

CHAPTER –I

INTRODUCTION

1.1. Background of the Study

Nepal is an underdeveloped country in South Asia having 29.7 million population and per capita GDP of 1034 USD. It occupies only 0.3 percent area of the world and 3 percent land area in Asia. Situated between two the largest countries of the world India and China Nepal is a land locked country. Nepal shares its border with India on east, south, and west and with China on the north. Being a landlocked country, Nepal has to depend on India to get access to the closest sea. The sea accessibility for Nepal in China with third country trade is still a problem due to the topography of the country with lack of road facilities. Its strategic location has attracted significant attention from bilateral donors especially from India and China. As a consequence, aid has been a main source of capital formation and contributes to the government annual budget.

Being one of the least developed countries in the world, Nepal is highly dependent on foreign aid. The country has been deploying foreign assistance both as aid for budget support and non-budgetary aid for more than six decades. However, the share of Foreign aid on the government's total budget has been declining by the improved mobilization of domestic resources, which shows that the country is transforming into a self-reliant economy. Likewise, the average development assistance through the off-budget mechanism has also been declining over the years. In order to achieve the Sustainable Development Goals, set by the United Nations, foreign aid still plays an important role for Nepal. And it is possible only when its economic diplomacy must be on pick.

Diplomacy is an important component of foreign policy. It is the method of managing international relation among the nations. Each and every nation of the world employs diplomacy in relation to their foreign policies. Diplomacy is the means of adjusting conflicting national interests. If proper diplomacy is exercised, desired results of an economy will be inevitable. Thus economic diplomacy is the inseparable means to achieve the results preconceived by the government (Dahal, 1933, p.388). Nepal is one of the poor developing countries in the world. Moreover, it is sandwiched between two giant nations of Asia. In this regard, while framing and executing economic diplomacy, all these bare hard facts reign supreme.

By ignoring these realities, it cannot be implemented. Nepal couldn't play major role in settling conflicts between India and China during the war period of 1962. At the regional level also, Nepal couldn't be effective in managing conflicts and tensions. Rather it invites more burdens to the country. In view of its small size, location and topography, its conflicts managerial role does not match in comparison to its immediate neighbors.

The traditional way of using diplomacy can no longer give advantage to Nepal. The traditional diplomacy means political aspects of diplomacy. The political diplomacy mainly centers on political roles that a nation performs in the international relations. Mediation, good office, initiation of negotiation and dialogue are some of the political roles fallen within the areas of political diplomacy. As Nepal is in between two nuclear powers of the world cannot do these things. It can hardly play mediating role. What it can do is that Nepal can offer logistic support to the concerned parties. Offering of logistic support does not represent strong and able capability of a nation. On the contrary, it expresses the actual status of a nation in terms of its role in the world affairs. In opposite to it, India and China are the major powers of the world with rapid economic growth. Taking all these into consideration, Nepal is bound to move new moves in its traditional way of diplomacy. Diplomacy signifies the request of brainpower and skill to the comportment of official relations between the governments of independent states, intending sometimes also to their relations with states or in detailed still, the handling of commercial among states by peaceful ways. Nepal should not do late to make a leap from traditional diplomacy to economic diplomacy.

Economic diplomacy is the new concepts being used in the international diplomatic scenario at present. It is the product of the era of the nineties. The last phase of the twentieth century witnessed unexpected upheaval in the international platform. China seems to be making its foreign policy in and around economic interest. By introducing major reforms towards market economy, in depth, it gives maximum attention to strengthening its businesses and trade through economic diplomacy. It can be said that even the single one super power is guiding its foreign policy around the pole of economic activities. The heavy focus shifted towards sought Asia by the USA cannot be ignored in this regard. Nepal has to adopt such foreign policy, which can employ economic diplomacy. Economic diplomacy conceives that a nation has to give more emphasis on economic activities while executing foreign policy. The political role that Nepal can play in the world is caught with the wave of globalization and liberalization.

It can assume its role directing affords towards garnering aid and assistance in the areas like tourism and water resources. An aggressive form of economic diplomacy has been must in Nepal's foreign policy.

1.2 Statement of the Problem

Nepal is an underdeveloped, sovereign and independent country, which is trying to develop fast but lagging behind in the race of development. Being situated in between two nuclear power and fast growing developing nations, India and China, it manages to gain benefit from these nations by receiving foreign aid from these nations in different sectors which contributed in the economic development of Nepal. Different ideologies of these nations compelled Nepal to formulate independent foreign policy. But there are abundant complications. Firstly, it is claimed that in the true sense of term Nepal is not pursuing independent foreign policy. This blame has been strongly raised after the restoration of the democracy. Secondly, the conventional way of diplomacy is still dominating and central even after the restoration of the democracy. Diplomacy is considered as eyes and ears for safeguarding national benefits. It should be formulated in such a way that it can attract more foreign assistance from the neighbor nations.

Being linked with only china and India it receiving more aids from these country in comparison to Japan, USA, etc. These countries provide aids not only to develop economic, social and infrastructure of recipient's country but also to full fill their vested interest lying in these recipients. In this regard this study attempt to find solution of following research questions

- Whether Economic Diplomacy is adopted to increase foreign aid in Nepal?
- Why Foreign Aid to Nepal is limited to the aids by India and China?
- Whether Foreign Aid is Strategic or Economic?

1.3 Objectives of the Study

The main objective of this thesis is to highlight the role and power of the economic diplomacy in foreign aid for a landlocked country like Nepal, which is poor at international platform but naturally potential to desired extent. But the specific objectives are as follows:

1. To Access the effect of increasing Foreign aid through Economic Diplomacy in Nepal;
2. To Access major inflow of Foreign Aid from India and China;
3. To evaluate the effectiveness of foreign aid;

1.4 Scope of the Study

This study will not evaluate all aspects of foreign aid; rather evaluate foreign aid related with economic diplomacy, which may furnish the answers of the research questions. It is hoped that this research questions should provide a lot to the policy makers. Though this study is unique but it is very much vital for the nation. Its scopes are as follows:

- To support governmental and non-governmental diplomatic agencies,
- To enhance the nation's development projects,
- To reduce unemployment level,
- To reduce poverty level,
- To materialize potential natural resources,
- To give an international recognition.

1.5 Significance of the Study

It becomes very much essential for Nepal to shift its traditional way of conducting diplomacy towards modern approach of economic diplomacy to attract maximum foreign aid from abroad mainly from India and China to enhance hydropower and tourism sector growth for the speedy economic development of the country. Nepal's diplomacy should be required urgently to concentrate on the foreign agencies and countries to attract aid or investment mostly in hydropower and tourism sector as in these two sectors Nepal has great potential. Foreign investment in these two sectors has become crucial for their development. Nepal has been bestowed with natural beauties and water resources.

The life of the people of Nepal can be uplifted only by the proper development of tourism and hydropower sectors. Thus foreign aid or investment is inevitable for the development of tourism and hydropower in the country. Which will bring progress and prosperity in the life of the people of Nepal. Being a poor country, Nepal does not have sufficient capital to invest in these potential areas. Nepal alone is unable to invest on water resources. Large-scale hydropower project requires huge investment, which Nepal cannot afford internally and thus needs foreign aid and investment. International agencies and foreign investors are required to be greeted to invest in huge hydropower projects, so that Nepal can reap benefits from such naturally gifted resources.

The boost of tourism industry is another side of the coin. Tourism industry depends upon the development of different kinds of infrastructure. In the lack of sufficient infrastructure, tourism industry cannot flourish. Huge fund is essential for the development of infrastructure that Nepal cannot manage by itself. Once again foreign aid and investment become inevitable. It can be managed only by the successful implication of diplomacy. In short, it can be said that Nepal is in the need of foreign aid and investment to give a boost to tourism industries and establishment of large-scale hydropower projects. To attract the flow of international investment, firstly Nepalese diplomacy should focus on two neighboring countries i.e. India and China and then afterwards on international agencies and other countries as well. Despite that Nepalese diplomats and agents should also concentrate their efforts towards approaching international investors, industrialists and organizations for their investment in Nepal. Without adopting economic diplomacy Nepal's goal to boost up economic development for the betterment of the life of the Nepalese people must not be materialized.

1.6 Limitation of the Study

This study mostly concentrates itself on the area of aid from India and China, which can be enhanced by promoting economic diplomacy. This study will restrict itself between the years 1992 A.D. to 2017 A.D. Despite that, it also makes a simple and brief review of the aids inflow from these two countries to fasten the development. In this way the main focus of this study moves mostly around the development progress of hydropower and tourism industries in Nepal by Indian and Chinese aid through meaningful implementation of economic diplomacy.

1.7 Organization of the Study

This study is broadly divided into five different chapters. The first chapter includes the background, statement of the study, problem of the study, objective of the study, scope of the study, limitation of the study. Second chapter includes literature review. The third chapter includes methodology of the study. The fourth chapter includes discussion and interpretation. Chapter five will focus on summary, conclusions and recommendations. And finally this study will conclude with references.

CHAPTER-II

REVIEW OF LITERATURE

Economic diplomacy is practiced by countries to advance their development. Low middle-income nations, like Nepal, strive to move to the upper middle-income category of nations, which includes the likes of China and India, who in turn wish to advance to high-income status. The last category (high-income), although having reached the highest income status as identified by the World Bank, continues to strive to increase their Gross National Income (GNI) on an annual basis. The key is that economic growth is part of the development of a country. Therefore, the first question that needs to be answered is: what is economic development? This concept is defined by Goldstein as “the combined process of capital accumulation, rising per capita incomes, the increasing of skill in the population, the adoption of new technological designs, and connected social and economic modifications” (Goldstein, 1999, p. 555).

The renewed interest in economic diplomacy can be found in the expansion and growth of globalization, however economic diplomacy is by no means a 21st century concept. The links between diplomacy and trade related disputes dates back to Peloponnesian war, when the government in Athens employed sanctions against Megara. Consular relations find its roots in the trade posts that were established in the city-states of Europe. The economic developments post-WWII, such as the creation of the Bretton Woods institutions and the increasing interdependence of economics has led to the fact that the countries have to interact with each other in the economic markets(Heijmans, 2011,p.36).

There are four approaches to an economic diplomacy strategy: traditional, niche-focused, evolving, and innovative. These typologies of strategies on the experiences that the G77 countries have with economic diplomacy. The factors that he bases the strategies on are more concerned with the business end over the power-play end. The difference in strategy can be found in the way they address the external management of the economy, who manages the policies, the roles that non-state actors play or are allowed to play, how they handle economic aid - either as donor or as recipient - and who handles the promotion of trade, and investment. A traditional strategy means that countries “have remained mired in conventional methods, only implementing slow change” (Rana, 2007, p. 15). The countries that have found a niche market and have adjusted their economic diplomacy strategy on that market are considered, niche-focused. The countries that “have adapted themselves to new opportunities with structural changes and clear actions” are considered to be evolving.

Lastly, the countries that are innovative “have moved to the forefront with cutting edge techniques and continual reform”. Strategies employed by governments are not as definitive as he presents them. But, these strategies show a learning curve. Although developed nations might be familiar with commercial diplomacy, it cannot immediately be assumed that they do not have a traditional or niche strategy.

To be successful in economic diplomacy several criteria need to be present. A good economic diplomacy strategy goes beyond the governmental instruments, and non-state actors are of utmost importance. It identified the following as stakeholders and first movers: “business units of the country, associations of industry and chambers of commerce, the financial sector, business schools and think-thanks, the tourism industry and a host of domestic actors”. The situation for developing countries, the lower and to a certain extent the upper-middle income countries, are faced with a situation in which the MFA’s role is diminished in foreign policies. Ministries such as defense and economics gain control over the decision-making on the foreign policies. Add to this the practices of political appointments of ambassadors, sometimes family members of the ruling party, and high military officials. Because of this, the overseas network of embassies and consulates is not used to its fullest potential. The second factor necessary for success in economic diplomacy is the harmonization or integration of the MFA’s operations and international economic management. Possible ways of achieving this have been proposed. Countries have the option to integrate trade diplomacy with the MFA policies, but the activities that fall under commercial diplomacy are handled by a separate entity, that is possibly outside of the ministry. Nations also have the option to integrate all economic diplomacy instruments within the MFA. Another option for countries is to create joined-up commissions between the different ministries. An option for smaller states is to create a regional mechanism and conduct trade diplomacy as a group. The potential consequence of no harmonization is a power struggle between the different ministries. The reason why ministries in some developing countries are not harmonizing is because of the “institutional weight of traditional systems” (Rana, 2007, p.5).

