GoI, GON and NAST on 15th January 2010 during the visit of EAM. NCSM has been appointed as the Consultant for the project. The estimated cost of project is NRs. 25 crores. The architect for the project is being appointed and work is expected to start soon.

At present, under the small project development schemes, a large number of schools' physical infrastructure is being constructed and upgraded with India's cooperation. India has also agreed to set up polytechnics in selected districts in Nepal and an institute of technology in the Western Region.

Scholarship Programs

Over the years India's contribution to the development of human resources in Nepal has been one of the major aspects of India-Nepal cooperation. Mahatma Gandhi scholarship scheme for the student pursuing +2 courses, The Golden jubilee scholarship scheme provide on medicine, engineering, technology and Science. India provides Silver Jubilee Scholarship on MBA, MCA, MSc and MA each year. Similarly provides Post Doctoral Scholarship which students exchange the academic ideas of two countries; one fellowship and the next scholarship provided to Nepalese candidates for

understanding in doctoral/post doctoral studies in various field. The Dr. Homi J. Bhaba Scheme launched in 2004-05, provided 40 scholarships to Nepalese students for studying ME/M.Tech in India. Under a new scheme, implemented in 2005-06, 33 Nepalese students are provided scholarships for studying in Army Public Schools, in India.

5.5.4 Health Sector

A healthy society forms a healthy nation. Government of India had been providing support in this sector in line with the priorities of the Government of Nepal and has helped in the creation of physical infrastructure and training of medical personnel. Government of India provides at Bir Hospital five storied OPD complex of the Bir Hospital at Kathmandu was constructed with the GOI assistance in year 1984-85. Bharat-Nepal Maitri Emergency & Trauma Centre at in Kathmandu the Centre being constructed with the assistance of GOI is a first of its kind in Nepal. It is being built on the lines of the Trauma Centre of the All India Institute of Medical Sciences in New Delhi for the treatment of trauma patients Cost of the Project is about NRs. 150 Crores. B.P. Koirala Institute of Health Sciences (BPKIHS) at Dharan is the biggest hospital-cum-medical College outside Kathmandu Valley which was constructed with GOI assistance of NRs.192 crores. Hospitals and Maternity Centers under SDP several health posts, nursing campuses maternity centres, eye hospitals, naturopathy hospitals have been undertaken under our Small Development Project scheme. Gifting of Ambulances/Buses in order to facilitate the movement of patients from rural, remote and far flung areas to medical centers in Nepal, GOI has gifted 342 ambulances since 1994 across 70 districts in Nepal.

Goitre Control Programme: Iodine Deficiency Disorders (IDD) is a major micro-nutrient deficiency in Nepal. Starting from 1973, GOI has provided assistance of NRs. 66 cores for the programme of control of Goitre and other iodine deficiencies in Nepal. Assistance to Nepal Netra Jyoti Sangh (NNJS) for Cataract and Trachoma surgeries programme blindness due to cataract is a major health problem in Nepal. Government of India has provided assistance of NRs. 13.79 crores to NNJS from 2001 to 2011 for holding diagnostic and surgical eye camps in Nepal. During 2011-2012, India is providing a grant assistance of NRs. 4.60 crores to NNJS for cataract and trachoma surgeries. School Eye Health Care Programme, Since 2007 Government of India has been providing assistance to NNJS for holding eye camps in schools in remote area and providing free of cost 26,000 optical dispensing devices to ‘Vision Impaired’ children. India has provided a financial assistance of NRs. 2.67 crores to NNJS for its School Eye Health Care Programme. . India is providing a grant assistance of NRs. 1.03 crore to NNJS under this Programme during 2011-2012 (Indian Embassy in Nepal).

5.5.5 Water Resources

Water resource is considered as the backbone of Nepalese economy. The issue of water resources has always been getting due prominence in the agenda of bilateral cooperation between Nepal and India since long time back so as to generate power and provide irrigation facilities by constructing mega Projects. However the flashfloods, erratic behavior of the rivers and the construction of the barrage along Nepal India border, have submerged

Nepalese territory causing huge losses of lives and properties during the monsoon.

Powers

Hydro electric power occupies an important place in the development of the national economy. Hydro electricity is one of the most economic sources of power in Nepal because of its abundance. Its technical potentiality is estimated to be 42 thousands mega-watts, out of 83 thousands MW of full potential. Despite a high potentiality of power generation, one percent of the total potentiality is generated. Although Nepal has potentiality to exports hydro electricity, due to high costing to produce, it can not fulfill the domestic demand. However, the aid giving countries have very well realized the prominent role of electricity in the economic development of Nepal and accordingly, India has assigned a substantial portion of its aid to this sector.

The following table shows the estimated powers of water from different rivers.

Table No. 5.5.5

Estimated hydropower powers of river.

S.N	Name of Rivers	Capacity
1	Sapta Koshi	22350 MW
2	Sapta Gandaki	20650 MW
3	Karnali and Mahakali	36180 MW
4	Southern River	4110 MW

This is the theoretical hydropower potentiality of which 42000 MW is economically feasible Nepal has about 2027 percent of the total hydropower potentiality in the world. Nepal has so far 655 MW of hydroelectricity. By the end of 2009, elected government of Nepal after the election of

Constitution Assembly has mission of development 10,000 MW of hydropower in next twenty years.

India has contributed for the completion of the following hydro-electricity projects.

Trishuli Hydro-Electricity Project: In 1958, India undertook the construction of Nepal's biggest power project at Trishulli at a cost of Rs.13.55 crores IC. This project was completed in 1971.

Koshi -Hydropower Project: The Kosi River is the third biggest Himalayan River. Its catchments are is 36.780 sq. km. Koshi is notorious for its flood dangers and has changed its courses in the western direction for over 112 km. the power house on the eastern Koshi canal has been designed to produce 20,000kw of which Nepal's share would be 10,000 KW.

Devighat Hydro-Electricity Project: This project was implemented to reuse the water of the Trishuli hydroelectricity project. The construction of the project had been entrusted by Government of India to National hydro-electric power cooperation limited but again the GOI under took the execution of the project in 1978. This project was completed in 1983 with the cost of Rs. 290 million IC. Under this project 14,100 KW Electricity is being generated with the help of from three plants its completion.

Irrigation and Drinking Water Supply

Although Nepal is an agricultural country, it could not provide irrigation facilities among the projects spread through Boaring, through different

sector irrigation projects and drinking water programs. Under the Indian Aided Canal and Drinking water supply projects in Nepal different projects have been completed during the different plan periods.

