

**COMPARATIVE ANALYSIS OF INDIA AND CHINA
DEVELOPMENT COOPERATION IN NEPAL (2008-2018)**

A Dissertation

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LETTER OF RECOMMENDATION

I certify that this dissertation entitled “Comparative Analysis of India and China Development Cooperation in Nepal (2008-2018)” has been prepared by Pawan Roy under my supervision. I hereby recommend this dissertation for final examination by the research committee at the Department of International Relations and Diplomacy, Faculty of Humanities and Social Sciences, Tribhuvan University in the fulfillment of the requirements for MIRD 525 Thesis for the Master’s in International Relations and Diplomacy.

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Dr. Keshav Bashyal

Supervisor

Date: 2022, April 10

DECLARATION

I hereby declare that this dissertation is my own work and no portion of the work contained in this document has been published or submitted in support of any application for any degree or qualification of this or any other university or institution of learning. In case of other author's information, ideas and arguments, the sources have been duly cited and acknowledged as per the requirements, The copyright of this research work belongs to the author.

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LETTER OF APPROVAL

ABSTRACT

Nepal has been the focus of development assistance since the mid-20th century. The country has been reliant on financial aid from countries all over the world in various sectors. As the neighbors of Nepal, the aid cooperation of India and China is important to the development of the country. In this regard, a comparative analysis of aid cooperation from the two nations provided a solid background of diplomatic ties between the two countries. Whilst the theory of liberalism suggests that foreign aid is often altruistic and necessary for conditions of peace, realism argues the opposite. On the contrary realism describes the development assistance as the national interest of the donor nation rather than the interest of recipient nation. In this lens, India's engagement in Nepal is mostly concentrated around the Terai region with the India's interest to support major project adjoined with Indo-Nepal border. Similarly, China national interest in Nepal is to provide development cooperation support to the areas where Tibetan refuge influence in Nepal is prominent. China has spread their assistance to different sectors in areas with heavy Tibetan culture had influence. For more effective development, foreign aid must be provided with true altruistic intentions. The traditional division of foreign aid areas in Nepal by both India and China changed their strategy and covered the region of their strategic interest of late.

Key Words: Official Development Assistance, Foreign Aid, Diplomatic Relations, Trade, Interdependency

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ABBREVIATIONS

ADB	Asian Development Bank
AIFTA	ASEAN-India Free Trade Area
AIIB	Asian Infrastructure and Investment Bank
ASEAN	Association of Southeast Asian Nations
BDCC	Border District Coordination Committee
BFA	Boao Forum for Asia
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China and South Africa
BWG	Boundary Working Group
CBS	Central Bureau of Statistics
CPC	Communist Party of China
DCP	Development Cooperation Policy
EPG	Eminent Persons Group
FDI	Foreign Direct Investment
FY	Fiscal Year
GATT	General Agreement on Trade and Tariff
GDP	Gross Domestic Product
GoN	Government of Nepal
IAM	Indian Aid Mission
ICT	International Campaign for Tibet
IMF	International Monetary Fund
INGOs	International Non-Governmental Organizations

LDC	Least Developed Country
MCC	Millennium Challenge Corporation
MEA	Ministry of External Affairs
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoU	Memorandum of Understanding
NAFTA	North Atlantic Free Trade Agreement
NFP	Neighborhood First Policy
NRB	Nepal Rastra Bank
NTTFC	Nepal-China Tibet Trade Facilitation Committee
ODA	Official Development Assistance
PRC	People's Republic of China
SAARC	South Asian Association for Regional Cooperation
SCO	Shanghai Cooperation Organization
SDP	Small Development Projects
TA	Technical Assistance
TAR	Tibet Autonomous Region
TEPC	Trade and Export Promotion Centre
U.K	United Kingdom
U.S.A	United States of America
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USD	United State Dollar
WB	World Bank
WFP	World Food Programme

Chapter 1 Introduction

1.1 Background

Foreign Aid or Development Cooperation is a tool to shorten the gap between import and export as well as investment and saving. Foreign aid can take the form of both, grants or concession loans. In most cases, foreign aid is bilateral or multilateral. The most common form of aid is known as Official Development Assistance (ODA). Foreign aid rose to prominence after the end of the Second World War to assist the short-term recovery of Western Europe which is also known as the Marshall Plan. Marshall plan not only helped to contain communism but also aided in the recovery of European nations from their post-war devastation (Amerian, 2015)

On January 1949, United States President Harry S. Truman, in his inaugural speech, announced The Point Four Program (Olden & Phillips, 1952). This was a technical assistance program to developing countries. The aid architecture has changed many times since the end of World War Second until the end of 2018, new aid issues has emerged to the discourse of development policy. Foreign aid has been changed to development cooperation in the whole aid architecture which also shows that the relation between the donors and recipient countries is based on mutual benefits and development priorities of the world.