Third, as countries move from a traditional to a more evolving strategy, the embassy network becomes an active player and they have to represent the whole government not just the MFA, although these will remain their direct supervisors. Developing countries have work ahead of them in order to achieve a better representation of the whole government. Of course, the extent to which embassies have the capabilities to represent all ministries depends greatly on the size of the embassies and

The importance of the bilateral relationships. A final ingredient to be successful in diplomacy in general is that the countries' diplomatic structure needs to have a drive, which includes or requires being staffed with motivated and qualified civil servants to move forward. Domestic/Two-level Game Approaches to the growing interconnectivity of the world's economies, and the increasing number of international agreements, the domestic pressures on governments in economic diplomacy are increasing as well. Since the publishing of Putnam's *Diplomacy and domestic politics: the logic of two-level games* in 1988, we have come to realize that there are great links between international decision making and domestic decision making: "Former Secretary of Labor John Dunlop is said to have remarked that "bilateral negotiations usually require three agreements- one across the table and one on both side . 'Two-level' refers to the two levels of pressure. Level I is the international level, Level II is the domestic level. "where as in national level, domestic groups follow their interests by pressuring the government to adopt favorable policies" (Putnam, 1988, p. 434). Governments can also use pressure from the international level to get international agreements ratified. It follows that with increasing use of non-state actors in policy making their ability to pressure the government also increases.

What must be noted is pressure on the government is not exclusive to democratic societies. Even though the government is the central and sole decision maker in many developing countries, this fact does not exclude some influence by the private sector in the form of bribery and favors. Publically/Officially, in such countries, the private sector might have little to no influence, or the governments pretend to simply not care. However, behind the scenes a complicated network of patronage might be in place. In the aftermath of second world war, political necessities arising from change in the world order imposed a new dimension on diplomacy. To traditional forms of relationship between nations, new imperatives created by the shift of the east west struggle for influence from Europe to Asia and Africa compelled or seemed to compel of the addition of the diplomacy of economic assistance or foreign aid.

The term foreign aid or international aid will be used interchangeably with economics assistance. International Aid for Underdeveloped Countries and states that the purpose of an international program of aid to accelerate economic development of countries up to a point where a satisfactory rate of growth can be achieved on self-sustaining basis. Foreign aid is important to break the various circle of poverty and accelerate the economic growth rate. Also asserted that a reasonable amount of aid is determined by the absorptive capacity of the developing countries' economy.

The aid should be for generating, capacity or efforts. Ideally, aids were therefore to be allocated where it would have maximum catalytic effect in mobilizing additional national resources. The major achievements of aid are increased life expectancy, the fall of infant mortality, the rate of growth and the development of socio-economic overheads (Rodan, 1961,p.5). Nepal has been receiving aid from so many sources, from the beginning until today. They are mainly the USA, India, and China, USSR, Germany, Japan and Australia etc. Indian and Chinese aid conflicted in purpose. India gave a greater urgency to implement the economic aid program after the political charge of Nepal to exclude Chinese influence from Nepal. In minor aid program, few of them are successful to fulfill their targeted aims, but in aggregate they created serious problems in Nepal.

There are two types of foreign aids in Nepal. Short project did not increase political consciences as hoped by donors. In the long term impact, The aid not only failed to attribute as significant boost of Nepal's economy but also it might even have made growth more difficult to achieve (Mihaly, 1965,p.168). During the period of king Mahindra's regime in Nepal, Nepal- India relationship was given new orientation with perfect understanding between HMG and the government of India. During the period the Indian assistance to Nepal had been both fruitful and meaningful. Under tripartite agreements between Nepal-India and USA, Nepal received substantial assistance from India and USA (Bajracharya, 1990,p.3). Importance of foreign aid is highly unlikely that measures to increase voluntary domestic saving along or even measure for voluntary and compulsory saving together can provide all underdeveloped countries (Higgins,1990,p.463). Indian aid has provided substantial assistance for the development of Nepalese economy at the best of its capacity. Since, 1951, India extended support to many areas of economic development.

The economic assistance from India in different sectors of Nepalese economy has taken 38 percent the total assistance to Nepal 1951 to 1972. Despite the intricately relationship between foreign policy and diplomacy with each other, inherent difference cannot neglected. If foreign policy is the regulator of foreign relations, diplomacy is the means of executing foreign policy. Foreign policy is the substance of foreign relations whereas diplomacy is a process of which means foreign policy is conducted (Roy,1983,p.26). International economic system is facing a crisis which is characterized by strains of stagflation in the developed market economics, a structural underdevelopment problem in the developing countries and slowing down of growth rate in and collapsing of the socialist world. In this troubled situation complex issues of interdependence are not being adequately appreciated. The developing countries often complain that their interests are being adversely affected by the policies of

The developed world, while the developed countries blame the developing countries for mismanagement and sub-optimal utilization of resources (Malhotra, 2002,p.390). Comprehensive assessment of India's and China's interests in Nepal in wake of the drastic political changes in Nepal since 2006 shows that in Post 2005, China has gained a solid foothold in Nepal's telecommunications sector with the entry of ZTE and Wua Wei. Earlier Nepal was only connection directly by air to Delhi, Kolkata, Varanasi, it is now connected to Lhasa, Chengdu, Kunming, Guangzhou and Hong Kong; sooner or later there will be direct air links to Beijing and Shanghai. Also, most airport modernization projects are being bagged by China through international bidding and it is likely to surpass India in investments in hydropower generation as well.

Just as asymmetrical power of India in South Asia threatens all its neighbors so does China's asymmetrical sway over India in economic and military might. Perhaps it is when India thinks of strategic partnerships with the US and Japan that China, as a global player, will become more assertive in South Asia. It needs to be stressed that one reason for India's inability to help sustain the two pillar policy in Nepal was former King Gyanendra's proposed move to veto Afghanistan's entry into SAARC in 2005. The unfolding of the post-US withdrawal scenario in Afghanistan was a turning point in China-India relations, including in the context of Nepal. not, we can expect China will seek to challenge India's role as a regional power with a direct strategic entry into India's neighborhood. This may not happen if India opts for the non-alignment II strategic foreign policy, the rationale of which is still being debated. Finally, China's proclaimed global vision is its 'peaceful rise'. If India does not attempt to reverse this rise by entering into alliances with extra- regional powers, one may expect China's 'peaceful rise' at least until 2040, when India would have caught up with China, US and Europe as a global power in its own right (Rana, 2013,p.63). For the US, the political objectives of aid in Nepal were anticommunist rather than pro democracy.

The main thrust of Nepal's foreign policy was to set its neutrality, in dependence, sovereign by the non- alignment in relation to its neighbor and the superpowers; Foreign aid was employed to lessen its perceived political and economic dependence on India. Foreign aid will have strategic value even after the demise of the cold war since the world has become increasingly multi-polar The US will constitute one of the power centuries while other has Western Europe, Japan, China and Russia. But as a substantial portion of aid the west will be supplied to the countries of Eastern Europe and West Asia, the amount of aid of Nepal is likely to become scarcer, as donors no longer have any direct security interests in the country. In this scenario, the declining of allocation of aid to Nepal is not good.

Promoting regional exchange on a wide range of fronts including that of water resources. Interestingly for the present exercise, Small western European donor would probably emerge as the main donors for Nepal in coming years (Khadka,1997,p.36). 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. Study has included the Indian aid to Nepal since 1979/80. After 1979/80, many economic activities have been held under India-Nepal co-operation (Poudyal, 1980,p.21). There is not even any sector, which is free from foreign aid. In the impact of foreign aid, because of small resource flow, foreign aid has only marginal effects in recipient countries. Foreign investment out of the gross foreign assistance come only about 25 percent (Dhungana,1982,p.9).

Foreign assistance to developing countries is less with economic consideration but more with strategic and political implication. Economic development continues to be externally oriented and most of foreign agencies have had to rely on its own infrastructure before planning into aid programs. The poor domestic saving rate and resources to finance the development expenditure required the external assistance. Thus, there is excess reliance in meeting government expenditure (Gurung, 1986,p.14). Nepal has been taken as a main component regarding the foreign aid in which an attempt has been made to analyze the nature, dimension and implication of Nepal's dependence on foreign aid to sustain the development process. The central theme of the study is that within the prevailing structures constrained of Nepalese society, the process of development has itself contributed to the growth of external assistance.

The study has analyzed the data relating to foreign aid. In this context, the study examined the role of foreign aid in the process of planned development till 6th plan. In this study about donors of Nepal, only a few countries among the bilateral donors in Nepal have contributed in a manner that can lead to self-sustain growth (Dharmadasini,1988,p.87). Nepal has lacked of development with reference to cultural factors. In spite of the heavy flow of aid, Nepal remains backward due to the dominances of a particular value system which is associates with Hinduism particularly Brahmin, and calls it the culture of fatalism (Bista, 1991,p.9). Development in many less developed countries blocked not only by the lack of resources and necessary factors for production but also by the absence of proper mechanisms or institution. Concluding that foreign aid has not helped to alleviate poverty in Nepal, Foreign aid has on the country led to the country up the path of perennial dependence. Yet, The donors should stop providing aid to Nepal if the government does not introduce the necessary changes and organs that the government does not introduce the necessary charges and

The government should use its discretion and reject aid if the donors are not willing to provide it in the best interests of the country (Khadka, 1991,p.132). Primary interests to strategic ones over humanitarian and other concerns in determining foreign aid flow and argues that foreign aid is essentially an extension of foreign policy. For instance, Nepal's two neighbors India and China were not substantially economically better off than Nepal till 1980's but they parted with some of their strategic and security interests, which were more important than economic development. We observe that the foreign aid is one, which cannot be substituted by any other kind. In different context and indifferent objectives, it may assure different forms (Khadka, 1997, p.178). Political factor plays immense role to determine foreign policy. In the heady of cold war, two major divisions into the capitalist and communist blocs emerged on the basis of political belief and ideology. Nepal is the staunch member of the non-alignment movement of the third world, which affirms faith in the consolidation of the UNO. Nepal does not aspire to establish relations on the basis of political assertion to any country of the world. It has formulated such a foreign policy through which relations can easily be established and executed with both capitalists and socialists (Dahal, 2002,p.37).

Foreign aid as a post war phenomena. the importance of foreign aid is for the world's mutuality. foreign aid is a basic "economic assistance" often regarded as a means of financing development rather than as a political tool. "In the outcome of Second World War, political needs rising from alterations in the world enforced a new aspect on diplomacy. The great power had ambition in Asia and Africa that traditional diplomatic method couldn't serve". Foreign aid consists of grants or loans that one government or multilateral organization avails to a developing country to promote economic development and welfare. In other words, any money that benefits a developing country in grant concessional loans or non-concessional from a bilateral or multilateral organization is considered as foreign aid. To be foreign aid, it should be undertaken by the official agencies bilateral or multilateral. It has to be taken with the main aim of economic development for the welfare of the recipient country and not for profit motive (Mihaly, 1965,P.100) . The foreign aid is closely associated with economic performance in two basic ways.

First various types of aid may provide a means of including policies and programs which lead to improved performance. Second, aid may facilitate the implementation of policy for promoting improved performance necessary to achieve development goals. The goals of concessional aid is to help countries achieve a level of performance which will enable them to develop at a satisfactory pace through the efficient use of their own resources. Thus, the function of concessional aid is not primary

To supplement the resources of recipient but rather to help the recipient mobilize its own resources and perhaps to attract public and private non-concessionary external capital for achieving its development goals. In the theoretical literature on foreign aid there is a tendency to identify self-help with actual performance in terms of certain quantitative indicators. Thus, an increase in the saving ratio constitutes an important indicator of self-help on the assumption that if a government adopt correct policies the saving ratio will rise, similarly an increase in the rate of growth in exports and in investment are regarded as indicator of self-help (Miskell, 1968, p.112). The primary rationale of foreign aid, viewed from the angel of economic growth lied in the belief that without it the economic growth of recipient country is either not possible or would be painful and slow. The overall performance of the aid recipient less developed countries had not been an encouraging one. Accordingly the contribution of foreign aid in the economic growth of a recipient country is also not a matter of only its quantum. Aid resources produce their own impact on the domestic economy and initiate and / or accelerate some of the process.