Indian assistance in irrigation is started with the construction of Koshi and Gandaki Barrages. Besides these there are several major and minor irrigation and drinking water supply projects implemented through a board known as Canals and Drinking Water Supply Development Board. The director of Indian Aid Mission was the advisor of the board. The following table shows these irrigation projects and benefited land of corresponding areas in different years.

Table No. 5.5.6

Irrigation projects under Indian Assistance

S.N.	Scheme	Location	Irrigated Land (in Ha.)	Years of Completion
1	Chatara Canal	Morang	30000	-
2	Koshi	Morang, Sunshari	200000	-
3	Gandaki	Bara, Parsa,	23000+28000	-
4	Chandra Canel	Sapthari	34690	-
5	Tika Bhairab canal	Kathmandu	2711.4	1961
6	Mahadeo Khola	Kathmandu	1416.4	1960
7	Budhanil Kantha	Kathmandu	809.4	1961
8	Askekhola Kulo	Sindupanhok	48.6	1960
9	Lower Vijayapur	Pokhara Valley	2913.8	1961
10	Fewatal Bund	Pokhara	1214.1	1964
11	Baglung Irrigation	Baglung	161.9	1960
12	Jhaj Canal	Bara, Parsha,	6070.4	1961
13	Khutti	Saptari District	-	-
14	Dunduwa	Banke	2832.9	1964
15	Khotku Khola	Kathmandu	728.5	1965
16	Godawari Khola	Kathmandu	890.3	1965
17	Bosan Khola	Kathmandu	202.3	1965
18	Hardinath	Mahotari	3642.3	1965
19	Manusmara	Sarlahi & Rautahat	1821.1	1966
20	Tinau Project	Rupandehi	20234.7	1966
	Total		361388.1	

Source: Indian embassy in Nepal

5.5.6 Industrial Development

Like all other least developed countries, Nepal considered rapid industrialization is essential in order to increase production and per capita income at a rate fast enough to provide a base for the economic development of the country to decrease the population depends on the agricultural sector. If we seen the world economic atmosphere none of the country has uplifted their economy without industrial development. Japan is well-known in the world economic as a steel producer country with the lack of proper raw material in domestic market. Similarly, China is an emerging example for the industrial development is recent years. Even India is a growing economic power in the world economy by modern industrialization.

Being a member of WTO, Nepal need to make the existing Acts, laws policies, rule and regulation more transparent and future oriented in line with multilateral trading system to initiate the process of ensuring periodical fulfillment of the commitments made at the time of getting membership to align Nepalese economy and world economy to achieve maximum gains. But Nepal is suffered by traditional production system until now, by which its production is low qualified with high cost. Because of these reasons, our products can not able to competitive other developed countries' production. In this context, it is necessary to establish modern industries with high efficiency and technology. In Nepal the major obstacles in the way to industrialization are lack of infrastructure and power, shortage of capital and technological knowledge was absence of entrepreneurship.

There are altogether 11 industrial estates located at Balaju, Hetauda, Patan, Nepalgunj, Dharan, Pokhara, Butawal, Bhaktapur, Birendranagar, Dhankuta and Rajbiraj with existing 507 industries by the present time. Among these industries, the industrial area of Patan, Nepalgunj, Dharan, Phokara, Butwal and Rajbiraj were assisted in different time for the establishment by the government of India

The services of an industrial adviser and technical assistances have been provided to supervise and provide technical guidance to various industrial units. The industries established by Indian assistance has been covering many fields like cotton and nylon hosiery dry cell battery, plastic products, hard ware, industrial camphor, power looms for cotton fabrics, calendaring and sizing brass and copper products, wooden and steel furniture, woolen carpets, electrical goods. Most of these goods have been introduced in a competitive way. The demand of Nepalese people is being fulfilled in some extent up to now.

5.5.7 Miscellaneous

It is not to exaggerate that the effective veterinary service plays crucial role in an agricultural economy like Nepal. In the mountains of Nepal the cattle farming is a second major sources of nutrition food and income after agriculture. With the request of HMG/N, India provides a sum of Rs.25 lakh IC for establishing veterinary facilities in Nepal. The facilities consisted of a veterinary research laboratory in Kathmandu and dispensaries in other parts of the country. Encouraged by the fruitful result Indian extended assistance of Rs.10 lakh IC for veterinary laboratory and control veterinary hospital

Kathmandu and 33 veterinary hospital com cattle breeding centers have been set up.

Appreciating the key role of horticulture in economic development of Nepal, India has been collaborating with Nepal in this field. In 31st August 1960, India agreed to provide financial assistance of Rs. 25 lakh IC for establishment of Horticulture development center in different parts of the country. Ten horticulture centers/stations were establish at Kirtipur, Pokhara, Daman, Dhankuta, Dhunibesi, Trisuli, Janakpur, Sarlia Thang, and Baitadi. Encouraged by th fruitful results, India extended assistance of Rs. 43.60 lakhs IC. For implementing new schemes of horticulture, under this program new three centers were setup at Dhunche, Jumla and Palpa.

A separate unit is constituted for Gorkha Ex-army who was permanently settled after retirement from Indian Gorkha-army. Assistance is also provided by the assistance military attach in securing re employment for the Gorkha Ex – army. A number of pension paying camps are establish in remote and inaccessible area of Nepal so that the pensioners do not have to undertake long journey at trouble. Although, these assistances are related to military servicemen but not military assistances to Nepal, in reality it can be said that such kind of welfare schemes helps to uplift the social and economic condition of Nepalese people.

The welfare activities can broadly be divided into field of education, medical training, rehabilitation, vocational training, and financial assistance. For the betterment in social and economic condition of Nepalese people, Indian government provided the various facilities to ex-armies, disable armies, their

children, and region in other security forever or in trekking after the retirement life as well.

Similarly, Indian assistance also contributed to research and develops of archaeology in Nepal. In 1959 HMG/N decided to organize archeology in a scientific way with the cooperation of India. In 1960, the Director General of the Archaeological survey of India visited Nepal and submitted a report. It formed the basis for the reorganization of the Department of Archaeology as well as its program of excavation and exploration. Similarly with the technical and financial aid from India, a modern attractive building for National Archive has been constructed in Kathmandu. This building contains a large stock-room to accommodate about 30,000 manuscripts office accommodation, conference room, cataloging room and laboratories. This building is fitted with microfilm camera and projector.

Minerals are of great importance in the field of developing transport, technology, industry and other vital sectors of national economy. To locate the country's mineral resources and exploit them India provided substantial assistances in this field also. Similarly the topographical survey and a detailed map of Nepal have been completed through the Indian cooperation with Nepal.