After the United States first foreign aid to Nepal under the Point Four Program in 1951, Nepal-India cooperation started in the year 1952 with the construction of an airstrip at Gaucharan (Kandel, 2020) (which is now called Tribhuvan International Airport). Since 1952, India's development cooperation is

directly towards infrastructure and capacity building support to Nepal. Likewise, Chinese development cooperation started in 1956. Until 2018, Chinese development assistance has supported more than 30 projects in Nepal (Murton & Plachta, 2021).

In 2009, after the abolition of monarchy, both Nepal and China agreed to establish 'China-Nepal Comprehensive Cooperative Partnership' to enhance bilateral relationship. Chinese development cooperation is initially targeted to the central and western hill part of Nepal (Prasad, 2015). And, Indian development cooperation is targeted to Terai region of Nepal, where India shares open border to Nepal.

The period between 2008 and 2018 has been a decade of political transformation, formation of new regime, start of discourse on political and economic reforms. Nepal set its political and developmental priorities in order to forecast positive economic growth and stable politics. To balance all these, development politics has been a crucial element between Nepal and its neighboring countries (Ministry of Foreign Affairs Nepal, 2016). Hence, development cooperation from India and China is important measurement for Nepal's stable politics and strengthened economic development.

1.2 The Statement of the Problem

India and China have been the crucial development partners in Nepal. They have cooperated in various sectors in Nepal's development process. From hydropower to the infrastructure development, and during the 2015 massive earthquake India and China role to provide assistance in earthquake response and reconstruction is notable (Regmi, 2016). Many researchers outlined the significance of India and Chinese development cooperation in Nepal in their research works. However, very limited academic research has been done on the priority areas of

India and China development cooperation especially after the abolition of Monarchy in 2008 to the period of 2015 (when the constitution of Nepal was promulgated) until 2018. The period of 10 years has been chosen for study purpose because Nepal's Monarchy was abolished in 2008; ending more than 240 years of kingship rule as the part of the great political transformation process in Nepal (Thapa & Sharma, 2009). This great political transformation process in Nepal has definitely affected China and India in terms of dealing on development cooperation. Previously these two neighboring countries had to coordinate efforts with monarch whereas now it's with the political leaders that are in power. With underlying principles of this; what changes occurred or not regarding development cooperation by India and China in terms of development cooperation priority areas; this proposed study is designed. Addition to this, after 2015, when Nepal promulgated first federal constitution, which has institutionalized republic Nepal; Nepal is no longer centrally organized state and federal provinces with autonomy is in place. In this context, what sort of 'development cooperation' priority has meant for India and China is a crucial to explore as well as to reconnect a new diplomatic practice within the new federal structures of Nepal.

That is why, this study will help to explore the developmental priorities of both the immediate neighbors within the changed political context of Nepal where the country is formally under federal model and the new development cooperation framework is required to upgrade Nepal from current 'developing world' status. Thus, the outcomes of this study will guide the policy makers to make informed decision in a timely manner for effective development cooperation policy in new federal structure of Nepal.

1.3 Research Questions

As the study is to compare and analyze the India and China development cooperation between the period of 2008 until 2018, the research questions include,

1. What are the priority sectors of India and China development cooperation in Nepal between 2008 to 2018?
2. What are the underlying principles of the development cooperation provided by the India and China in Nepal?

1.4 Objectives of the Study

The main objective for the study is:

- To do comparative analysis of India and China Development cooperation in Nepal from 2008 to 2018
- To find out the main sectors of development cooperation from India and China and their development interests in Nepal

1.5 Significance of the Study

This study is significant for academic purpose as well to explore in-depth need and priorities of Nepal with respect to the interest and effort of the immediate two neighbors in providing development cooperation grant to Nepal. In general, many study and research conducted in past explored the bilateral relations between India and Nepal with diplomatic effort to make the relation more conducive and favorable. This study tried to dig more on the issues and priorities of India and Nepal with the new federal setup of Nepal inscribed in the 2015 Constitution of Nepal.