An important objective of world aid, namely narrowing the gap between the per capita income of poor and rich countries, is an elusive as ever. If anything the gap has widened further over time while the per capita income of the developed countries increased by \$ 2950 during the past three decades, that of the LDCs went up by only \$ 125. The poorest countries recorded an average increase of only 1.1 percent per annum during 1970-80 while the sub- Saharan it was barely 0.2 percent for the same period. Though over a billion people have an annual income of less than \$ 200, half of them live in dire poverty, it is distributing to note that about one third of the population of the poorest third world countries have an annual per capita of less than \$ 50 (Bhatia ,1981,p83). The public technical aid; that is, concessional finance or the ‘grant equivalent’ in the capital inflow has a twofold function. It supplements the LDCs low domestic savings and hence helps to fill the resource gap or saving gap and also provides additional foreign exchange and thereby helps to fill the foreign exchange gap (Meir, 1984, p.117). The foreign economic aid is intended to promote the economic development process in recipient developing countries.

However aid is given out of mixed motives viz. commercial, humanitarian and strategic reasons. At one extreme is aid in its purest form and at the other end is said that is hardly aid because it is given in the form of loans with strings attached. The strings take the form of requiring the recipient country to purchase equipment materials etc. from the donor countries, usually at prices that are higher

Than from alternative sources. Hence the actual net benefit to be recipient country from the least purest forms of aid can be nil or even negative. Adding further, aid to be given and received there must obviously be a maturity of interest between donors and receiver. But the balance of interest within the framework of mutuality could determine the effectiveness of the aid for economic development. The implication is that the aid will have limited development effects if it is given mainly to further the commercial and political interest of the donor government or alternatively although given in the interest of the recipient country; it is utilized inefficiently by the recipient government (Samuel and Gupta, 1993, p. 213).

2.2 Six kinds of aid in different perspectives, which are as follows:

Capital Aid: Capital aid includes in grants and loans. The purpose of it is to enhance the quality of life by achieving the proper health care, education, infrastructure development etc.

Technical Aid: Technical aid includes the services of technical expertise, scholarships and fellowships. It generally bears four objectives, (a) To provide trained personnel to the recipient country (b) To help the recipient country in building up their man power (c) Employment of donor's own technical personnel in other countries and (d) To test their supplicated technologies in the other countries.

Multilateral Aid: The aid inflows through IMF, WB, IBRD etc. **Bilateral aid:** Bilateral aid is the flow from the government of another. The terms and conditions of aid vary from country to country. Bilateral aid is politically motivated and certain sector of economy of the recipient countries are focused which they want to develop with the help of foreign aid and many others may remain neglected.

Tied Aid: Foreign aid given for a specific project is known as tied aid which are of two types: Source tied and Project tied.

- **Source Tied:** When the sources for importing machinery and equipment for project specified by the donor country itself under the agreement, it is known as source tied.
- **Project Tied:** It is given for a specific project under bilateral aid agreement concluded between two countries. Such aid cannot be directed to any other projects or schemes. Tied aid is generally not forward because it is not given in accordance with the need of recipient countries.

United Aid: It is not related to any specific project. It is given to raise capital for the plans and annual development budget of the recipient countries. The recipient country is free to utilize such aid according to their needs and priorities. It provides freedom to recipient countries to purchase machinery, equipment and other material from the cheaper market (Upreti&Thapa,1998,p.33). Foreign policy of small developing countries such as Nepal, which must have, besides others, the following two objectives: national security and promotion of its social and economic development. They may also constitute the two main elements of foreign policies of the developed more powerful and greeter nationals as well. But in case of poorer and less developed countries vulnerable to internal and external pressure, the need to meet those two objectives is the most urgent (Acharya and Regmi, 2003,p.213). The availability of economic resources, which are fundamental for overall development indicative of a nation. For this, it requires to increase the productive capacity of the economy, which again depends on the increasing share of investment in total GDP. To increase investment, it requires really total consumption and increasing domestic saving. However the trend of consumption shows that it is growing continuously. For the period of 1994-2004, the total consumption rate grew up from 85 percent to 87 percent of total GDP this leads to be dependent on foreign assistance for investment.

The available data since FY 1984/85 demonstrates the increasing trend of foreign aid vis-à-vis the increase in national expenditure. The share of foreign aid in the total expenditure, which was minimal in the initial period, started increasing as a mix of loan and grant since FY 1963/64. In the successive periodic plan of the country, foreign aid as percent of the development expenditure ranged on an average from around 50 percent to the highest of 100 percent in the first plan period, Foreign assistance financed 60-80 percent of Nepal's annual development budgets in 1990s and accounted for over 10 percent of GDP. In the first three of tenth plan, the component of foreign aid had increased from 18.9 percent to 23 percent. This indicates the dependency of the nation on foreign aid again. In every FY or in periodic plan, foreign aid has increased in order. So, Foreign Aid is a major component of the budget. Since 1954-1975, only after 1975, grant assistance was in increasing order in a regular basis and sharply increased from 1980 becoming a largest supporting country to Nepal (Pyakurel et.al, 2008,p.4). An empirical analysis of foreign aid and growth in Nepal. Employed error correction mechanism to investigate the effectiveness of aid in Nepal during the period 1983-2002.

Result show that foreign aid has a positive and statistically significant effect on per capita real GDP in the long run and aid effectiveness improves in the presence of good policy environment (Bhattarai, 2009,p.8)

CHAPTER – III

RESEARCH METHODOLOGY

3. Research Methodology

This study is done by adopting descriptive, analytical, argumentative and comparative methodologies under qualitative methods. All the information and data are collected from secondary sources like Ministry of Finance, National planning commission, Embassy of India, Embassy of China, Central Bureau of Statistic, Nepal Rastra Bank, different books and News-papers articles as well as published and unpublished documents of various research institutions.

3.1. Foreign Aid and Economic Diplomacy

Literally, foreign aid simply refers to resources given by developed countries and international organizations to support the economic, sociological and political development of developing countries. It is transfer of resources from developed countries for the purpose of encouraging economic growth in developing countries with the promotion of the economic development. However, all types of resource transfer cannot be considered as foreign aid. The foreign aid should have certain features such as it should be with aim of economic development, welfare of recipient country and should have grant element, low interest rate and supportive for long term capital requirement. Foreign aid enables the developing economy to achieve the objective of technological up-gradation and innovations and helps to meet the gap between investment needed and saving (Lekhi, 2005,p.121).

Foreign aid has been recognized as the most crucial factor in enhancing economic development in many countries. No doubt, it is extremely fruitful for developing countries such as Nepal as well, which lack enough capital and technological resources necessary for higher investment and development. The least- developed countries (LDC) - the aid side argues - need injections of aid to kick start industries. A further argument proffered by aid proponents is that trade only benefits the developed countries while hurting the developing countries. Given the current economic crisis that has struck the global economy over the past few years, it is somewhat understandable that national constituencies are pressuring their governments to decrease development aid.

International agreements to spend 0.7% of the country's Gross Domestic Product (GDP) on development aid are rarely realized, and the countries with the highest GDP have thus far never reached the agreed upon percentage. Development aid comes with certain limitations: countries that move up from the LDC status and become low-middle income countries lose their eligibility for some grants and concessionary loans. These countries must then actively look for different options to contribute to their capital inflow. Likewise, developed countries are also looking for ways to increase their economic growth. They are looking at the new and up-and-coming economies to become part of their export basis. Many countries are looking for ways to combine an increased need for trade with their decreasing capacities in providing development aid.

The lower middle-income countries are now the focus of an Economic Diplomacy (ED) strategy. Additionally countries such as India and China continue to classify themselves as developing nations deviate from the traditional development strategies. For them economic diplomacy is the development strategy. With economic diplomacy, becoming increasingly ingrained into the strategies of Foreign Ministries it may appear that economic diplomacy is a new concept. However, it has always existed. The first citizens that went beyond the borders of their (city) states were traders. Embassies, consulates, and honorary consuls were created to aid these people, to provide representation and to assist in trading when necessary. Basic economic theories suggest that for countries to develop, they should specialize in producing those products in which they enjoy a comparative advantage and trade these products with other countries. What make economic diplomacy unique are the inherent acknowledgement of political influence on economic decision-making and the use of political power to further economic development.

There are various definitions, interpretations, and forms of economic diplomacy. Academically the study of economic diplomacy is nascent and much of the literature concentrates on the conceptualization of economic diplomacy and the measuring of effectiveness of trade missions and embassies. Little studied are the different strategies employed by different nations in diverging phases of economic development, which may provide some insight into how it is possible that some countries are successful where others fail. The strategy of the successful countries could provide a road map and guidelines for countries in the low middle-income group that want to enter the economic diplomacy playing field.

However, it will also allow the established economic powers to better understand economic diplomacy strategies and tactics. Nepal signed its first aid agreement, the Four Point agreement for Technical Cooperation, with the United States in January 1951 four years after Nepal and U.S. had established diplomatic relations. United States' diplomatic aid presence in Nepal was beneficial to the country in a sense that India strengthened its ties with Nepal because by the time the agreement had been signed, the Indo-U.S. relations were tensed. In 1950s and 1960s, India had provided economic and technical aid to Nepal and the aid allocated was used to build roads, airfields, and communication networks. Although the United States did not have any direct economic interest in Nepal, it was always the largest donor for Nepal over the period. But, the U.S. aid to Nepal declined after several Western donors had initiated aid programs for Nepal.

In the mid-1950s, communist China and the former Soviet Union entered the aid politics in Nepal by their own strategic calculations and foreign policy interests. China was keen to project its image as a leader of the Third World and international communist movement and the Soviet Union had considered itself a superpower in indirect competition with the U.S at that time. Initiated in 1958, the Soviet Union's aid program to Nepal was the support to Kathmandu in its endeavor to become self-reliant on some products like sugar and cigarettes.

India and China were always in their 'aid competition' and they have been doing so even in recent years. India has provided aid to almost every economic sector and been very sensitive to the involvement of any major powers (Khadka, 1997), however, China is channeling aid to the Terai region of Nepal. China has been providing aid for the construction of roads and hydroelectricity. In most of the cases, there were some political interests of the big countries for providing aid to Nepal. But, among all, Nepal itself is taking advantage of the aids in different forms from several donors such as India and China.

3.2. The Dependency Theory and Foreign Aid

Dependency Theory is a theory constructed on the international relation of economic domination and misuse by the economically strong countries over the low economically strong countries. As a outcome of the unequal distribution of power and resources, some countries have

Developed at a faster pace than others. We cannot formulate an satisfactory development policy for a mainstream of the world's population exclusive of knowing how their past economic and social history persuaded their current underdevelopment. Incline to trust that their past tends to look like the past of the above developed countries and that this expectations lead to delusions about modern development and underdevelopment. The ideas of growth "The development of underdevelopment" go straight against the ideas "The Stages of Growth." Rejects the idea that underdevelopment restricts from an individual country's isolation from the larger world and due to the influence of more traditional societies. On the contrary, underdevelopment results from the unequal distribution of resources and exploitation of the less developed and emerging countries by the more developed countries through the so-called "metropolis-satellite relations" theory. Development faith encourages that an precise way to explain development is to look at the past history of countries in North America and Europe. Asset such views creates many misconceptions and stops an accurate view of contemporary development from growing.

Social Conditions of Democracy: Economic Development and Political Validity. As economic development of democracy can go hand in hand and that enlarged economic growth will, in turn, result in increased democracy and political liberty. Furthermore, studying democracy needs the scholar to look at the terms that caused democracy to grow in specific countries. In some countries as a way to simplify the faith of economic development and democracy. Lipsett's theory ignores the relationship among powerful countries and the less developed countries and the fact that the developed countries appealing advantage of the less developed ones resulted in an unsatisfactory balance of power on the international platform.