An agreement was signed between GOI and GON on November 7, 2003 to facilitate implementation of "Small Development Projects Scheme (SDPS)" in the sectors of education, health, and community development for a period of two years. The agreement has been renewed regularly and the last renewal

was effective from 6 August 2011. The assistance is reflected in Nepal's budget each year.

The objective of this programme was and remains to supplement the efforts of the Government of Nepal in the national development of the country. India's assistance programme in Nepal is guided by the vision that alongside progress in political process in Nepal, it is equally important to ensure that economic deliverables, particularly in the areas of education, health and infrastructure, must reach the people without any pre-conditions in a smooth, quick and unencumbered manner. Towards this end, Government of India is providing technical and financial assistance for multi-sectoral development of Nepal (2012, MOFA).

From the above conclusion, Indian assistance plays the vital role for the socio-economic development. Indian assistance to Nepal, in the field of modern economic development began as early as 1951. Since its initiation the role of Indian aid has become very important to modernize every field of Nepalese economy. Indian assistance or cooperation to Nepal covers all most of the sectors such as transportation, communication, power generation, education, health, irrigation and water supply, industry, administration, Human resource development, veterinary, forestry environment preservation, culture, mining and so on. India's cooperation always been directed towards socio-economic transformation of Nepal. India-Nepal cooperation is progressing and is likely to be stepped up significantly in the coming years.

CHAPTER VI

CHINESE AID IN NEPAL

This chapter includes historical background of Chinese aid in Nepal, economic and bilateral relationship between Nepal and China, aid from China and contribution of Chinese aid on various sectors of Nepalese economy.

6.1 Historical background

Nepal and China have a long history that is bound together by a long history of cultural and political relationships. This relationship began through Buddhism, which was also a common ground for intellectual and spiritual interest and interaction between Nepal and China. From time immemorial Nepal and China have been close neighbors following political changes in both countries; the establishment of a diplomatic relationship between them on the 1st of August 1955 the relationship in the formal setups. (Kant 1976)

By the time of the Bandung Conference China seemed very anxious to establish a formal relationship with Nepal. On August 1, 1955, Nepal and China agreed to make the five principles (Panchaseel) bilateral ties with the following five principles (Panchasheel);

- I. Respect of each other's sovereignty and territorial integrity,
- II. Non- aggression,
- III. Non- interference in each others' internal affairs economically, politically and ideologically,

- IV. Equality and mutual benefit, and
- V. Peaceful co – existence.

In the interview with the writer, Sardar Yadhu Nath Khanal, The member Secretary of the Nepalese delegation to the 1955 Bandung Conference, disclosed that while the Nepalese delegation was in Calcutta, India route to Indonesia to attend Bandung Conference, the Chinese consul General in Calcutta informed the Nepalese delegation that Chinese Premier Chou En – Lai was quite eager to meet the Nepalese Prime minister. The same message was again conveyed to Professor Khanal by one official of the Chinese Embassy in Indonesia on the very day of the arrival of the Nepalese delegation in Bandung. It indicates that the Chinese were quite anxious to establish formal diplomatic relation with Nepal. Then after the Bandung Conference on 1 August 1955, formal diplomatic relations were established between China and Nepal (Thapa, 2005).

Since the establishment of the diplomatic relationship between Nepal and China in 1955, late king Birendra has visited China 10 times. The crown itself at different stages has laid down the initial foundation of the relationship between Nepal and China. This indicates that he wanted to establish a sound relationship with both the neighboring countries. Nepal and China have a multi dimensional relationship. This relationship is being developed through many channels including the Tibetan Autonomous Region of China. Then in September 20, 1956 both countries entered a diplomatic relationship between Nepal and the TAR of China into an agreement to maintain a friendly relationship, trade and intercourse. This

agreement between these two countries was held in 1955, after the establishment of their diplomatic relationship. Nepal and China are close neighbors, which share a 1,415 km long border (Bhasin, 2005).

China has been assisting Nepal in its efforts for socio-economic development since mid-50s. The first 'Agreement between China and Nepal on Economic Aid' (20 million Indian Rupees in cash and 40 million rupees for aided projects) was signed in October 1956. Ever since, China has been providing financial and technical assistance to Nepal, which has greatly contributed to Nepal's development endeavors. In the early years, Chinese assistance was pledged in terms of projects and no financial involvement there in was mentioned. From mid-90s, the Chinese Government has been pledging grant assistance to the Government of Nepal under the Economic and Technical Cooperation Programme in order to implement mutually agreed development projects.

Nepal and China are close neighbors sharing a 1,415-km border. The two countries have enjoyed robust political, socio-cultural and economic relations since time immemorial. Both the countries witnessed dramatic political transformations around 1950 that culminated in the establishment of diplomatic relations between the two on August 1, 1955, which in turn helped further cement the bilateral ties. The five decades since have been remarkable for both the countries in terms of modernizing the mutual relations. During this period, the government-to-government contact has visibly expanded to the people's level.

Table No. 6.1

Timeline of Historical events	
1792	Sino-Nepalese Treaty of 1792 signed between China and Nepal
1814-1816	Anglo-Nepalese War or the Gurkha War fought between Nepal and the East India Company
1854	Nepalese Army attacked Tibet under then Prime Minister Jung Bahadur Rana
March, 1856	Treaty of Thapathali signed by Jung Bahadur Rana and Kolan Shatra of Tibet
1904	British India sent expedition to Tibet and Nepal rejected Tibet's request for military aid
1908	Nepal stopped paying tribute to China
1911	Chinese revolution of 1911
1950	Chinese communists invaded Tibet
1955	Diplomatic relations reestablished between China and Nepal
1959	Lhasa Uprising. Refugees flow into Nepal
1960	China and Nepal established resident ambassadors in respective
May, 1960	Nepalese government requested assistance from International Committee of the Red Cross for helping with refugees
1961	Sino-Nepal Boundary Treaty signed
1962	Nepal withdrew its ambassador from Tibet and submitted a new Consul General
1969	Seven Tibetan settlements established in Nepal
1989	Nepal initiated strict border control policy
May, 2003	Nepalese government hand over 18 Tibetan refugees to the Chinese embassy
January, 2005	Nepalese government shut down Tibetan Refugee Welfare Office in Kathmandu
April, 2008	Nepalese authorities crush anti-Olympics protests in Kathmandu
May, 2008	Nepalese government station security personnel's in Everest Base

Source: <http://countrystudies.us/nepal/69.htm>

<http://www.mofa.gov.np/bilateral/nepal-china.php>

<https://www.cia.gov/library/publications/the-world-factbook/geos/np.html>

Nepal and China relation have always remained sound and cordial. These relations have been based on mutual support, friendliness, appreciations of

each other's aspirations and sensitiveness. History shows, if one can traced 5th century, when saints and sages engaged in visiting with aim of knowledge and peace. Nepal and China's diplomatic relations has been established on 1st of August 1955. White pagoda temple constructed under the guidance of Nepalese architect 'Arniko' the marriage between Tibet king, Song Sang Gampo and Bhrikuti, the daughter of king Licchavi in the 7th century provided the historical relationship between Nepal and China.