This study also holds some practical aspects of bringing the India and China interest in the providing development cooperation grant in the geographical areas which is not the priority in the past due to the geopolitical importance of those areas. Thus, for understanding the Nepal federal developmental priorities and adjusting the India and China interest in Nepal after the abolishment of monarch from the power and restoration of republic democratic nation with federal structure. Therefore, this study helped to set a discourse in academics as well as policy making agencies such as National Planning Commission, Federal and National Government line ministries in crafting the national priorities in receiving a development cooperation largely from these two neighboring countries in future.

1.6 Chapter Organization

This study is mainly organized in six chapters. The first chapter outlines the introduction of the title of the study where background of study, statement of problem, objectives of the study, research questions, significances of the study and organization of the study. The second chapter explains the relevant literatures that is studied to complete the study. The gap analysis of various literatures from the theoretical aspects is dealt in this chapter. Various books, journals, and research papers is taken to study any gaps and try to fill in other chapters. The third and fourth chapter discuss Nepal relation with India and China in more detail. The parameters to discuss is based in the development cooperation grant and its distribution in geographical areas within Nepal.

The fifth chapter deals with the one of the prominent theories in international relation called as Dependency theory. In this chapter, a conceptual lens is used to understand the India and China foreign aid and grant through dependency theory. This

chapter further discuss on the sectoral investment by India and China from the year 2008 to 2018 and explains more about the comparative assessment of the development cooperation grant to Nepal during the study period. The six and the final chapter concludes with summary and conclusions. The final chapter discuss the relationship of the findings to previous research on the topic, limitations of the study and implications for further research related with India and China development cooperation grant to Nepal.

1.7 Limitations of Study

This research is solely for MA thesis and has been carried out on the basis of the limited financial and time resources. The study mostly relied on knowledge transferability and combination of pieces of literature through the limited literature works of the scholars and experts in past. The conclusion drawn from this research can't be generalized in every case because it only covers a certain time frame, and the study purpose is limited to the period itself. The samples and methodology tools of the primary research will be identified purposively by the researcher based on the guidance of the professor, which may not be needed to complete the study of such nature.

1.8 Research Methodology

The study is based on collection of secondary data and is qualitative in nature. The proposed study used various techniques to obtain qualitative and empirical information.

The research design of the proposed study is qualitative. A systematic, subjective and holistic approach was taken into consideration, primarily by an

inductive process of organizing data into categories and identifying the pattern among the categories to complete the research.

Since, the study is focused on the comparative part of the development cooperation of India and China, most of the data is collected from the regular publications from Ministry of Foreign Affairs, Ministry of Finance, World Bank Periodic Reports, Diplomatic and Think Tanks communities of both the countries. The secondary sources of data is collected from the various books, academic journals, articles, magazines and the comparative analysis is conducted based on the data available from the resources.

Comparative, critical and analytical methods is employed to the study. This includes assessment of both countries interests, foreign policy guidance and comparative analysis to create an empirical and interpretive study of the data collected. Dependency theory is looked deeper to analyze and assess the period of 10 years of development cooperation between the two countries.

Library research is the primary source of data collection method to complete this study. This study doesn't include any other source of data beside the literatures from books, journals and newspaper articles. No other potential participants are included or forced to participate in this study. Data and data sources are adequately cited throughout the study. During the study primary data were not collected and therefore, the data used in the study report are either extracted from the available books and journals or from the trusted websites and newspaper articles. Therefore, the data are already available, and the confidentiality of data is not breached. Available and used data in the study follows the data privacy protocol.

The study uses various literatures and data which is properly cited. The ethical issues of using other works and not providing credits amount is seriously taken offensive and therefore the study high regards such work. The study also represents a geographical area as Terai/Madhesh and Pahad to show the empirical aspect of the comparison between the two countries grant effort to Nepal.

Finding relevant, accurate and updated data, published articles, and documents on the study topic is difficult because of the subject nature of the study. Very limited efforts have been made to compare India and China grant to Nepal especially after the period of 2008. Very limited access to draw the data from the Chinese source is one of the strongest limitations of the study. Books, journals, newspaper articles and articles from website has been extensively used to examine and analyzing the facts related to the development cooperation grant and foreign aid mechanism to Nepal.

The study mainly focuses on the specific time period of development cooperation grant provided to Nepal by India and China. Other grants provided by India and China are not included as a part of the study. Other historical and economic relations beside the study time frame is also not included in the study. Development cooperation grant from other countries beside India and China are also not the scope of the study.