Latin America performs its maximum rates of industrialization period between the end of World War 1 and the beginning of World War II. This is a case study, emphasizes on the economy of Brazil and explains how its capital, Sao Paulo, converted one of the largest and most developed industrial hubs in Latin America. Even though the fast development of Brazil, it will not break out of the cycle of underdevelopment due to its nonstop reliance on the high developed nations as a way to export its properties.

Global capitalism

Global system of capitalism in which main nations such as the USA and UK exploit, The peripheral nations or LDCs. The border is kept in a state of dependency and under-development because the developed world needs cheap raw materials and labour. This relationship of misuse and reliance occurred historically from slavery and colonialism, and continues even today through Western dominance of the international trading system, the practices of multinational companies and the LDC's reliance on Western aid.

Historical exploitation – slavery and colonialism

The business in slavery makes in tremendous profits for both slave-traders and plantation holders in the 18th century. This controlled to a super accumulation of capital which was financed in Britain's industrial revolution and accordingly helped kick-start industrial development in the UK. In the 18th century Europe was able to use its advanced military technology to conquer and colonise many parts of the Third World. First World countries exploited the colonies for cheap food, raw materials and labour. Land traditionally used for growing food was converted in to the production of cash crops for export.

Contemporary exploitation

International trade

Current world trade is systematized today is a legacy of colonialism. Most colonies have achieved political independence but their economies still tend to be based on exporting cash crops and raw materials to the West. However Many LDCs find it hard to attain full economic independence due to many are over dependent on whichever one or two initial products or Western demand for those products. That's why any over-production or fall in Western need can have a severe effect upon LDC economies. Western nations further limit the export earnings of LDCs by setting the prices for many LDC products and setting tariffs and quotas which tax or limit LDC products entering the First World, especially manufactured products.

Neo-colonialism

Frank and others such as **Therese Hayter** debate that traditional forms of colonialism are providing way to new forms: neo-colonialism. At the forefront of this type of exploitation are the **multinational companies (MNCs)**. In their search for profit, these companies allegedly exploit LDCs for cheap labour, cheap raw materials and new markets.

Multinationals

The hunt for new markets refreshed Western corporations to increase in size and market their products internationally. These multinational companies (MNCs) imported raw materials from the LDCs and exported manufactured goods back to them. After World War II, increasing numbers of companies started to produce manufactured goods in the LDCs, taking advantage of cheap labour, relaxed health and safety laws and low taxes.

Simpson and Sinclair focuses out that MNCs now control the capitalist world economy and others have bigger economic and political power than LDCs. So, the MNCs are not accountable for their actions in law. Many have been accused of interfering in the internal politics of LDCs to ensure that local élites supportive of their activities retain power. Some have been charged of environmental damage and pollution and playing a important role in the eviction of local peoples from their land. Moreover, some have been accused of marketing drugs and pesticides banned in the West. Illich argues that MNCs are guilty of creating ‘false needs’ in their marketing of products in LDCs which may have detrimental effects on health such as high-tar tobacco, soft drinks such as Coca-Cola, hamburgers and baby-milk powder. According to Marxists, then, MNCs do not invest in LDCs because they want to kick-start their economies. Their motive is primarily profit.

Official aid

Form of neo-colonialism as per the dependency theory is Official aid. Bilateral aid means to the flow of means from one country to another –usually in the form of lends but also as weapons, medicines and human capability. Multi-lateral aid involves financial institutions such as the World Bank and the International Monetary Fund lending money to LDCs.

Most loans to the Third World involve interest. Economies increase too slowly and time consuming development projects such as irrigation schemes, dams, etc. can be unhurried to generate the predicted income or may fail. The concern builds up and can ultimately outdo the initial loan. By 1980 LDCs owed the West \$600 billion. By 1998, this had increased to \$2.2 trillion. Many countries in problem are extremely poor African states, e.g. in 1998 Sub-Saharan Africa owed \$222 billion (which makes up 71% of its national earnings) whilst Mozambique and Ethiopia spent almost half their export earnings servicing their debts. Nearly a quarter of the aid African countries receive this year will be immediately repaid to the West to repay debts.

- It leads to dependency. LDC governments find itself rushed into accepting MNC investment, into making internal political changes and ensuring LDC help for Western strategic welfares,
- Debt funds to high infant-mortality ratio and low life expectancy so the money used servicing debt could be used on improving the infrastructure of LDCs, especially health and education.
- Aid profits the donor country as they can demand that future aid is hard, i.e. spent in the donor country – which may not be the cheapest market. For example, it is estimated that for every British pound lent to LDCs, 70 pence is spent in the UK or spent on projects which primarily employ expertise from the donor country.

In 2000 many Western governments including the UK announced that they were looking at ways in which LDC debt could be cancelled or reduced. In 2001 the UK announced its intention to put a stop to tied aid.

In summary, Frank's theory of dependency proposes that the LDCs can not ever develop so long as they continue part of the world capitalist system. For Frank, development and under development are two sides of a world process through which the First World developed at the cost of the LDCs. Such low-income countries are locked into a system that is almost impossible for them to escape. Only solution is 'isolation' as for example of some Islamic states such as Iran and Afghanistan. Frank also proposes a socialist uprising is necessary in some LDCs to overwhelmed the judgment classes who collaborate with the West. Frank considers that now or later, the West would reassert its control.

The conversation among between the liberal reformers, the Marxists, and the world systems theorists have been energetic and logically challenging in years. Disagreements issues among the many planes of dependency theorists and it is wrong e to feel there is one unified theory of dependency. However, some of the main propositions is to underlie the examines of most dependency theorists. *The lower economics a situation in which* the economy of a certain group of countries is conditioned by the development and expansion of another economy, to which their own is subjected. On the whole the Modernization and Dependency theories are macro-theories that evaluate society from a holistic perspective.

CHAPTER – IV

DISCUSSION and Interpretation

The practice of foreign aid started in Nepal in 1951, when over a hundred years long Rana dynasty had overturned (Adhikari, 2014,p:20), and the period of economic transition started with emerging democracy. Since then, the economic development and modernization came up with foreign presence in the country.

Nepal signed its first aid agreement, the Four Point Agreement for Technical Cooperation, with the United States in January 1951 four years after Nepal and U.S. had established diplomatic relations. United States' diplomatic aid presence in Nepal was beneficial to the country in a sense that India strengthened its ties with Nepal because by the time the agreement had been signed, the Indo-U.S. relations were tensed. In 1950s and 1960s, India had provided economic and technical aid to Nepal and the aid allocated was used to build roads, airfields, and communication networks. Although the United States did not have any direct economic interest in Nepal, it was always the largest donor for Nepal over the period. But, the U.S. aid to Nepal declined after several Western donors had initiated aid programs for Nepal.

In the mid-1950s, communist China and the former Soviet Union entered the aid politics in Nepal by their own strategic calculations and foreign policy interests. China was keen to project its image as a leader of the Third World and international communist movement and the Soviet Union had considered itself a superpower in indirect competition with the U.S at that time. Initiated in 1958, the Soviet Union's aid program to Nepal was the support to Kathmandu in its endeavor to become self-reliant on some products like sugar and cigarettes.

India and China were always in their 'aid competition' and they have been doing so even in recent years. India has provided aid to almost every economic sector and been very sensitive to the involvement of any major powers (Khadka, 1997,p:16), however, China is channeling aid to the Terai region of Nepal. China has been providing aid for the construction of roads and hydroelectricity. In most of the cases, there were some political interests of the big countries for providing aid to Nepal. But, among all, Nepal itself is taking advantage of the aids in different forms from several donors. Even though Nepal have a diplomatic relation with India and China from 13th June, 1947 and

1st August 1955 (MOFA, 2017), Nepal has a relation with China and India since their existence. Nepal's relations with China and India have changed via events, stages and periods in past. So, Nepal has multitude of relations with these two neighboring nations- ranging from social, cultural, religious, geo-political, and economic to diplomatic relations. This foreign relation have grown via several ups and downs and transformed from simple, linear relation to complex, weired relations. Nepal have diplomatic relations with 155 nations (MOFA, 2017) but Nepal's foreign relations with China and India are vey broader, wider, vital, and dynamic and feature special characteristics. After the declaration of new constitution and establishment of federalism in Nepal.

In 1951, Nepal had 276 kilometers of motor able rods, 6.2 thousands hectors of irrigated land, 1.1 MW of electricity, two hospitals, 300 schools and 25 telephone lines. Fifty years latter, the road network had reached 15,308 km, irrigated land reached 716 thousand hectors and electricity generation had gone up to 368 MW. Similarly the number of hospital reached 83, schools numbered 38,500 and there were 255,800 telephones lines. Much of this achievement has been possible through foreign aid.

The political change of 1951 that ended Rana regime brought together two forces that were to shape Nepal for the rest of the century; a new set of political leaders who aspired to modernize Nepal, and the beginning of the international aid era. Those who had led the struggle against the Ranas were energized not only by their encounter with democracy in India but also with the benefits of modernity that had been introduced by the British in India- schools, roads and railways, hospitals, dams and industry. These were the very facilities the Ranas had deprived common Nepalis of. The new rulers of Nepal wanted to modernize the country, and resources towards that end became incersisngly available with the beginning of the era of foreign aid that had been formally launched with president Harry Truman's inaugural addres in 1949. By breaking with isolationist policies of the Ranas and opening up to rest world, the new Nepali leadership wanted to bring about development. This pehnomenom, called bikas in Nepal was the connection between the nation state and the rest of world. By this background it is natural that development in Nepal should have been spurred largely by foreign aid.

In the early years i.e. 1950s , the Us and India were the main providers of aid to Nepal. The UK, Switzerland, China and the United Nations came in only in the 1960s. The 1970s saw West German and Japanese aid in large volume while the Soviet Union maintained its presence. During the 1980s India was dominant, followed by the UK, China and the US.

Multilateral lending agencies also began increasing their profile during this period. Japan was the biggest provider of aid to Nepal in the 1990s; the other big donors were the US and UK. It was in this decade that small European nations like Denmark, the Netherlands, Finland and Norway emerged as important sources of aid while traditional European donors like Germany and Switzerland continued their level of allocations, and multilateral agencies such as the Asian Development Bank and the World Bank increased their lending considerably. The 1990s also witnessed the entry of INGOs and a steady increase in their disbursements.

Until fairly recently, the Nepali state had no policy regarding what to expect from aid and how to channel and supervise it. It was only in July 2000 that the government came out with a draft policy on foreign aid. The need for such guideline had been articulated for a long time but it had not materialized and may not have yet but for donor pressure.

The new Nepali aid policy sets out to make efficient and effective use of foreign policy. The goal is self-sustaining, high economic growth and self-reliance through mobilization of resources required to finance development. However, the problems and policies discussed in the document are not particularly inspiring, as fairly standard concerns are listed: that aid has been donor – driven; has led to excessive dependents on technical assistance; all aid is not reflected in the government budgets; debt burden is increasing; etc. the policy states Nepal preference for grant, making judicious selection and use of loans, and reducing reliance on technical assistance. Concern is also expressed about aid not flowing to priority sectors but rather being directed to the non-governmental arena. Unfortunately, the government owns priorities are not very clear as the discussion on priority areas for investment is characterized more by a quest for inclusiveness than by a will to make hard choices in the face of scarce resources.

4.1 Development Cooperation Strategy for Nepal with India

The India-Nepal economic cooperation relationship was launched in 1951 following the India-Nepal Treaty of Peace and Friendship. India's development aid is guided by the vision that alongside progress in political processes in Nepal, it is equally important to ensure economic progress, particularly in the areas of education, health and infrastructure. Towards this end, the Government of India is providing technical and financial assistance for multi-sectorial development in Nepal.