In 1956 between China and Nepal first economic aid was signed. Nepal since then getting significant contribution from China in development field (Infrastructure building, establishing of the industry, health, sports). In the field of education China has been providing 100 scholarships every year for the Nepalese students which will contribute to understand each other's tradition and culture. Which indicates the bilateral relation between these two countries is not only from the governmental level but also from peoples to peoples. There has been lots of cultural program in each other's territories and visits too.

Since 1999, Chinese government has been providing medicine and medical equipment to Nepal. Worth 1.4 million Nepali currencies, it also has provided medical equipment to the B.P. Koirala memorial cancer hospital. 2 To boost Nepal's economy between two giant India and China, Nepal can be considered as transit economy as well as to generate employment too. Since the establishment of diplomatic relation between Nepal and China in 1955, late king Birendra had visited China 10 times. It indicates that he wanted to establish sound relationship with both the neighboring country. The late king was very much impressed by the achievement of China and expressed his

heartfelt thanks by delivering few words, By seeing the economic progress made by China and policy that has been adopted helps to improve the life of its citizens very remarkable (MOFA, 2010).

6.2 Economic relationship between Nepal and China

China and India have been providing economic assistance to Nepal. The assistance is mainly focused on developing infrastructure in Nepal. In the early years, Chinese assistance was provided in terms of projects, and no financial involvement therein was mentioned. From the mid-1960s, the Chinese government has been providing grant assistance to implement mutually-acceptable development projects. The volume of such assistance averages 80 million Yuan every year. Both countries have gradually increased their assistance over the years. Indian assistance, an average of 150 million IRs annually in the mid-1980s, has reached 750 million IRs in 1999-2000. India was the only country to be involved in the first five-year plan of Nepal. China has increased its annual assistance to Nepal by about US\$ 216,000 in 2009, which was limited to about US\$ 150,000 until 2008 (MOFA, 2010).

An agreement on trade and economic development, concluded on 20 September 1956, specified the provisions to maintain economic relation between these countries. In order to maintain and develop the traditional contacts between the Peoples of the Tibet Region of China and Nepal the High Contracting Parties agree that the nationals of both Parties may trade, travel, and pilgrimage in those places in each other's territory as agreed upon

by both Parties. According to the “Economic Aid” agreement signed on 7 October 1956, China agreed to provide free grant to Nepal within a period of three years from the date of signing and coming into force the agreement in an amount of Indian Rupees (IRs) 60 million. The grant, according to the agreement, was one-third by installments in foreign exchange, and two-thirds in machinery, equipment, materials, and other commodities which Nepal needed and China could supply. Economic relations were further strengthened when the Economic Aid Agreement was signed in March 1960. Under this agreement, the government of China decided to willingly provide a free grant of economic aid without any conditions or privileges attached.

Nepal and China exchanged notes on 30 April 1976 for an extension of ten years on the agreements on trade and transport between the Tibet Autonomous Region of China and Nepal. Both countries further strengthened their economic ties by signing an agreement on Trade and Settlement on 21 August 1981. An agreement was signed on 1 August 1986 in order to extend the validity of the trade agreement for another ten years. The Economic and Technological Cooperation signed in February 2000 further strengthened their economic relations (FMPRC, 2010).

The economic relations between Nepal and China were further strengthened when both countries signed the Trade Agreement in May 1964. The agreement focused on appropriate measures required to develop the trade and exchange of goods between the two countries. In order to further promote and strengthen economic and technical cooperation, Nepal and China signed another agreement on economic cooperation in December

1966. According to this agreement, the government of China agreed to provide 150 million NRs between 21 December 1966 and 31 December 1970 to the government of Nepal, a grant of aid without any conditions attached.

Nepal has established a Chamber for Cooperation with India and China in the field of Commerce and Industry. The Nepal-China Chamber of Commerce and Industry was established as a Non-Government Organization in 1999 with the view to maintaining the intimate relationship with the Chinese business community through the medium of a bilateral relationship (2010, NCCI).

6.3 Bilateral relationship between Nepal and China

In the global economic sphere, Nepal is the least developed, landlocked, geographically disadvantageous and economically vulnerable nation with remarkable ecological, cultural and ethnic diversity. In addition to this, preliminary geographical survey shows the country is considered to be rich in minerals such as iron, copper, mica, gold, lead, zinc, limestone, slate, mineral-oil and gas, nickel, sulfur, graphite and dolomite. Although there are numerous potentials for development, due to lack of substantial foundation of infrastructural development, the available resources are left unexploited.

Nepal is one of such least developed countries whose saving is low because of the low economic growth, high population growth, political instability and vice-versa. Because of the low level of income, level of consumption and capital formation is also low. To increase the consumption and capital formation, level of income should also be increased. To increase the income

level of people government should increase the development expenditure. But there is lack of internal resources to increase the development expenditure. In this context, foreign aid is necessary component for economic development of Nepal (Chinese Embassy in Nepal 2007).

During the Sino-Indian conflict of 1962, Nepal reasserted its neutrality and warned that it would not submit to aggression from any state. Although the warning was directed at China, Nepal continued to support China's application for membership in the United Nations. A potential source of irritation in Sino-Nepalese relations was relieved in January 1964 when China agreed to release the frozen funds of Nepalese traders from Tibetan banks.

An agreement to construct an all-weather highway linking Kathmandu with Tibet was signed in October 1961--a time when neither Kathmandu nor Beijing had cordial relations with New Delhi. The Kathmandu-Kodari road opened in May 1967 but did not yield any commercial or trade benefits for Nepal. Because of the severe restrictions imposed by Beijing even before the road was opened, Kathmandu had closed its trade agencies in Tibet by January 1966. Although the highway had no economic or commercial value and was not viable as an alternate transit route, it was of strategic military importance to China. The highway established direct links between two major Chinese army bases within 100 kilometers of Kathmandu to forward bases at Gyirong in Tibet (Roberts, 1997).