The method used in the study is purely library research and a qualitative method used to analyze the secondary data available from the various resources. No statistical tool is used as very less numerical data is published inside the report. All the graphical representation is shown by using the tabulation format and is used to show the data on detail.

Chapter 2 Literature Review

The prevalent literature on foreign aid and grant is grounded in competing international relations (IR) theories and therefore, a brief overview of IR theories is followed by various literary sources.

2.1 Liberalism and Realism: Analysis of Theory

International Relations theory is characterized with the antagonisms between the theories of liberalism and realism. Although new variants of these theories such as neo-liberalism and structural realism have arisen, the classical versions of each still find the most prominence.

Classical liberalism finds its roots in Kantian philosophy. In his seminal piece “*Perpetual Peace*”, Immanuel Kant promulgates several liberal doctrines. Kant mainly introduces the concept of sovereignty through articles stating that independent states should not be under the dominion of another state and that sovereign states shall not interfere in the governance of other states (Kant, 1903). Although not labelled as such, Kant introduces concepts that would later amount to the “*Democratic Peace Theory*” (Kant, 1903). By stating that republics, as opposed to democracies, are less likely to go to war with one another, Kant laid the foundations for liberal schools of thought in the future. This has gained traction amongst foreign policy circles in Washington and Europe since the end of the Cold War, an event that Francis Fukuyama labels “the end of history” (Fukuyama, 1989). The USA has been particularly proactive in exporting the liberal democracy model to sovereign nations as exemplified through their involvement in the Balkans, Afghanistan, and Iraq.

Kant's "*Perpetual Peace*" has also been highly influential in creating a new liberal theory: neoliberalism. He theorizes that the essence of war is incompatible with commerce, arguing that the developments in business across borders had made war unprofitable (Kant, 1903). Influential neoliberal scholars such as Robert Keohane and Joseph Nye further adapt this concept by Kant for the contemporary world. They suggest that sovereign states, through bilateral and multilateral engagement, have harnessed a web of dependence with one another and that going to war would be economically catastrophic (Bergsten et al., 1975). Multilateral engagements relating to trade and commerce are ubiquitous. General Agreements on Trade and Tariffs (GATT), the International Monetary Fund's (IMF) Washington Consensus and the North American Free Trade Agreement (NAFTA) are some examples. Trade agreements can also take the form of bilateral agreements that involve just two parties. Additionally, comprehensive multilateral institutions such as the Association of Southeast Asian Nations (ASEAN) and the South Asian Association for Regional Cooperation (SAARC) also have binding agreements relating to trade attesting to its importance in consolidating peace and healthy relationships between nations.

On the contrary, realism does not see international relations in the same utopian sense as liberalism. For realists, national interest takes precedence over all matters. In his most notorious text "*The Twenty Years Crisis*", E.H Carr, states that multilateral institutions and international treaties are unable to address the realities and insecurities of the international system (Carr, 1946). John Mearsheimer, in his theory of offensive realism, expands on the thoughts of Carr. He claims that the international system is anarchic and that states are rational entities whose actions are prompted solely by national interest (Mearsheimer, 2003). Furthermore, Mearsheimer also critiques multilateralism by suggesting that it is just an arena for nations to

pursue their national interests as opposed to the liberal assumption of collective dependence (Mearsheimer, 1994). This critique of the liberalist models has been validated by a rise in populism and anti-multilateralism embedded in the policies of leaders such as Donald Trump, Boris Johnson, Narendra Modi and K.P Oli.

2.2 Liberalism, Realism and Foreign Aid

Although there exists limited literature on the liberalist perception of foreign aid, assumptions can be drawn from the work of its neo-liberal proponents such as Keohane and Nye. Both have stated the importance of economic cooperation between nations for the development of their respective economies. Neo-liberals believe this can be achieved by trade as well as Foreign Direct Investment (FDI) which would mean sovereign nations become stakeholders in other nations (Nye, 2004). In theory, this would lead to peace and prosperity to nations as coming into conflict would jeopardize their economic situation. In this context, foreign aid performs a similar role to FDI. Foreign aid, like FDI, is financial support that aims to develop the recipient nation. By developing the recipient nation, the donor will have a vested interest as successful development would lead to profit through interest rates as well as trade and healthy relations. This is very much in line with the neo-liberal school of thought which sees foreign aid as motivated by altruism as opposed to self-interest (Smith, 1990).