Since the 1950's, India has been assisting Nepal in its quest for prosperity and economic development. India's initial assistance was channeled through the India Aid Mission, which was established in 1954 to support development projects across Nepal. Its earliest initiatives were to develop the network of roads, airports and communication. The first highway to link the Kathmandu valley with the Terai region was constructed with Indian assistance in 1953. Also, Nepal's first six airports at Gaucher (1951), Simara (1964), Janakpur (1964), Bhairahawa (1964), Pokhara (1964) and Biratnagar (1968) were major landmarks in the initial years. Other large projects, such as Koshi Barrage (1963), Devighat Hydropower and Irrigation Project (1983), and Bir Hospital in Kathmandu (1984) were also a key part of Indian assistance to its neighbor. The India Aid Mission was renamed the Indian Cooperation Mission in 1966 to reflect the spirit of cooperation. In the 1980's Indian cooperation was recast into the Economic Cooperation Wing of the Embassy of India.

India began a new chapter in the six-decade long journey of India-Nepal economic cooperation in 2003 with the launch of the Small Development Projects, which are implemented on the basis of a MoU signed between India and Nepal. The MoU was renewed in June 2006, August 2008, August 2011 and August 2014. Local bodies of the Government of Nepal implement these projects.

Assistance to develop Nepal

Nepal and India officially started economic cooperation in 1951. India is providing broad spectrum financial and technical assistance in many projects in the past and at present. Some of the projects completed under Indian assistance are: Nepal's first six airports, Simra, Janakpur, Bhairahawa, Pokhara and Biratnagar, Koshi Barrage, Devighat Hydropower and Irrigation Project, Janakpur-Jayanagar Railway's East –West Highway, B. P. Koirala Institute of Health Sciences, National Trauma Centre. 36 intermediate and large projects such as construction of a, Nepal Bharat Maitri Pashupati Dharmashala at Tilganga, National Police Academy at Panauti and a Polytechnic at Hetauda are at different stages of implementation.

Trade

In the past ten years, bilateral trade grew over six times from INR 5585 crores in 2006-07 to INR 39564 crores (US\$ 5.89 billion) in 2016-17. That period of time, exports from

Nepal to India more than doubled from INR 1384 crores in 2006-07 to INR 2985 crores (US\$ 445million) in 2016-17. Similarly, India's exports to Nepal grew over eight times from INR 4201crores in 2006-07 to INR 36579 crores (US\$ 5.45 billion) in 2016-17. Nepal's main imports from India are petroleum products (13.7%); motor vehicles and spare parts (13.1%); M. S. billet (4.7%); rice & paddy (4.5%); other machinery & parts (4%); medicine (4%); hot-rolled sheet in coil (2.8%); electrical equipment(2.5%); cement (2.4%); agricultural equipment & parts(1.9%); coal (1.9%); m.s. wires, rods, coils, bars (1.6%); vegetables (1.6%); cold rolled sheet in coil (1.4%); thread (1.3%), etc.

Indian Investment in Nepal

Indian companies are the biggest investors in Nepal, accounting for about 30% of the total confirmed foreign direct investments. Till 15 September 2018, Indian projects lead foreign investment with FDI assurances of INR 5942.68 crores. 150 Indian projects functioning in Nepal involved in manufacturing, services (banking, insurance, dry port, education and telecom), power sector and tourism industries. Big Indian financiers include Dabur India, VSNL, TCIL, MTNL, State Bank of India, Punjab National Bank, ITC, Asian Paints, CONCOR, GMR India, Hindustan Unilever, IL&FS, Manipal Group, MIT Group Holdings, Nupur International, Life Insurance Corporation of India, Trans world Group, Patel Engineering, Bhilwara Energy, Bhushan Group, Feedback Ventures, RJ Corp, KSK Energy, Berger Paints, Essel Infra Project Ltd. and Tata Power, India etc.

Water Resources and Hydropower

Collaboration in water resources basically focuses on common rivers is one of the anticipated sector of bilateral relations. A large number of small and large rivers flow from Nepal to India and constitute an important part of the Ganges river basins. All the rivers have the possibility to become important sources of irrigation and power for Nepal and India. Mechanism of three-tier bilateral established in 2008, to talk about the issues relating to cooperation in water resources, inundation and hydropower between the two countries, has been working well. There are more than twenty 132 kV, 33 kV and 11 kV transmission interconnections which are used both for power exchange in the bordering areas and for power trade. For enhanced transmission of electricity, the first high-capacity Muzaffarpur (India) - Dhalkebar (Nepal) cross-border power transmission line (initially charged at 132 kV),

With GoI LoC funding of US\$ 13.2 million, was in completed 2016. Two more 132 kV cross-border transmission lines between Kataiya (India) - Kusaha (Nepal) and Raxaul (India) - Parwanipur (Nepal), built with GoI grant assistance, which was completed in 2017. India is currently supplying a total of about 450 MW of power to Nepal. An Agreement on 'Electric Power Trade, Cross-border Transmission Interconnection and Grid Connectivity' between India and Nepal was signed on 21 October 2014. The Agreement is aimed at facilitating and further strengthening cross-border electricity transmission, grid connectivity and

Power trade between Nepal and India. The Agreement provides a framework for power trade between the two countries, import from India by Nepal until it becomes power surplus and subsequent import by Indian entities from Nepal, on mutually acceptable terms and conditions. Two mechanisms, Joint Working Group (JWG) and Joint Steering Committee (JSC) envisaged under the Agreement have been established. Joint Technical Team (JTT) was formed for preparation of a long-term integrated transmission plan covering projects upto 2035. The 5th meeting of the JSC/JWG on power cooperation was held in New Delhi in April 2018.

Education

Education making blocks for the process of national building and is the first step forwards the development of any country. Government of India focuses on the creation on infrastructure to provide equipped good buildings with furniture, labs, computers etc. for providing proper education. Proper toilets and drinking water facilities are provided for students and staff. Indian government is providing assistance to institutions of all type, starting from primary schools to universities in Nepal. Total number of educational school projects by the Government of India in Nepal as SDPs covering nearly all Districts in the country comes to 273 at a cost of approximately IRs. 336 crores. 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 Prime Minister of Nepal inaugurated the project on 2nd November 2009. The fully residential Over the years, India's contribution to the development of human resources in Nepal has been one of the major aspects of bilateral cooperation. Indian government provides tentative 3000 scholarships/seats annually to Nepalese people for various courses at the Ph.D/Masters, Bachelors and plus-two levels in

India and in Nepal. All the scholarships cover a wide range of subjects including medicine, agriculture, pharmacology, engineering, computer application, business administration, veterinary sciences, music, fine arts, etc.

New Partnership in Agriculture

Prime Minister, K. P. Sharma Oli's visit to India in April 2018, brought the 'India-Nepal New Partnership in Agriculture' with a focus on mutual projects in research agricultural education and development. This was very crucial step ahead as both countries mainly depend on agriculture for their livelihood. Minister for Agriculture, Land Management and Cooperatives of Nepal Mr. C.P. Khanal visited India on 19-23 June 2018 for the inaugural ministerial meeting of the New Partnership in Agriculture with Agriculture Minister of India Shri Radha Mohan Singh.

Assistance for security forces and Gorkha Soldiers in the Indian Army

Amid series of defense-purchase negotiations, Nepal Army (NA) received huge military assistance from India. The tiny Himalayan nation received forty-five trucks loaded with bullets, bomb disposal items and explosive devices in the second week of June this year. India, the major arms suppliers to Nepal Army had earlier suspended military aid to Nepal following the royal takeover in 2005. At a meeting last year, Nepal had sought 1.76 billion Nepali Rupees (USD 18.33 million) worth military supplies from India.

The Gorkha regiments of the Indian Army are raised partly by recruitment from hill districts of Nepal. Currently, about 32,000 Gorkha Soldiers from Nepal are serving in the Indian Army. In 2017-18, pensions in excess of INR 2923 Crores (NPR 4677 Crores) were disbursed by the Indian Army to about 1,25,000 retired Gorkha soldiers and civilian pensioners, who had served in the Indian Army and other central and state services. In 2018-19, pensions in excess of INR 1682 Crores (NPR 2692 Crores) has been disbursed till 30 September 2018. In addition to Military Pension Branch in Kathmandu, there are two Pension Paying Offices at Pokhara and Dharan, and 22 District Soldier Boards in Nepal, all functioning under the Defence Wing of the Indian Embassy in Kathmandu, which arrange the disbursement of pensions and organize welfare programmes for re-training, rehabilitating and assisting ex-Gorkha soldiers and their families.

Rehabilitation after Earth quake

Among other major ongoing projects, India announced a new economic package of US\$ 1 billion during the International Conference on Nepal's Reconstruction held on 25 June 2015 in Kathmandu to help support the Government of Nepal in its reconstruction efforts. The Government of India's economic package was comprised of 25% grants and 75% lines of credit (LoC) aimed to support reconstruction work in the areas of Housing, Road and Transport, Health, Education, Cultural Heritage, Power, and Disaster Risk Management. In terms of India's role in post-earthquake reconstruction, apart from 50,000 houses, 157 projects in the health sector, 70 schools and 28 cultural heritage sites have been identified

4.2 Development Cooperation Strategy for Nepal with China

Nepal-China economic cooperation was initiated with the formalization of bilateral relations in the 1950's. The first 'Agreement between China and Nepal on Economic Aid' was signed in 1956. Since then, China has been providing financial and technical assistance to Nepal, which has greatly contributed to Nepal's development, especially in infrastructure building, industries establishment, human resources development, health, education, and water resources, among other areas.

China has supported the construction of about a dozen major roads in Nepal, including Arniko Highway, Kathmandu-Bhaktapur Road, Kathmandu Ring Road, and the Narayanghat-Mugling, Narayanghat-Gorkha, and Pokhara-Baglung Roads, Syaphrubesi-Rasuwagadi Highway, as well as others. Support to the establishment of industries includes the Bansbari Leather and Shoes Factory, Hetauda Cotton Textile Mills, Harisidhi Brick Factory, Bhaktapur Brick Factory, Bhrikuti Paper Mills, and the Lumbini Sugar Mills. In the water resources sector, China has supported the Sunkoshi Hydroelectricity Plant, and the Sunkoshi-Kathmandu Electricity Line Transmission Project, and cooperation in the health sector has included the establishment of B.P. Koirala Memorial Cancer Hospital in Bharatpur, the Civil Service Hospital in Kathmandu, and the National Ayurveda Research and Training Centre. Construction of sports complexes in Kathmandu and Lalitpur, the city hall in Kathmandu, and the Birendra International Convention Centre are also examples of past cooperation.

The major on-going projects in Nepal which are being supported through development cooperation extended by the Government of China include the Upper Trishuli 3'A' Hydroelectric Project, Pokhara Regional International Airport Project, Kathmandu Ring Road Expansion Project, Arniko Highway Long-term Opening Maintenance Project, Syaphrubesi-Rasuwegadi Highway Repair and Improvement Project, Nine-storied Basantapur Tower Restoration Project at Durbar Square of Kathmandu, Kathmandu Durbar High School (Bhanu Secondary School) Reconstruction Project, Post-Disaster Recovery for Tatopani Frontier Inspection Station Project, Timure Frontier Inspection Station Project, Solar Photovoltaic Project in Singha Durbar Secretariat of Nepal, Earthquake Monitoring Network Project, Agricultural Technical Cooperation Project (Phase I), Upgrading and Renovation Project of Civil Service Hospital, and Aircrafts for Nepal Airlines Corporation (NAC). From FY 2010/11 to FY 2016/17, a total of US\$ 278 million of aid was disbursed to Nepal by China (Figure 1). The volume of disbursement, totaling US\$ 54 million, was the highest in FY 2015/16. This was due to the Government of Nepal's initiation of health projects as well as emergency assistance for earthquake victims including the provision of relief goods, emergency medical supplies, and petroleum products.