6.4 Aid from China

As with the study of India however, a brief history of the evolution of aid donation from China is necessary as a means of introduction. In the decades prior to 1955, China barely figured in the Nepalese foreign policy. India and Nepal had a close identification with each other and China was Preoccupied in Korea and Judo-China. After the accession of King Mahendra to the Nepalese throne, the new monarch was eager to reassert Nepal's independent identity. This was attempted by diversifying both economic and political relations. China's increased participation in Nepal's economic development was part of her strategy to neutralize India's influence and draw the kingdom into her orbit. During the 1950s, another main objective of Beijing in its relations with non-Communist Asian countries was to break out of its isolated position resulting from the US and United Nations embargo (Thapa, 2005).

In 1963, Thou Enhui was able to specify 'Eight Principles' governing Chinese aid policy (Roberts, 1997). They are as follows:

1. The government of China bases itself on the principle of equality and mutual benefit in providing aid to other countries. Through such friendly aid, emerging countries can develop their own economies, free themselves from colonial control and strengthen the anti-imperialist forces in the world.
2. The government respects the sovereignty of the recipient countries, and never asks for any privileges or attaches any conditions.
3. The government provides economic aid in the form of interest-free or

low-interest loans and extends the limits of repayment so as to lighten the burden of the recipient countries.

4. The purpose is not to make the recipient countries dependent on China, but instead to help them towards self-reliance.
5. The government helps assist the recipient countries choose projects which require investment but which yield quick results, so that income may be increased and capital accumulated.
6. The government provides equipment of the best quality and material of its own manufacture.
7. In giving technical assistance, the government of China will see to it that personnel of the recipient country fully master the techniques necessary for independent operation of aid projects.
8. Experts sent by China to help recipient countries will have the same standard of living as their host's equivalent counterparts.

At the fundamental level lay three other principles of Chinese foreign aid. The first concerned support for fellow socialist countries. The second made a provision of support for dependent areas in their bid to achieve independence. The third supported countries seeking self-reliance, to develop their national economies, to consolidate their sovereign independence and to strengthen people's solidarity and the anti-imperialist power of different countries. By 1964, China had signed the first of many agreements with Nepal to undertake the construction of several small-scale projects. Cement, paper, and a brick and tile factory as well as a highway were to be set up as a means of stimulating the Nepalese economy and encouraging the first steps towards partial self-reliance.

On inspection of the location of sites chosen by the Chinese for the intended aid-funded projects, it is important to note the proximity to Indian borders or Indian aided concerns. It seems an inescapable fact that China sought to make some form of political or strategic statement to India through these actions. This was highlighted in 1963 when China offered to assist Nepal in the construction of a number of airports in Nepal. India was forced into undertaking the same project and persuading the Nepalese government not to overlook Indian interest. The incredible speed with which China completed a road project that led from Kathmandu into the Himalayas also caused great concern in India. With China blaming India for the slow arrival of necessary machinery that had to be transited via Indian borders, China seemed to relish the role of antagonist. 1970s and 1980s, China continued a wide form of aid-backed programs including road construction, agricultural surveys, and public transport networks, hydro-electric power utilization and of course light industry. The aim of such projects has always been to expand broad and diversified economic and technical cooperation between the two countries.

It is important to note that since 1950, Chinese aid has been increasing successively whereas the Indian contribution has comparatively declined. However, the total volume of Chinese assistance is markedly less than that of Nepal's southern neighbor. China first remarked on this in 1965: We have not assisted Nepal in economic development to the extent that we should have, but similar words to those spoken by ex-Vice-Premier Chenyi have been echoed in more recent times. China's level of foreign aid program has,

in world terms, been in decline since 1976. Four guiding principles' emerged, representing both continuation of successful old trends and a new emphasis on actual results and a greater diversity of aid projects undertaken.

In the short-term, China sensed that influence would come primarily through its ability to act as a counterweight to Indian influence. In the first decade after restoration of the monarchy, India was overtly attempting to influence Nepalese society. China did not seek to antagonize India by interfering in the kingdom's politics, but grants and loans were made available with extremely few conditions. The manner in which these donations were made was to set the example for following years. No specific projects were named and this gave the government of Nepal the freedom to do as they wished with the finance. Such donations from China were announced with great fanfare, as if to remind the Nepalese that India was not the kingdom's only friend. Singh divides the characteristics of Chinese aid into three categories (Singh, 1996):

1. Chinese loans have been provided interest free or at very low rates of interest and the period of payback extended up to 30 years.
2. The emphasis has been on small, light industrial projects that can be put into operation very quickly and which yield tangible benefits promptly to the recipient country.
3. Chinese technicians inserted into aid recipient nations are required by the Chinese government to live at the level of their counterparts. In Nepal, the Chinese technicians displayed a remarkable sense of 'comradeship through work and behavior with their Nepalese colleagues which added to their popularity.

This contrast between Chinese aid and Indian and US aid resulted in a warmer reception of Chinese aid in Nepal. A special feature of Chinese aid to Nepal was the supply of consumer goods for local retail by the Nepalese government. Much of the local cost of projects was met by the sale of these goods. All of these products were manufactured to a high standard which compared favorably with similar Indian goods. Naturally, this has created a good image of the Chinese among Nepalese citizens. For the Chinese government, this has had the added bonus of 'dislodging' Indian goods from the Nepalese market. The Chinese government is therefore able to claim that it is not motivated by the possibilities of bringing financial benefit to itself, but aims to develop the economic situation of the recipient nation.

In conclusion to this chapter, and drawing on the information from previous chapters, it is apparent that India was the real factor that influenced China's attitude towards Nepal. China altered its relationship with the Himalayan kingdom as its own relations with India changed. China has consistently informed Nepal that it respects her sovereignty and independence, and recognizes the unique relationship that India must have with the Nepal. Aid as an instrument of Chinese foreign policy was never intended to remove Indian influence from Nepal. Instead, it sought to ensure that Nepal followed a policy of equip-distance between the Asian giants.

6.5 Contribution of Chinese aid on Nepalese economy

This chapter describes the contribution of Chinese aid on Transportation (Roads and Bridges), Education and Scholarship, health sector, Water,

Industrial sector and others. China has been not only our precious and most reliable neighbor but also a valued partner in our socio-economic development efforts. It has helped us in the development of many vital infrastructures. Chinese assistance in Nepal which began from 1963 has recorded steady growth ever since. Such a cooperation and assistance ranges from infrastructure, industries, health, Communication, transport, water resources, scholarship and training and many more other important areas. While sparing myself from presenting details of every project, I would like to list below some of the major projects, completed and ongoing, which I was able to obtain from various available sources:

6.5.1 Transportation

China has the technological capability to develop high-altitude transport infrastructure, both road and rail links, in the Himalayan region, and this has made many remote and mountainous areas of Nepal more accessible. Nepal is land-locked and highly dependent upon Kolkata port in India for both export and import. However, when completed, the Lhasa-Khasa rail-link will increase Nepal's options. It will reduce Nepal's dependence on India for its regional and international trade, while helping to boost trade with China. Nepal could also potentially become a land gateway for Chinese trade and commerce with South Asian markets. Besides the construction of the railway connecting Lhasa to the Nepali border, China is involved in several other major transport projects in Nepal, such as the expansion of the Kathmandu ring road and the development of a dry port at Tatopani near the border with Tibet. China has also stated that it will support the construction of new Nepali border posts along this border. In addition, the sizeable loans in 2011

for the development of Nepal’s hydropower signal China’s intent to tap into this resource.