Contrastingly, realists argue the very opposite. Foreign and developmental assistance, for realists, is a tool used to encroach on the territory of another sovereign state. Realists' scholars have noted that it is used to influence the political judgements of the recipient nation (Hattori, 2001). This adheres to the offensive realism theory promoted by the Mearsheimer and others those international organizations and treaties

are tools with which nation states pursue their national interests (Mearsheimer, 1994). Although not a realist scholar, Joseph Stiglitz states examples of where development assistance has been used to pursue the goals of national interest as opposed to altruism. He cites the recovery package provided by the IMF to nations in South-East Asia after the financial crisis in the late 1990s as an example of this. The recovery package, which was coerced by the IMF to the recipient nations, did little to develop the nations but was aimed instead at protecting the profits of the investors (Arnott et al., 2003). Just like the Marshal Plan, foreign aid usually requires the recipient nation to keep their markets open. This has led to the exploitation of the recipient nation's economy by those offering development adding evidence to the theory of realist scholars. Post conflict Iraq and the Democratic Republic of Congo both are examples of nations that were exploited.

Nepal has been engaged in development cooperation since 1951. Nepal receives its first official foreign grant from United States of America (USA) in the form of technical grant in the year 1951 amounting 2,000 USD (Khadka, 2000). Since then, Nepal receives a foreign assistance after it joined Colombo Plan for cooperative, economic and social development in Asia and Pacific in the year 1952. During 1950s, many students from Nepal got scholarships through Colombo plan to go to various countries (The Colombo Plan Secretariat, 2012). But at the same time, all other aid was mainly focused on developing agriculture, transportation, infrastructure, and energy production. After 1990, Nepal receives external assistance in the form of project aid, commodity aid, technical assistance, and program aid. Project aid is related with the funding to irrigation, hydroelectric dams and road constructions whereas commodity assistance includes agriculture support such as fertilizers, seeds and other products related to agriculture. Similarly, technical assistance covers

technical expertise and human resources supports to government, trainings conduction and skill developments. Program support is related with health, education, advocacy, and awareness fields (The Library of Congress Country Studies , 1991).

During the course of time, Nepal progressed in formulating necessary policy on development cooperation. In 2002, Nepal also formulated the first development cooperation policy (Poudel, 2016). Due to the gradual development in the principles and the best practices widely adopted in global aid architecture, Nepal also adopted the policy to reform. Therefore, the Nepal launched new Development Cooperation Policy (DCP) in 2014 which internalized all the principles and practices of aid effectiveness such as global commitments reflected in the Paris Declaration and Busan Outcomes documents on South-South cooperation and so on.

According to the Nepal Ministry of Finance, total development cooperation contribution in Nepal's GDP is 12% in fiscal year 2016-17, Nepal received total of 1394.6 million USD from different Development Partners in the same fiscal year (Ministry of Finance Nepal, 2017). Currently Government of Nepal topmost priorities are economic reforms and investment in strategic infrastructure projects after the completion of local, federal and central level elections in 2017.

Narayan Khadka (2000) and Eugene Bramer Mihaly (1965, p. 202) describes foreign aid as a post war phenomenon. Both authors emphasized the importance of foreign aid is for the world's mutuality. In primary notion, they describe foreign aid as a basic "economic assistance" often regarded as a means of financing development rather than as a political tool.

Samuel.P. Huntington in his article *Foreign Aid for What and for Whom* highlighted that foreign aid is closely associated with economic performance in two

basic ways (Huntington, 1970). 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. He further says that “In the aftermath of Second World War, political necessities arising from changes in the world imposed a new dimension on diplomacy. The great power had ambition in Asia and Africa that traditional diplomatic method couldn’t serve”.

P.N Rosenstein-Rodan stressed the need of cooperation in development. According to Rodan “Aid should be allocated where it will have a maximum catalytic effect of mobilizing additional efforts or preventing a fall in national efforts (Rosenstein-Rodan, 1961, p. 107)”

In Benjamin Higgins’s view, the availability or absence of foreign aid of the right kind and in the right amount might take the difference between success or failure of a country’s own effort to launch a process of sustained economic growth” (Higgins, 1959) (Djankov et al., 2006) pointed that the primary rationale of foreign aid, viewed from the angle 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.

For Gerald M. Meier and James E. Rauch, public technical aid; that is, concessional finance or the ‘grant equivalent’ in the capital inflow has a twofold

function (Meier & Rauch, 2000, p. 133). It supplements the Least Developed Countries (LDC)s low domestic savings and hence helps to fill the resource gap or saving gap and provides additional foreign exchange and thereby helps to fill the foreign exchange gap.