Development Assistance to Nepal

China has remained as one of the major donor countries for Nepal. Nepal and China first signed an agreement on economic aid in 1956. China has been providing financial and technical assistance to Nepal in the areas of infrastructure development, transportation, industrial development, health, education, hydro power development and so on. Some of the major projects built under Chinese assistance are: Arniko Highway, Prithvi Highway, Kathmandu Ring Road, Pokhara-Baglung Road, Syaphrubesi Rasuwagadhi Road Project, Bansbari Leather and Shoes Factory, Hetauda Cotton Textile Mills, Harisidhi Brick Factory, Bhrikuti Paper Mills, Lumbini Sugar Mills, Sunkoshi Hydroelectricity Plant, Pokhara Water Conservancy and Irrigation Project (Multipurpose), B.P. Koirala Memorial Cancer Hospital, Civil Service Hospital, National Ayurveda Research Centre Sports, Satdobato Sports Complex, City Hall in Kathmandu and Birendra International Convention Centre (MOF, 2014). Also, the ongoing projects under Chinese assistance include: Upper Trishuli Hydropower Project, Kathmandu Ring Road Improvement Project, Pokhara International Regional Airport, and National Armed Police Force Academy Project (MOF, 2014). With the signing of the Memorandum of Understanding on Cooperation under the one Belt and one Road Initiative on 12 May 2017 in Kathmandu between Nepal

and China, new avenues for bilateral cooperation in the mutually agreed areas are expected to open (MOFA, 2017).

Trade:

Nepal's second largest trading partner is China. Solely in the year 2017/18, a total export to China was above US\$ 23 million and import from China stood above US\$ 1.5 billion. Trade deficit of Nepal with China has always been in an growing. China has facilitated nepali 8,000 products since 2009. Nepal frequently joins in several trade fairs and exhibitions organized in China. Nepal joined in the China International Import Expo in Shanghai in November 2018. Nepal-China's 16th Tibet 16th Economic and Trade Fair was organized in Lhasa on 24-29 October 2018. Nepal-China Non-Governmental Cooperation Forum was established in 1996, which was an initiative to mobilize the apex business organization of both sides to increase cooperation between the private sectors of these two countries. The 14th meeting of the Forum was held in Kathmandu on 25-26 May 2017. Nepal's trade with Tibet in increasing over the years as in 1959/60 was only 0.98 percent of total trade (Pant, 1962) which increased to 7.9 percent in 2001/02 and further increased to 10.3 percent in 2010/11 even though Nepal's trade with China is rapidly in increasing trend, but not as much as potential seen. Least developed transport system caused the trade among both countries could not display. Absence of dry port for Nepal-China bilateral trade makes it even more difficult. Nepal could play as a transit point with whole South Asian countries and not only India, To interlink the region with road and railway network so that it enhance the trade between Nepal and China in future. The transaction of trade between Nepal-China is growing but in a imbalanced way. This needs to be corrected to make our bilateral trade sustainable in the long run.

Investment:

China is among the biggest source of Foreign Direct Investment in Nepal. Chinese investors agreed to spend over \$ 8.3 billion in Nepal through the Nepal Investment Summit concluded in Kathmandu in March 2017. China has topped in FDI pledges to Nepal in FY 2015-16, 2016-17 and in 2017-18 with the growing investment pledges from the Chinese companies in hydropower, cement, herbal medicine and tourism.

China is top most investor in Nepal and Chinese investment in Nepal is increasing even though it is very low in contrast to the necessity and prospective. Most of the Chinese engagement is in the field of infrastructure building and water resources would be very much helpful potentially leading to a desired outcome. Chinese investment have been approved in Nepal with investment of NPR 10,632 million, which helped to create 31,594 jobs through 575 projects, By July 2013. Nepal's Trade Integration Strategy (NTIS) 2010 has recognized 19 export potential products and services. They are: cardamom, ginger, honey, lentils, tea, instant noodles, medicinal herbs and essential oils, handmade paper and paper products, silver jewellery, iron and steel products, chyangra pashmina products, wool products, tourism, labour services, IT and BPO services, health services, education services, Engineering services and hydro-electricity (MoCS, 2010). It is needed for Nepal to focus its short to medium-term efforts to increase these products in Nepal for exports. China could invest in this product if it can offer on the principle of win-win situation. China's investment in these exports possibility products and services to Nepal would be very beneficial to decrease Nepal's trade shortfall.

Education

China provides scholarships every year not exceeding a total of 100 Nepalese students studying in China. Other than that Chinese has been providing Chinese language training for 200 tourism businesspersons (40 per year) of Nepal for 5 years as per the mutual understanding between both sides in March 2016. 120 Nepali tourism professionals have already advanced 6-month long Chinese language training.

Assistance for security forces

The long political chaos in Nepal (nine Prime Ministers in the last 10 years) has frightened China about threats from Tibetan protestors. In the lack of a reliable and trustworthy government in Kathmandu, China has extended its arrangement from the earlier state-to-state level to institutional as well as people-to-people levels. To ensure quick and effective responses to manage anti-China activities, China has targeted the bureaucracy and the Armed Police Force (APF) which guards the Nepal-China border. During the State Councillor Yang Jiechi's visit to Nepal in June 2013, China promised to provide NPR 3.6 billion in support for the building of the APF training academy at Matatirtha in Kathmandu, Nepal. China added the number of scholarships and seats in its various colleges for Nepali government officials and National Defence University for Nepali police officers.

Joint exercises with the Nepal Armed police in Tibet is also implemented. With the inclusive strategic partnership programme, China also wanted to extend military cooperation with the Nepali Army (NA), which used to be close to the India Army and US army. The first military collaboration among the NA and PLA started in the post-monarchy period when the then Defence Minister of Nepal Ram Bahadur Thapa signed an MOU in Nepal in December 2008 for military assistance worth USD 2.6 million from China for the upgrading of the NA. During the Chinese Army Chief General Chen Bingde's visit to Kathmandu in 2011, China signed an MOU for offering military aid to the tune of USD 7.7 million to the Nepal Army. Apart from this, China has added the number of war college seats for Nepal Army officers.

The present ratio of Chinese to N A personnel in China's War College training programmes could be ratio of 4:1. China arrange trips for Nepali officials to different area of the country to provide first-hand knowledge regarding modern China. Through whih, China has created a constituency within the Nepal Army. Some officers of the Nepal Army went on the favour of greater military cooperation with China to gain more profits. This thinking has also boosted after India's silence over the border blockade by troubling Madhesi groups in 2015. Because of the extended political transition, here is a growing view among Nepalese that the Nepal Army could save Nepal from the current political calamity. Some sections in Nepal argue in support of implementing the 'Bangladesh model' to re-do political constancy. This makes Nepal Army vulnerable institution for external powers.

Rehabilitation after earth quake

The size of Chinese aid has also increased. China promised USD 483 million for post-earthquake reconstruction; a significant increase in compared to its prior development aid commitments. China is assisting 25 reconstruction projects, including Durbar High School and Basantapur Durbar. Part of the assistance is in the form of Rs 2.5 billion to the Nepal Army to support humanitarian assistance and disaster management.

4.3 Comparative study of sector wise contribution of India and China To Nepal

Trade:

Nepal's trade with Tibet and India in 2001/02 was 7.98 and 54.2 percent of total trade, which increased to 10.3 and 65.4 percent in 2010/11.

Table 4.1: Direction of Nepal's total trade, 2001/02 and 2010/11

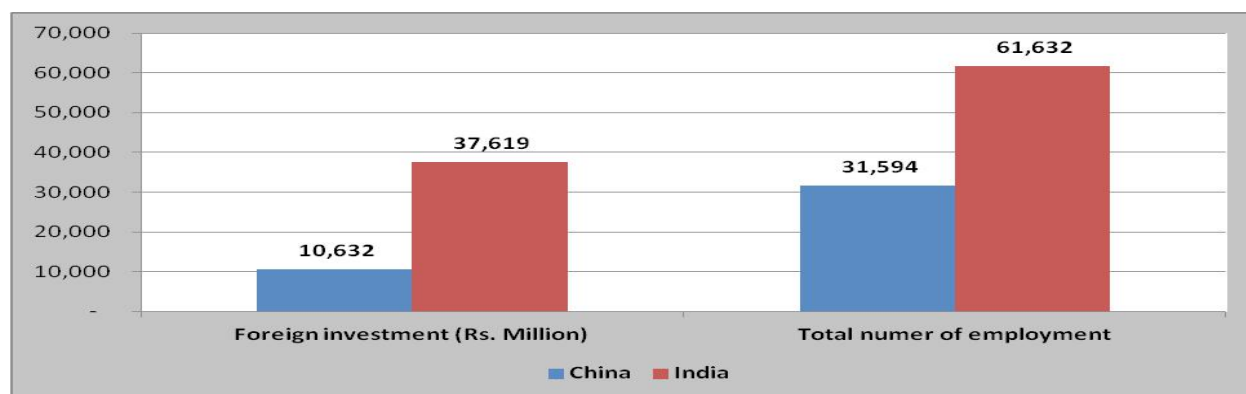
S. N.	Country	2001/02		2010/11		2018/19	
		Value in '000 Rs.	Share in%	Value in '000 Rs.	Share in %	Value in '000 Rs	Share in %
1.	India	84,578,300	54.2	302,030,385	65.4	651170000.0	64.5
2.	China P.R.	12,307,072	7.9	47,555,232	10.3	14038800.0	13.9
3.	Others	59,136,217	37.9	112,512,769	24.3	218773000.0	21.7
Total		156,021,589	100.0	462,098,386	100.0	1010331000.0	100.0

Source: Trade Statistics, Trade and Export Promotion Centre, Government of Nepal, 2019

Investment

By the mid July 2012/13 the investment from India and China in different project reached Rs 37,691 and Rs10,632 millions respectively.

Figure 2: Foreign investment and total number of employment generated by approved industries by China and India in Nepal up to fiscal year 2012/13



Source: Industrial Statistics Fiscal Year 2012/13, Department of Industry, Government of Nepal, 2013

Education

China provides scholarships every year not exceeding a total of 100 Nepalese students studying in China. Whereas India provides around 3000 scholarships/seats annually for various courses at the Ph.D/post grad and graduation and intermediate levels in India and in Nepal.

Reconstruction after Earthquake

India has provided US\$ 1 billion for the reconstruction after earthquake whereas China provided US\$ 483 million. China is assisting 25 reconstruction projects. In terms of India's role in post-earthquake reconstruction, apart from 50,000 houses, 157 projects in the health sector, 70 schools and 28 cultural heritage sites have been identified.

The Interest of China and India in Nepal

The concentrations of China in Nepal can be observed via Chinese political stand in the region throughout the 1950s. The political situation that made China keen to provide aid to Nepal and maintain decent relationships have been mentioned in the following below hypothesis: China perceived a tacit alliance between the U.S. and India in supporting Tibetan refugees who had fled the Tibet after the Chinese attack and were stimulating anti-Chinese activities from outside of China. That's why including the impact of the U.S. and India was important in China's foreign policy results via Nepal. China was interested to make its impact as a key frontrunner of the Third World and international communist movement. (Narayan, 1997, 1047). Nepal was once part of China. Hence, the other objective of Chinese aid to Nepal goals at having Nepal whichever as a land of China again, or as a communalist state under the Chinese inspiration. In the long term, China has seen forward to the union of Nepal into the Chinese state or Nepal as a Communist-controlled country. Mao Ste-tung had described Nepal as part of the prehistoric Chinese empire and suggested that it should be reestablished (Mihaly, 2002, 117). Opposing to those theories of Narayan and Mihaly, testimonials by Chinese high officials defined Chinese foreign aid program as a mechanism fundamentally for Nepal's growth needs: "The Chinese Premier confident the Nepalese that his country would assist in Nepal's economic development." (Nagendra, 1996, 13)

For whatever interests China provides aid to Nepal, some scholars, who have researched on Nepal's foreign aid and development, do agree that Chinese aid to Nepal is unrestricted in the logic that

Nepal has all the advantages to use that foreign aid exclusive of conditionality. Under the agreement, no Chinese technicians were to come to Nepal, and the government of Nepal was given entire freedom in utilising the money and goods and the Government of the People's Republic of China shall not interfere (Mihaly, 2002, 111-112). It is believed that the Chinese policy of non-interference in its foreign aid to Nepal has been effective in thought-provoking US and Indian aid policy to Nepal.

“This big-heartedness may have skilled its purpose of placing America and Indian aid in a poor light” (Mihaly, 2002, 112) On the other hand, some other hypotheses urge that China has not been able to weaken the influence of India in Nepal because Nepal continued to consider India as an important aid provider. China's attempt to avoid the arousing Indian suspicions failed. The aid contract proven that Nepal was falling out of its century-long high-class association with India. New Delhi's answer to the new growth was instant (Nagendra, 1996, 12). India, alternative regional power, has continually measured Nepal as a key country for its economic, strategic and security interests.