Roads and bridges

Chinese assistance is heavily directed towards the development of transport sector. Many highways have been constructed by Chinese assistance while some are under construction and in planning process. The first assisted highway, the Arniko highway joins the Chinese border with the Kathmandu valley. Major road completed by China are as follows:

Table No. 6.5.1
China’s aid for road projects

Name of the projects	Length (km)	Year constructed
Arniko Highway	104	1963-67
Arniko Highway maintenance	13	1968-70
Prithivi Highway (Kathmandu–Pokhara Road)	174	1965-67
Kathmandu–Bhaktapur Road	13	1969-71
Gorkha–Narayanghat Road	60	1976-82
Kathmandu Trolley Bus	14	1973-75
Kathmandu ring Road	27	1974-77
Pokhara–Mustang Road	73	1987-90
Kajhuwa-Gorkha-Road	24	-
Pokhara-Baglung Road	65	-
Narayanghat-Mugling Road	36	-
Kathmandu-Bhaktapur Trolley Bus	14	-

Source: Embassy of China in Nepal, www.chinaembassey.org.np

The Chinese aid-financed projects are mainly in transport and industry. However, China also provides aid to other sectors such as hydropower and irrigation, public facilities, health, education and sports. Table 6.5.1 presents the list of Chinese aid funded road projects. One current large project is the

northern route with eight bridges, the Syafrubesi-Rasuwegadhi Road, for which China is the 100% contributor. China has constructed many important highways, such as the Prithivi highway, which links Kathmandu and Pokhara, Nepal's only tourist centre, apart from Kathmandu. In addition, China helped build the ring road around Kathmandu, the trolley bus system, and the Kathmandu to Bhaktapur road.

Amiko highway crossed the Northern border passing through first by 6000 ft. height. As Mihaly says, the pace of the Kodari road project amazed Kathmandu on Oct. 15, 1981 the agreement was signed. China granted Nepal \$9.8 million for all cost and agreed to put Nepal officially in charge of construction. On 18 and 27 March 1962 roughly fifty-five Chinese technicians entered Nepal and began to survey the terrain for a road- bed.

The longest bridge (176m) is the Dolalghat Bridge, 57 km. North of Kathmandu at the confluence of rivers Indrawati and Sunkosi. The width of this bridge which is made of reinforced concrete is 8m. The next highway built up with the Chinese assistance is the Prithivi Highway connecting the two important centres Kathmandu and Pokhara. The total number of bridges in the course of the 176km. road totals 41, the longest being the Trishuli (at Mugling) and Madi (at Damauli). By July 1969 the first 74km. of the road were ready to be used with jeeps. This highway starts from Naubise, the point of Tribhuvan Rajpath and reaches Pokhara the starting point of Siddhartha highway. The other significant contribution made by China on the field of transport and communication is the construction of the Trolley bus. The system is used in Kathmandu- Bhaktapur Highway. Although Chinese assistance is limited to some projects only compared with Indian

assistance, but the usefulness of these projects is not limited and deserves a high value than Indian assistance.

6.5.2 Education and Scholarships

Government of Nepal appreciates the Chinese assistance in the field of education. China has been providing different scholarships (not exceeding 100 students at a time) to Nepalese students to study in China. Since the MoU on cultural cooperation in 1995, exchanges, cultural fairs and programs have been organized in each other's country. It has helped to meet the ever-increasing demand for technical human resources in the country along with the better understanding and appreciation to each other's culture and tradition.

6.5.3 Health Sector

Health is an integral component of human welfare; every civilized society in the planet is expected to converge on its promotion. A raft of health researchers reveal that good health reduces poverty and fosters long-term economic growth. Likewise, it is perceived that the linkages between health and income are potent.

China supports Nepal in various projects besides road construction. There are many contributions on health sector; Civil Service Hospital in Meenbhawan, Kathmandu, B. P. Koirala Memorial Cancer Hospital, Bharatpur, Polytechnic Institute in Banepa, National Ayurvedic Research and Training Institute, Kritipur Kathmandu etc.

6.5.4 Water Resources

Chinese assistance directed towards the exploitation of potential hydroelectric resources of Nepal. Recently Sunkoshi hydro project (10 mw) has been completed with the Chinese grant assistance. 400 MW with Chinese aid for Nalsyangad is under construction in a joint venture. Sino hydro is developing the upper Marshyangdi (50 MW) similarly upper Tamakoshi (456 MW), Chamelia (30 MW) Kulekhani III (14 MW) all these under the Chinese contractor. The increased cooperation between two countries brings benefits to Nepal in one hand and other hand if Nepal fails to make proper balance with southern neighbor then it would bring new challenge between Nepal and southern neighbor. Thus, Nepal has to think while increasing cooperation between any of the two big economic giants.

Nepal has been assisted by China in the development of hydroelectric projects and harnessing its water resources. Due to the geographical setting, Chinese assistance has been directed mainly towards providing economic and technical assistance to built hydroelectric and irrigational projects where no joint cooperation has been agreed to share and exploit the resources in mutual benefit.

Six month after signing an initial agreement, the investment Board (IB) and CWE investment, a subsidiary of the China Three Gorges Corporation (CTGC) signed a revised memorandum of understanding (MOU) for the development of the 750- MW West Seti Hydro power project and the transmission project on August 2012. With the signing of the agreement, the deck has been cleared for the development of the US\$ 2 billion (Rs. 180

Billion) project. The project is expected to be completed by 2020. This is the biggest ever hydro electric project in Nepal (MOFA).

Table No. 6.5.2

Projects Completed under China's Assistance in Nepal

S.N	Hydroelectric Projects	Irrigation Projects
1	Sunkoshi Hydroelectricity Plant-2.5 Megawatt	Multipurpose Pokhara Water Conservancy- Irrigation
2	Sunkoshi Vicinity Electricity Transmission	
3	Sunkoshi-Kathmandu Electricity Line Transmission	

Source: Government of Nepal, Ministry of Foreign Affairs, Nepal-China Relations, <http://mofa.gov.np/bilateralRelation/nep-china.php> (accessed 23 July 2010).