For Ramakant, “the developing countries need to have a certain degree of austerity for expediting the pace of development. But contrary to this requisite norm, foreign aid in Nepal has been used in a manner quite detrimental to the national psychology and economic growth” (Ramakant, 1973, p. 256).

In the book *Economic Development*, Michael P. Todaro and Stephan C. Smith commented that “In principle, all governmental resources transfer from one country to another should be included in the definition of foreign aid (Todaro & Smith, 2011). Even this simple definition, however, raises a number of problems. For one thing many resources transfers can take distinguished forms, such as the granting of preferential tariffs by developed countries to LDCs exports of manufactured goods. This permits LDCs to sell their industrial products in developed country markets at higher prices than would otherwise be possible. There is consequently a net gain for LDCs and a net loss for developed countries, which amounts to a real resource transfer to the LDCs, such implicit capital transfers or disguised flow should be counted in qualifying foreign aid flows, normally however they are not”.

Christina Pradhan and Ram Kumar Phuyal found positive association between foreign aid and saving by using correlation and regression analysis (Pradhan & Phuyal, 2020, p. 49). In their study findings, foreign aid is being shifted from production sector to non-production sector, foreign loan has increased compared to

foreign grant, and domestic saving and consumption are highly stable functions of foreign aid (Pradhan & Phuyal, 2020, p. 49).

For E. M. Ekanayake and Dasha Chatrna, “foreign aid has mixed effects on economic growth in developing countries. Specifically, foreign aid was found to have a positive effect on economic growth only in African countries. When the different income groups were considered, the foreign aid variable had a negative sign for low-middle income countries and a positive sign for the other three” (Ekanayake & Chatrna, 2007, p. 7).

Scholars like Narayan Khadka (1997) and Kishor Sharma (2014) argues that foreign aid holds critical importance in Nepal. Even though its economic importance lies in the fact that it provides resources not only for the national budget; rather it also helps bridge the gap between national saving and investment. It also helps to meet the cap between excess of import and exports of goods and services. The very critical issue about foreign aid is that it should be used properly at appropriate place. Nepal has been receiving foreign aid since early 1951 which seeks to meet the resource for annual budget, to help and provide resource for various periodic plans, to accelerate the pace of economic development in proper way, to utilize the untapped natural resources, to meet the millennium development goals, to escape from vicious circle of poverty, to modernize agriculture, to industrialize and for the proper and balanced sector wise development”.

Scott B. Jeffrey found that, “Bilateral and multilateral aid yields mixed and interesting results for middle- and low-income countries, 1 percentage point increase in inflation on average causes the effect of bilateral aid on growth decrease by 1.5 percentage points and increases the effect of bilateral aid on growth by 2.1 percentage

points on average” (Jeffrey, 2015, p. 7). Further he stated that for multilateral aid, the signs for these two interaction terms (Inflation and Polity2 scores) are opposite to what they are for the bilateral interaction terms. Multilateral aid interacted with inflation yields a positive value, meaning that as inflation increases one percentage point, multilateral aid’s effect on growth increases 2.2 percentage points, polity2 (measure of a country’s political regime) scores interacted with multilateral aid are negative, meaning a point increase in a country’s polity score results in a decline of 4.5 percentage points ” (Jeffrey, 2015, p. 8).

Chapter 3 Nepal-India Relations

3.1 History and Culture

India and Nepal share a unique relationship of friendship and cooperation which is often characterized by open borders of 1850 kilometers long, vital trade and transits links, and deep-rooted people-to-people contacts of kinship with historical and culture linkages (Embassy of India , 2015). Nepal-India relations are much more than the sum of treaties and agreements concluded between the two countries. 1950 Treaty of Peace and Friendship are the foundation of Nepal- India relation. The frequent high-level visits by the leaders of the two countries at different points of time and the interactions constitute the hallmark of the ties between the two countries (Ministry of Foreign Affairs, n.d).

Nepal and India cultural relations are based more on ancient philosophies. Hinduism and Buddhism, both originated from the culturally integrated land of Bharat Khanda of the Veda and Purana epics. Nepali and Hindi language were born from the same Sanskrit roots. People of Nepal and India has cultural relations to share and celebrate most of the festivals together. Hindu dominated festivals are the one which is celebrated across both the nation. Marriages of Nepalese Princess Sita with the Prince of Ayodhya, Ram visit of Char Dham in India by Nepali Hindu pilgrimage; visit to Pashupatinath and Muktinath by Indian Hindu pilgrimage, and cross border marriage between Nepali and Indian Nationals from ancient time till date are the building blocks that define the strong relations between Nepal and India (Dahal, 2018).