The government of India, yet, does not admit its foreign aid program to Nepal as an tool of impact to uphold her interests in Nepal! It is relatively an assistance program, which is mainly built on friendship between the two countries as defined in the theory underneath: India has executed largest number of foreign aid programmes in Nepal and delivering maximum amount of foreign aid to that country. She had been complicated in the economic development of Nepal after a treaty of peace friendship between the two countries on 1950 which stated that: “If the government of Nepal should decide to seek foreign assistance, the Government of Nepal shall give first inclination to India (Nagendra, 1996, 82). The treaty of peace and friendship between the two countries is, however, criticized by some of Nepalese economic experts because it is only in the interests of India. “In any which way we test, the treaty works in India's support when it aims to keep Nepal as a protected place for Indian dealers, investors and citizens.” (Sharma, 2000, 28) Apart from that economic interest, another interest that motivates the Indian aid to Nepal is revealed: “India, as seen, had primarily the same aim in Nepal as the United States: the prohibiting of Chinese effect” (Mihaly, 2002, 101) Even if China had no influence on Nepal, India would still provide aid to Nepal because of other interests, which have been cited in Nagendra's argument: Geographically, Nepal captures an important strategic place. It may also be pointed out that India's richest agricultural and industrial belt is contiguous with the Nepalese border. Thus, in case of any attack on Nepal from the north, India's border with Nepal is also unprotected.

It is clear that Nepal has a strategic importance in India's northern defense parameters (Nagendra, 1996, 81-82). Having seen that the geo-strategic position of Nepal is very useful for the Indian economic and security interests, India will continue to provide any kind of aid to Nepal for the latter to be completely under the influence of India. A full influence over Nepal, however, will not be an easy task for India since China, a friend to Nepal, is gradually becoming a global power and is likely to influence other countries, starting right from the region. For Nepal to be able to maintain healthy relationships with India and China has no choice other than taking a neutral position. In addition to the geo-strategic position of Nepal and other interests discussed earlier on, Nagendra has described politics as another important interest of India in Nepal. India's approach towards Nepal was that it should have a stable government with certain democratic values and the successful working of democracy, however, required a sound economic base. Therefore, India offered economic and technological assistance to Nepal for its development programs (Nagendra, 1996, p. 84)

This is not a political interest, rather as an economic interest that requires the respect of democratic values for a long lasting political stability in Nepal. India has interests in the political stability of Nepal because of, but not limited to, two major reasons. First, India is the largest trade partner of Nepal. According to the sources from the Indian Embassy in Kathmandu, bilateral trade was US\$ 4.21 billion during Nepalese fiscal year 2010-11. Nepal's import from India cost US\$ 3.62 billion and exports to India generated US\$ 599.7 million. In the first six months of fiscal year 2011-12, Nepal's exports to India were about US\$ 284.8 million, and imports from India were about 1.64 billion. Second, the same sources also reveal that Indian firms are the biggest investors in Nepal, totaling 47.5 percent of Foreign Direct Investment (FDI). Indian business in Nepal is engaged in manufacturing, services (banking, insurance, dry port, education and telecommunication), power sector and tourism industries. Needless to mention how enormously the Indian economy benefits from those businesses. India is, therefore, determined to support Nepalese young democracy to grow stronger in order to avoid any other political instability that can possibly affect Indian economic interests in Nepal again. In 1996, the Communist Party of Nepal (Maoists) started a civil war, known as People's War, whose main objective was to oust a 240-year-old monarchy. The ceasefire deal to end that war, which had been going on for a decade, was reached in 2006 after claiming the lives of tens of thousands of people and affecting a lot business such as tourism industries, one of the Indian investments in Nepal, being the most affected.

Social-cultural influence is another interest that stimulates Indian aid to Nepal. Nepal is regarded as an extension of Indogangetic culture. Nearly 80 percent of Nepalese are Hindus and many of them maintain the closer social links with the Indian counterparts. The Nepalese language is written in Devanagri script. The social customs, beliefs, rituals and festivals of the two countries are much similar (Nagendra, 1996, 83). Culture is one of the machineries used by powerful countries to influence. Having the language, religion and other cultural values and practices of a powerful nation imitated in a foreign land, is one of the signs showing that the influence is successfully working. India will continue to give aid to Nepal so as to maintain and even expand its social-cultural influence in Nepal.

The Chinese government is actively encouraging Nepalese people to learn the language. The fact that China is determined to influence Nepal with its culture should make India think whether its aid to Nepal will remain the most appropriate machinery to maintain that influence without Chinese interference. Having discussed the interests of Nepal's donors, it is important to mention that the interests of the regional powers of China and India in Nepal since the 1950s have remained unchanged, even in the present days. India and China have become even more powerful, which logically means that their interests in Nepal have also become greater.

Enablers OF Economic Diplomacy in Nepal

The government makes and executes foreign policy. Since the foreign policy is made on the basis of national interest, economic returns are given top priority in the changed context. The government assumes upper hand for the appropriate and effective handling of diplomacy. In an open and liberalized society with market regulated economy, the role of private sectors, especially trade organizations cannot be underestimated. Government organizations and non-governmental organizations are the main enablers for conducting economic diplomacy.

Governmental Organizations

Government represents the overall interests of the nation in time of negotiation with the other parties. The effective and situational conduct of the governmental organizations can immensely enhance the efficiency of diplomacy. Various organizations of the government are equally important for the successful enhancement of economic diplomacy. Out of them the, Ministries of Foreign Affairs and Finance assume the first and foremost role in promoting. The foreign ministry basically needs to work upon foreign policy of the nation.

It formulates and executes policies related to the international relations. The foreign affairs of the nation get expressed through it. The nation establishes diplomatic mission in the capitals of the major countries. The diplomatic missions abroad are entailed to do the following main functions: To promote the welfare of the Nepalese citizens living in the receiving state, promote friendly relation between Nepal and receiving state, make arrangements for the high level official visits of the delegates to Nepal and vice-versa, represents in the receiving state, report to the HMG/N about socio-political development of the receiving state, and discuss with the government of the receiving state.

These functions of the Royal Nepalese missions abroad fall within the traditional domain of diplomacy. In the changed scenario, foreign ministry and Royal Nepalese missions should work in a different way. The Ministry is the main body to make external policies. This is the phase of economic diplomacy. Thus, it should be well prepared to bring economic returns through it. First of all, the government should fix our national interests considering the inevitability of economic diplomacy. Then, the Foreign Ministry should work along this line. The Royal Nepalese missions abroad can be the excellent means to promote economic diplomacy at governmental level. As recommended by high level task force (HLTF) in 1997 to actively pursue economic diplomacy, economic relations and co-ordination division has been set up in the ministry of foreign affairs to co-ordinate economic activities inside and outside the country.

The ERCD will act as facilitating and co-coordinating body. His Majesty the government has established the international Business Forum (IBF) in the Ministry. It will act as an interacting forum between MoFA and the private sectors so as to enable to evolve guidelines on major aspects of economic activities. The International Relations Desk(IRD) have been set up in the line ministries related to economic activities such as the Ministries of Finance, Trade, Industry, Tourism, Water Resources and Labor. These three institutions are established with a view to promoting economic diplomacy and achieving its goals and objectives.

The Formulation of High Level Task Force (HLTF)

His majesty the government formed a high level task force in 1997. The task force was authorized to make analysis and suggestions on diplomacy and foreign policy. The task force comprising political scientists, foreign policy experts, diplomats and MP made an in-depth study on foreign policy.

The task force realized that the government should make an immediate shift from traditional diplomacy to economic diplomacy. The diplomatic scenario in the international relation has already changed. The demise of cold war, the rapid development of the science and technology, the globalization of economy, the concept of liberalization were deeply studied by the HLTF. The task force then came to the conclusion that Nepal has to make emphasis on economic activities through economic diplomacy. The Royal Nepalese missions abroad can be reliable instruments to carry out it giving continuity to traditional roles of foreign policy. The HLTF finally recommended to actively pursuing economic interest of the country. Since then, the need of an aggressive policy of economic diplomacy has been advocated through governmental channels and private sectors. The HLTF report suggested great importance on economic diplomacy in order to promote Nepal's export trade and tourism, seek employment opportunities abroad and attract greater flow of foreign aid to the country.

The HLTF of 1997 gave to recommendations to the foreign ministry. As suggested by it to actively pursue economic interests through economic diplomacy, the MoFA has set up an economic relations and coordination division to activate the Royal Nepalese missions for economic activities abroad and to coordinate and cooperate the line ministries and private sectors at home to give a boost to its role in economic diplomacy. An International Business Forum (IBF) has been set up to act as an interacting forum between MoFA and private sectors so as to enable to evolve guidelines on major aspects of economic activities. The HLTF placed importance on the policy formulation to promote economic diplomacy. The objectives of the policy formulation are to promote Nepal's export trade, attract greater flow of foreign investments, promote Nepal as an attracting tourist destination, Overseas employment opportunities for the Nepalese workers and help repatriate their overseas earning safely and to look into their wellbeing, Disseminate information about Nepal, Prepare conducive atmosphere for developing relations between the business and industrial houses of Nepal and foreign countries, Arrange free flow of information to the Nepalese business and industrial communities about the laws, customs tariff, market potentialities, transportation costs, business trend etc. of any particular country and to explore markets for Nepalese products in foreign countries.

Non- Governmental Organizations

The role of the government and its machinery is the one side of the coin in promoting economic Diplomacy.

The other side comes under private sectors. Private sectors, specially, trade organizations are the part and parcel of economic development. In a country where economic diplomacy is to be strengthened, the role of business community and its respective organizations is given top priority to expand economic relations with the corresponding foreign organizations. The trade and commerce chambers can help the government mainly in two ways. First of all, they can suggest and recommend policies to be taken by the government. The government can formulate practical economic policies to increase the economic participation of private sectors. Development of strong national economy is always the priority of the state. Private entrepreneurs can pinpoint practical suggestions where foreign direct investment is extremely required and where national capitalists themselves can invest. In Nepal's own context, the role of private sectors is largely important.

Non- government organizations, especially, trade; industry and commerce related forums are to be encouraged to take part in policymaking process. The private sectors can contribute the nation to the rapid growth of economy not only policymaking level, but also at implementation level by expanding economic relations with foreign countries and their organizations. The role of Federation of Nepalese Chambers of Commerce and Industry (FNCCI) is substantially important in expanding economic relation at people to people level. As the umbrella organization of Nepalese business community, the FNCCI has organizationally made effort to carry out the role. The FNCCI is committed to protecting the rights of business and industrial communities along with expanding relations with foreign business and industrial chambers and federations. The FNCCI has adopted the following objectives: To act as a catalyst for business and industrial development in the country, Reinforce business community's commitment to the society, deliver advisory facilities to the government and alliance and when required in formulation and execution of business and industry related policies, acts and programs, Foster cooperation among various national organizations related with business and industry, Provide up to date information services to business and government and community at large, Create awareness and support for business and industry efforts on quality and environment and industrial relation.

FNCCI activities are under held by the principles of professionalism in operation, partnership method in working with government, performance of total business and industry view, idea in favor of deregulation, transparent, and DE licensing, strong belief in fair competition and private initiative, working through extensive consultations in deciding industry and business policies, close cooperation

With foreign federation, chambers proposals. The FNCCI is the member of the following international organizations: Source: FNCCI (2013), Kathmandu, Nepal. International Chamber of Commerce (ICC), International Organization of employer's (IOE), SAARC Chamber of Commerce and Industry (SCCI), Asian Trade Promotion Forum(ATPF), Standing committee for the chamber of commerce of group 77.

The FNCCI has signed memorandum of understanding (MOE) with the following foreign chambers and organizations: PHD chamber of commerce and industry (PHDCCI), Stadtparkasse Koln-Asia, Pacific Centre, Germany, The central chamber of commerce of Finland (CCCF), Austrian federation of economic chamber (AFEC), The federation Israeli chamber of commerce (FICC), Federation of Egyptian chambers of commerce (FFCC), Egyptian Businessmen's Association (EBA), The association chamber of commerce and industry of Indian (ASSOCHAM), Friedrich NaumanStiftung, Confederation of Indian industry (FICCI), Union of Myanmar chambers of commerce and industry (MCCI), Japan chambers of commerce and industry (JCCI).