China has been contributing in the development and harnessing of Nepal's waters. Aid has flown directly to four projects: 1) the Sunkoshi Hydroelectricity Plant; 2) the Pokhara Water Conservation and Irrigation Project (multipurpose); 3) the Sunkoshi Vicinity Electricity Transmission Project; and 4) the Sunkoshi Kathmandu Electricity Line Transmission Project. The Daramkhola hydroelectricity project is being run by China Machine-Building International Corporation (CMIC) in cooperation with the Gorkha Hydroelectricity Project. Negotiations are taking place with the Shanghai Group regarding the construction of the Upper Tamakoshi Project. China wants to continue providing active cooperation in energy development. On the conservation and security side, the two countries are considering establishing an International Centre for Snow and Ice to monitor the glaciers and their waters.

Nepal's water resources could provide a great deal of hydroelectric power, a cheap and durable form of energy much needed by India. Nepal has 2.27 percent of the World's water resources, most of which are yet to be exploited. Nepal has more than 6,000 rivers, with a total annual average run-off capacity of 200 billion and a storage capacity to generate 83,000 megawatt (MW) of hydropower, of which about 43,000 MW and a storage capacity to generate 83,000 megawatt (MW) of hydropower, of which about 43,000 MW have been determined to be economically feasible (see table 12). According to data of the Nepal Electricity Authority, the total installed capacity of hydropower currently amounts to 635.84 MW, whereas, the peak power demand in Nepal is 812.50 MW (NEA, 2010).

Table No. 6.5.3
Identified Hydro-Power Potential in Nepal

River Basins	No of Sites	Identified Power Potential in MW
Sapta-Kosi	40	10, 860
Gandaki	12	5, 270
Karnali	7	24, 000
Mahakali	2	1,125
Other Southern Rivers	5	878
Total	66	42,133

Source: Dhungel(2004), "Nepal-India Water Resources Relationship

6.5.5 Industrial Development

Similarly, China has been providing us help and assistance in developing industries to help us become self reliant. Several industries in the capital city Kathmandu and outside have been established with her assistance which includes, among others, as per the available source of information:

Bansbari Leather and Shoe Factory , Hetauda Cotton Textile Mills, Harisidhi Brick Factory, Bhaktapur Brick Factory, Industrial Gloves and Apron Manufacturing, Bhrikuti Paper Mills, and Lumbini Sugar Mills. Although many of these important industries have been closed down, unfortunately, for example the famous Baansbari shoe factory they once formed the back bone of our industrial development endeavors.

Bansbari Leather and shoe factory was the first industry constructed with Chinese assistance. Its construction was commenced on May 1964 and was completed on June 1965. The hides used for leather making are from Nepal. By making use of scrap leather the factory also produces glue, sheath, and belts other leather commodities.

The next factory built up with Chinese assistance is the Textile mill at Hetauda. The construction of this factory was started in the month of Oct. 1975 and had started to produce on an experimental basis since last week of Nov. 1978. The Harisidhi Brick and Tile factory which was commenced on Oct. 1965 and completed on March 1969 had initially the capacity to produce 20 million bricks and 0.5 million tiles per annum. It has planned to buy a brick making machine from Peoples Republic of China at a cost of Rs 1 million. Although many of these important industries have been closed down, unfortunately, for example the famous Baansbari shoe factory they once formed the back bone of our industrial development endeavors.

Thus, the Chinese assistance for the industrial development of Nepal is a very important source for the establishment of industrial sector. However,

the Chinese assistance is directed towards the mass-consumption and development materials.

6.5.6 Miscellaneous

Besides the above mentioned, the Chinese assistance have also been extended for the various purposes. Nepal has various climates due to its geographical conditions. There is high dependency in traditional types of agriculture. China has agreed to support Nepal in five major sectors of agriculture, including fisheries, crops and livestock, to speed up farm commercialization in Nepal. The northern neighbor pleaded the support during the secretary level Nepal-China agriculture assistance meeting held on 1st October, 2012. The Chinese side also agreed to enhance capacity of Nepal in seed production, horticulture and hill livestock such as sheep farming.

Chinese private sector people are also running projects in agriculture farming and processing, organic vegetable farming, tea and herbs plantation, dairy processing, flowers and vegetable farming in Nepal as shown by the statistics of the Department of Industry.

The surge in the arrivals of Chinese tourists to Nepal started since China declared Nepal as an outbound destination in 2001 for encouraging them to visit this Himalayan country. Up to fiscal year 2011/11, the number of the tourism related projects launched by Chinese businessmen in Nepal is 108. The total cost of such projects is 818.39 million rupees, which also generated employment to 3129 persons. Many Chinese hotels and

restaurants continue to open in Kathmandu and Pokhara. In Sports sector China support to the build of Sports Complex at Kathmandu and Lalitpur, Construction of Sports Facilities for the 8th South Asian Federation Games in 1999, Repair of Lighting System in the Sports Complex. Other construction projects are National Trading Complex, Warehouse at Kathmandu and Birgunj, City Hall in Kathmandu, Birendra International Convention Centre, Consolidating Seti River Bridge in Pokhara, A three-month arch bridge training course for 15 Nepalese engineers, Pokhara Sedimentation Pond, Provision for the Television Truck for NTV, Mobile X-Ray Machine for Birgunj Dryport Customs Office, Nepal Television Metro Channel Station Expansion and Improvement, Installation of Optical Fibre along the Araniko Highway, Conservation Research Centre for National Trust for Nature Conservation and Polytechnic Institute in Banepa. Similarly, ongoing Projects are Syafrubesi-Rasuagadhi Road (16 km), Tatopani Dry Port, Improvement of Kathmandu Ring Road , Upper Trishuli A Hydro-power project (60 MW) (Chinese embassy in Nepal).

If we review past achievements, the Chinese assistance since the 1950s has contributed to the construction of more than 20 projects in Nepal which have played an important role in the country's economic development. Apart from the government to government cooperation projects, China's private sector is also engaged in different sectors in Nepal since the beginning of 21st century.

CHAPTER VII

SUMMARY, CONCLUSION AND RECOMMENDATION

7.1 Summary

This study has been made with a view to analyze the effectiveness of foreign aid with the contribution of Indian and Chinese aid on Nepalese economy. This attempt also concerns to suggest and recommend on Indian and Chinese aid in Nepal. Gathering information from various secondary sources and bring analytical and some statistical tools, the research has tried to summarize, conclude make some recommendation which have been briefly mentioned in the chapter.