Nepal received a draft of Sugauli Treaty from British India rule and signed on March 04, 1816 (Sood, 2020). Sugauli Treaty was the landmark agreement between Nepal and British East India Company to end the Anglo-Nepalese war that started in 1814. During the treaty some land of Madhesh was restored to Nepal in 1816 under a revision of the treaty and more territories was returned to Nepal in 1865 to thank Nepal for helping to suppress the Indian rebellion of 1867. During the treaty Nepal lost 120,394 sq. km. of its territories which Nepal claim as a 'Greater Nepal' (Pathak, 2009).

3.2 Political and Diplomatic Relations

The 1950 Treaty of Peace and Friendship is considered to be the bedrock of the existing state of relations between the two close neighbors. As per the treaty provisions, each government sought to acknowledge and respect the other's sovereignty, territorial integrity and independence; strengthen the diplomatic ties, and matters concerned with the industrial and economic development. The big brotherly attitude of India has surfaced time and again, thereby creating hurdles in the smooth functioning of the political and economic system in Nepal (Pokharel, 2019).

India has taken its role in leading South Asian multilateralism very seriously due to its growing economy. Through its engagement in SAARC as well as ASEAN-India Free Trade Area (AIFTA). During Narendra Modi Prime ministerial position, India's foreign policy has taken marked with hostilities against their neighbors China and Pakistan during the initial days. Border skirmishers between these nations are frequent particularly in the case of Kashmir, Jammu and Ladakh. India's foreign policy is more centered in its interests, promotes its proactive role to become a superpower or at least an unchallenged regional hegemon in South Asia

(Chattopadhyay, 2010). India followed the pre-colonial foreign policy in South Asian even after its independence. Jawahar Lal Nehru's ideals and Indira Gandhi's realism have not disappeared from India's neighborhood policy. Economic globalism has impacted India's foreign policy towards its neighbors with more intervention approach. In the Nepal- India foreign policy exercise, the interreference of India is perceived as hegemonic.

Nepal and India share cultures, history as well as a free land border that sees the regular movement of people. This has led to citizens of Indian heritage present in the southern part of Nepal. Similarity in language, culture, attire and trade between the people living in southern plain of Nepal and India, brought India sees it within their national interest to protect these people and have often taken action to ensure this. For example, in 2015 after the devastating earthquake, India started a trade embargo as a reaction to the Nepali constitution that was promulgated the same year (Singh, 2016). This shows that India has an active interest in Nepal, particularly concerning the south and its border regions.

Nepal-India bilateral relation during the Rana and Panchayat regime were confined among very few social and political elites to fulfill their interests. After the restoration of democracy in 1990, media and press freedom along with civil society came up strongly to debate in the Nepal- India bilateral relationship. Nepal witnessed a series of political transformation from the autocratic Panchayat regime to constitutional monarch to the abolition of monarch and then institutionalization of a federal republican system, in all the transformation India have played a political role to support Nepal. But India has continued to embrace the same policy that looks Nepal only through its security lenses (Shah, 2017). India has also claimed its share in

such political changes through various interventionist, and hegemonic approach to influence the internal political environment of Nepal.

Bilateral cooperation between Nepal and India in defense sector is also strong. Nepal and India established a Joint Working Group on Border Management (JWG) and Border District Coordination Committees (BDCCs) to deal with both the countries security concerns. Boundary Working Group (BWG) was established in the year 2014 to take over the technical works that concerns the construction, repair, and restoration of the boundary pillars of both countries (Ministry of Foreign Affairs Nepal, n.d.). Treaties concluded between Nepal and India in different times raised so many questions to redefine the Nepal-India diplomatic relations in contemporary situation. A joint mechanism with a group of foreign policy experts called Eminent Persons Group (EPG) from both countries started to review all the previous treaty signed between Nepal and India.

3.3 Nepal-India Economic Relations

Nepal and India have traditionally shared a unique relationship of friendship and economic cooperation since a long time. The relationship is characterized by an open and people-friendly border and is built on shared historical, cultural, linguistics, ethnic links between the people of Nepal and India. With Nepal being a priority under the India's "Neighborhood First" policy (Toychiyeva, 2021), strengthening the economic relations holds immense significance and potentials for both the countries. Nepal and India share a highest volume of exchanges of goods, biggest source of imports and the top investor of foreign capital stocks in Nepal (Mishra, 2017).