Nepal chamber of commerce is another leading organization whose main objective is to assist in the development of national economy by way of promotion and protection of the commercial and industrial sectors, both at the private and public sectors. The prime tasks of Nepal chamber of commerce are „to foster good relationship and unity among the trading community and industrialists to develop link with all the commercial, industrial and other similar associations of the world, cooperate with each other for the betterment of the national economy in particular, organize trade and industrial fairs and cooperate Nepalese products, establish or encourage establishment of academic institutions relating to industry and commerce and financial management and organize workshop, training and seminars and research programs.

In this backdrop, encouraging participation of various business and industrial communities in policy making process and in expanding economic relations with foreign business and industrial communities can significantly help promote economic diplomacy.

CHAPTER-V

CONCLUSION

This study has attempted to assess the effectiveness of foreign aid from India and China from the perspective of economic diplomacy of Nepal. Gathering information from various secondary sources and using analytical and some statistical tools, the researcher has tried to summarize, conclude and make some recommendations, which have been briefly mentioned in the chapter. The researcher comes to the conclusion that foreign aid means the transfer of financial, social, cultural and technical assistance from developed countries to underdeveloped or developing countries and it can be more effective and fruitful to Nepal through economic diplomacy with India and China. Nepal is one of the developing poor countries and also facing many critical economic problems like shortage of electric power, unemployment etc. situated in the South Asia region between two economically emerging nations like India and China.

Nepal has very high possibility to mobilize resources through economic diplomacy. Every year Nepal is getting a large amount of foreign aid from India and China but it is not mobilizing towards top priority sectors like hydropower and education, development of other sectors, security forces reconstruction after earthquake and tourism, which can lead the country to the path of high growth rate and rapid reduction of poverty and unemployment. The reason behind this is nothing rather lack of proper economic diplomacy. Economic diplomacy can work as a tool to attract foreign aid from India and China towards these two top priority sectors holding huge potentiality. If Nepal can manage to change its traditional way of diplomacy towards economic diplomacy then the days of prosperity will not be far from Nepalese. The increasing trends of foreign aid from India and China to Nepal either by their internal competition or by their foreign policy instrument, in both ways Nepal can be benefited if government focuses on economic diplomacy through both government and non-government agencies.

Nepal's aid flow based on its history is political, strategic and economic context. The distribution of foreign aid was centralized on infrastructure development before the 1970s. As a result of the paradigm shift in later decades, focus was put on people-oriented development objectives, such as fulfillment of basic needs, area-based rural development and labor-intensive programs, promotion of good governance, rule of law, human rights, women's empowerment, peace building,

Child welfare, and people's participation in development. Reason behind Chinese aid to Nepal is political and strategic. China was a foreign aid recipient itself when china started to provide foreign aid to Nepal after maintaining diplomatic relations in 1955. The Chinese foreign aid became more proactive when King Mahendra became in power in 1960. China then becomes one of the main funder to the political Party-less Panchayat regime. The amount of Chinese aid was Rs 14.8 million in 1962. 67% of Chinese foreign aid was in the industry, transport development sector and power related till 1980.

In the year 2010/2011, China spent \$18,843,988 foreign aid to Nepal, while India only spend \$50,728,502. Indian investment reached to 48 per cent of total joint investment in Nepal, and India lead the list by providing employment opportunities to 56,407 individuals. China follow the second position, with 10.30 per cent joint investment and employing 23,325 individuals. Indian aid is three times higher than it fares a lot better than Chinese foreign aid. Nepal's hydropower potential has attracted Chinese investment like the Indian. Ever though many concern between India and Nepal on the water-sharing front/hydropower, Incase India will fail to investor in the hydro sector, it would sure be the market.

Indian foreign aid was mostly seen in the 1960s-1970s when the main interest to make big infrastructure projects such as bridges and highways. The larger chine foreign aid projects are always covered at par with Chinese projects. Chinese projects are big and visible and centrally located, for example, Civil Service hospital, Ring road, the Trolley bus service, and the International Convention Hall, which became the Constituent Assembly building later on. There are some visible big Indian projects, such as the 200-bed trauma centre built in the centre of Kathmandu. To make sure security of its borders and increase its influence, and it concentrates aid to meet this objective. India, willfully, has diverse objectives and often-contradicting sentiments, confused channels which muddle its foreign aid presence. India foreign aided projects are decided as tokens of gratitude of bilateral visits of Prime Ministers and other dignitaries and special occasions of India like Republic Day and Independence Day. There is minimal homework and planning to strategically assign foreign aid projects to meet the big development objectives and manage the sensitivities.

Chinese aid in the beginning stage only concentrated on encouraging industries along with infrastructure building in Nepal to have a straight several effects to its aid program and indirectly reduces its economic dependence on India.

While India invested in road construction that has facilitated the expansion of the Indian market in Nepal as well as opened up a market for the supply of cheap Nepali labour into India. For instance, India's support to building the Siddhartha Highway was a way of opening up the market for Indian goods as well as opening up the flow of cheap labour from the middle hills into India. Nepali labors works in India in agriculture, manufacturing and service sectors. However, this is prevailing concept that Indian projects come with many of terms and delivery of projects are not prompt, unlike Chinese. There are some Chinese projects such as Melamchi, which has not reached its conclusion on the specified time. For far too long, Nepal It would be advantageous for Nepal to enter into a long-term transport arrangement with India to integrate rail, road, waterways and cargo handling operations. Technological advances in multi-modal transportation require such cooperation as land and sea transportation has to be integrated and inland waterways developed accordingly, especially to integrate hinterland economy into the process of globalization.

These facets as vital national strategic management are unfortunately highly underrated as development institutional priority in Nepal. At all times, transportation planning must be a constant search for alternative sources of energy for transportation, particularly the use of hydro-energy and high-speed rail transportation for the future. One would hope that negotiations on bilateral cooperation in the filed of transportation would be preceded by India signing the New Convention on Land-Locked States 1965 to give way to any fear that Nepal may have. Speeding up the advantages of inclusion in the World Trade Organisation must be another agenda of economic diplomacy.

Nepal must push the international community for duty-free access to all of its products for it to be a dynamic part of the world globalisation process; and for trade in goods and services to be its engine of economic growth as it should and can be. Geography and history have been projected as the cause of its under-development. Henceforth, we can turn these weaknesses (forces and factors) into our national strength that will enable us to develop Nepal as a prosperous nation of the 21st century. For too long, we have been preoccupied with the quest for the right development policies, when, in reality, we should have been in pursuit of the right institutions for development and democracy. No wonder we are so poor at organizing and implementing, as well as in communicating and coordinating our development policies and programs. We have spent far too much of our time, effort and resources on planning, monitoring and evaluating, and far too little on organizing and actuating especially

By using our own collective vision and intellectual capacity that is free from interests of donors and foreign aid providers. One institution that we must now effectively develop for the economic prosperity of the nation is the institution of market. The market should function according to property law, law for cost-effective adjudication and settlement of disputes, law to harness competitive behaviour by suppliers of land, labour, capital and technology. There should also be law to foster economic freedom of entry and exit, and expansion and diversification for all purchase and sale of goods and services and law to allow for individual bankruptcy and retrenchment of excess and undisciplined labour.

Nepal pursued economic diplomacy as one of the instruments of foreign policy, particularly since the decade of 1990. Negotiating the terms of trade, transit, and investment, enhancing cooperation in the areas of tourism, services and development cooperation are some crucial tasks to be carried while treading along the economic development agenda of the country. Taking up this role would require enhancing the responsibilities of the Ministry of Foreign Affairs (MOFA) supported by capacity building program, specifically on negotiation skills and familiarization with the nuances of trade and transit. Besides, the coordination mechanisms between the economic ministries and MOFA should be strengthened. The Institute of Foreign Affairs (IFA) should be well equipped and geared towards taking up the tasks of supporting the foreign ministry on achieving the mission of economic diplomacy. A well organized training program should be developed and put into implementation as part of the annual work program of the institute. The Nepalese mission, particularly the mission chief at the neighboring countries, should be made responsible for advancing the economic interest of the country;

Regular dialogue and trilateral coordination should be held among the Nepalese missions, MOFA and concerned ministries. The ministry may consider developing an internal evaluation mechanism to evaluate the performance of each mission at the end of each fiscal year. In view of the greater economic interest with the adjoining states of India, Nepal should consider opening Consulate Office at Patna and Lucknow, capital city of Bihar and Uttar Pradesh. Issues on Nepalese export and trade growth, in many case, have emanated due to the policy and regulatory environment of these neighboring states of India. National governments on both countries may also consider on making sub-national level coordination mechanisms for resolving the local level issues. Similarly, growing trade between

Nepal and China, albeit fast growth of import, necessarily requires setting up a consulate office in Guanzhou city of Guangdong province. Such a mission can look into the problems faced by the Nepalese traders on one side and also facilitate the visit of Chinese investors and tourist into Nepal. The five principles of peaceful existence guides Nepal in the conduct of its foreign relations with its neighbors and friendly countries all over the world. Other guiding parameters are: ideas enshrined in the UN charter, the principles of non-alignment, world peace, international Law, regional arrangement and human rights. Supreme goals of Nepal foreign policy are to preserve, safeguard and nourish the core national interests, namely Nepal's independence, sovereignty and territorial integrity as well as social and economic prosperity of the Nepali people. Pluralism, open market policy, full regard to the fundamental principles of human rights form the basis of state-to-state relations. Foreign policy is also regarded as a reflection and complimentary to domestic policy. Domestic policy, determined by internal situation, necessities and long-term interest of the peoples, is linked closely with foreign policy. All the mainstream political parties need to show unity and uniformity on the issues of foreign policy, with a view to achieving prosperity in Nepal. It is the prime duty of all Nepalis to promote Nepal's national interest in the international arena for the larger benefit of its people. We need to explore all the avenues of comparative advantage for engaging in fruitful diplomacy as challenges and opportunities have increased, especially after the emergence of liberalization and globalization. To improve our deteriorating image in international arena, we have to work internally through sound and good governance, transparency and accountability.

Nepal's diplomatic missions abroad should be led by professionals and experts rather than political parties quota. Effective conduct of foreign policy is possible only through the exercise of diplomats that are capable, creative and credible. Since Nepal has already adopted a federal system of governance, the country needs to redefine its foreign policy according to changing scenario. We need to consider geneses of history, geography, culture, economy, demography, language, religions and security. The unique geo-strategic location guided us to conduct Nepal's foreign policy at the bilateral level, maintaining and transforming historic friendly relations with its immediate neighbors India and China, to a new level of trust and confidence in the context of security resolution, social, economic and cultural cooperation. The most important thing is to fully consider the strength and size of economy and military power of immediate neighbors while defining relations with immediate neighbors. Nepal's military strength being negligible compared to India and China, military option can be considered as a

non-option. Nepal needs to maintain and develop relations based on pleasantness, fairness and largely cooperative. Mutual respect and regard between Nepal and its neighbors in an environment of win-win situation can promote relations further thereby supporting regional peace and prosperity. Ironically, our leaders appear to view foreign policy only in relation to his or her own rise to or fall from power. As we do not have institutionalized national foreign policy it places us in a vulnerable situation. Further, it allows foreign diplomats to easily break the established protocol and norms while dealing with our highest officials government officials including prime minister), parties' leaders and senior bureaucrats of concerned ministries and departments. In view of Nepal's highly sensitive and delicate geographic location, all political parties, including major stakeholders, must agree to make consensual approach in the conduct of foreign policy.

In conclusion we can strongly argue that National unity is the basis for the stability of people since it guarantees the progress and development of society. Unity, consolidation, solidarity, integration and mutual trust as well as understanding will help lay out solid ground for the prosperity of Nepal. At the same time we should conduct institutionalized foreign policy with participation and involvement of main stream political parties, including major stakeholders so as to achieve the highest standard of living for our inhabitants of Nepal. So, this study concludes that the economic diplomacy of Nepal was economic which earlier emphasized on the infrastructure development of Nepal and later on socio economic development of Nepal.

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