In true sense foreign aid means transformation of financial, social, cultural, and technical assistance from the developed countries to least developed countries and developing countries. Nepal is one of the least developed countries of the world with very poor economic and social infrastructure for development. It suffers from a serious resource gap with low saving and low investment. Nepal has been receiving more and more foreign aid from various sources as time passed on.

Government expenditure in the fiscal year 2010/11 totaled Rs. 295.36 billion. Out of that total expenditure, the share of foreign grants 15.5 percent and foreign loan 4.1 percent. Among the sources of financing expenditure of Rs. 259.69 billion in the fiscal year 2009/10, contribution of foreign grants 14.8 percent and foreign loan 4.3 percent. In F.Y. 2011/12 only 52.86 % of total committed aid by major sources was disbursed. It shows the poor

absorptive capacity of the economy which seems to arise due to administrative inefficiency, political unrest, corruption, conflict between political parties and delay in project implementation.

Among the various donor countries and agencies India and China being the closer and intimate neighboring country has indeed provided substantial assistance for the development of Nepalese economy. India's cooperative on to Nepal started with a construction of air port (Tribhuvan Airport) and a highway. Indian aid is not only limited in airport and highway but also in health care, irrigation, optical fiber, hospital, bridges, construction of telecommunication office, education scholarship, and General Post office etc. Multipurpose mega projects such as Koshi, Gandaki and Mahakali have been providing irrigation and hydropower to both countries India and Nepal are established and run by the Indian government to assist Nepal. Similarly, Chinese assistance began from the economic and technical program/projects also in industries, roads, health, hydropower, sports complex, warehouse, bridge, scholarship etc. China and Nepal are established and run by the Chinese government assist to Nepal. The recent trend in Nepal- China bilateral financial relations is that Exim Bank of China is offering soft loans and commercial loans to different projects in Nepal. Thus, China has proved to be a reliable development partner of Nepal.

Thus, Indian and Chinese aid keeps a separate identity among bilateral assistances obtained by Nepal which almost consists of grants and covers almost all the sectors of the economy in accordance with the prioritization of the Nepalese government.

7.2 Conclusion

In the context of foreign aid, several publications are emerged in different forms like Books, booklets, articles and journals but adequate publication is not found in the field of foreign aid to Nepal along with Indian and Chinese aid. I therefore promise to study and include overall Indian and Chinese aid to Nepal through the thesis entitled "Foreign aid in Nepal: A comparative analysis between Indian and Chinese aid."

The researcher wants to find out what I want to suggest through this thesis that any foreign aid which flows from different countries to Nepal should not be political affair and aid should be properly integrated which must be fitted with the national plan. Thus, during this period of time without the foreign aid the country cannot develop its economy in a reasonable period of time. Since 1951 Nepal has been receiving the foreign assistance. In the early stage there was the competition to provide aid to Nepal between capitalist and socialist countries. After the formation of Aid Group in 1976, Nepal received aid in systematic way in the form in the form of grants and loans. There are nine five years periodic plans and three three-years plan have completed to run this periodic plans, large volume of aid have been utilized.

The data exhibits that there is significance gap between revenue collection and expenditure. There is also huge gap between commitment and disbursement of foreign aid. Delay in projects implementations, administrative inefficiency, low absorptive capacity of the country are seems to be major drawback for low disbursement and commitment ratio. Foreign

aid plays an important role in the economic development of the least developed countries like Nepal.

The most important conclusion that can be drawn from this paper is that the rivalry between India and China which has seemingly often been fought in the hills and valleys of Nepal is now virtually a non-factor in the aid that Nepal receives. This is reflected in the lessening importance of aid donation that China and India attach to such donations, but also in the greater trade interaction between the two countries. Although there may well remain some uneasiness after decades of regional antagonism, the improvement in Sino-Indian relations through trade activity has meant greater regional stability. One indication of the changing pattern has been the decline in bilateral project aid from both India and China, replaced instead by diplomatic aid.

India and China have both contributed enormously to economic development in Nepal by means of the aid which has been donated over the last 60 years. India has played a significant role in the development of Nepal's roads, telecommunications, power and irrigation for example, and China has contributed towards similar fields and light industry besides. India has always followed the wishes of Nepal in terms of where aid should be directed where China has tended to aim at specific funding for specific projects. Both countries have made significant aid contributions to the Nepal and although their roles might be weakening as bilateral donors, their interests and responsibilities in this small Himalayan country remain as vital now as the moment Nepal suddenly reopened its door to the world just over six decades ago.

7.3 Recommendations

Although foreign aid did not substantially contribute to the economic development of Nepal, cannot be denied, because the domestic resource mobilization of Nepal is still very low to fill gap of the investment requirement. In this aspect, new visions and new ways of aid utilization have urgently required for both donors and recipients countries. Specially, recipient countries have to analyze foreign aid resources by considering aid not as a free lunch. Following recommendations have been very useful to proper use of foreign aid in Nepal.

Based on the study undertaken for this thesis the following suggestions or recommendations are offered. The following measures may help to solve increase the productivity of foreign aid.

- i) Aid is crucial for the Nepalese economy; the areas of aid will focus on development activities not for administrative activities.
- ii) Aid policy of both recipient country as well as the donors must be transparent.
- iii) As Indian and Chinese aid is flowing in a variety of sectors of Nepalese economy, Nepal government should prepare priority projects and request to finance in those projects.
- iv) Chinese assistance has been mainly allocated to hydroelectricity and it should be diversified to other sectors too for the balanced growth.
- v) Internal capacity of the country should be strengthened so as to increase the absorptive capacity of aids.

- vi) Data and information on flow of Indian and Chinese aid at different time, sectors & projects are not available in the foreign aid division of ministry of finance, Nepal which creates difficulties so MOF will manage this which will become transparent.
- vii) Industrialization is the key point to develop the economy. However the volume of Indian aid seems to be lower in this particular sector as compared to other sectors. So, Nepal should strive for larger amount of aid to develop industrial sector and Indian should comply with accordingly.
- viii) Foreign aid should be used in transparent manner with proper accounting and scientific auditing system of recording the movement of foreign aid.

Given suggestions play a greater role in the effort of lifting the standard of Nepalese economy. However, major credit should be given to Peoples Republic of China and India government for their significant contribution, for positive impacts on socio-economic change will remain for a long time in Nepal.

If, execution the above mention recommendation foreign aid would assist on developing economy and social development of least developed countries and least developed countries like Nepal gradually up graded in to developing countries.

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