The partnership with India in the areas of trade and transit is a matter of utmost importance to Nepal. India is Nepal's largest trading partner. India has

provided transit facility to Nepal for the third country trade. Both public and private sectors of India have invested in Nepal. The trade statistics reveals phenomenal increase in the volume of bilateral trade over the years between the two countries. However, Nepal has escalating trade deficit with India. Nepal and India have concluded bilateral Treaty of Transit, Treaty of Trade and the Agreement of Cooperation to Control Unauthorized Trade.

Table 3.1: Status of Trade between Nepal-India

	Value in '000 Rs.				
	F.Y.2012/13	F.Y.2013/14	F.Y.2014/15	F.Y.2015/16	F.Y.2016/17
Exports	51,788,459.87	59,458,375.46	55,859,252.78	39,695,134.06	41,500,843.94
Imports	397,957,920.27	482,345,299.99	500,044,484.09	487,597,306.52	646,019,016.95
Balance	-346,169,460.40	-422,886,924.52	-444,185,231.31	-447,902,172.45	-604,518,173.01

Source: Trade and Export Promotion Centre, 2017

3.4 Development Partnership

The Indian cooperation started in 1952 with the construction of an airstrip at Gaucharan (Ministry of Foreign Affairs Nepal, 2019). Since then, India has been assisting primarily in the areas of infrastructure development and capacity development of human resources in Nepal. Such assistance received from India has helped supplement the developmental efforts of Nepal. In 1949, India initiated development cooperation with its neighboring countries by establishing cultural fellowships, providing humanitarian aid in case of famines and extending educational scholarships. India's development assistance over the years has created a space in global aid architecture. Nepal became the first country in 1954 to receive Indian development assistance governed by an institutional framework as the first Indian Aid Mission (IAM) launched in Kathmandu to support development projects in Nepal

(Chaturvedi, 2012). Later IAM was merged with the Indian Embassy in Kathmandu. India's economic assistance to Nepal has grown manifold in the past few decades, particularly since the restoration of multiparty democracy in Nepal in 1990. B.P. Koirala Institute of Health Sciences, Dharan; Emergency and Trauma Centre at Bir Hospital, Kathmandu; and Manmohan Memorial Polytechnic at Biratnagar are some of the flagship projects completed and operationalized under the Indian assistance.

In 2006, India led the South-South Cooperation by cofounding the Global Network of Exim banks and Development Finance Institutions, promoting the establishment of the Development Cooperation Forum in 2007 and becoming the one of the largest contributors to the Commonwealth Fund for Technical Cooperation (Sridharan, 2014). Indian aid in the form of grants and loans to partner countries came under the ambit of the Ministry of External Affairs (MEA), trade related matters of trade agreements and technical cooperation comes under Economic, and Coordination Division was established in 1961 under MEA. In 2012, Development Partnership Administration was established to administer the works related with development cooperation under MEA. Development Partnership Administration was introduced to monitor India-funded development projects through the stages of formulation, launch, evaluation, and implementation of the grants projects to the partner countries.

India's support to Nepal concentrates in the Small Development Projects (SDP) mainly to build school infrastructures. 50% of the total SDPs fund are spent in education sector upliftment program in Nepal (Ministry of External Affairs India, 2017). In 2017, India gifted 114 school buses for different educational institutions of Nepal. It also provides around 3000 scholarships annually to students of Nepal to

study PhD, Master's, Bachelor's and higher secondary levels in India and Nepal (Goyal, 2018).

India's support to Nepal to build infrastructure and integrated check-posts have been proposed at four points on Indo-Nepal border namely (i) Raxaul-Birganj, (completed and operationalized from April 2018) (ii) Sunauli-Bhairahawa, (iii) Jogbani-Biratnagar (completed and operationalized from January 2020) and (iv) Nepalganj Road-Nepalgunj (Ministry of Foreign Affairs Nepal, 2019). The construction of ICP is underway in Bhairahawa and Nepalgunj. A MoU on Development of Railway Infrastructure at five points along the Nepal-India border was signed in 2010. The construction process has been ongoing for Jayanagar-Janakpur-Bardibas-Bijalpura and Jogbani-Biratnagar sectors. For the remaining three links, both sides have started preliminary works. Likewise, MoU on the establishment of Nepal Bharat Maitri Polytechnic at Hetauda in Makawanpur District of Nepal was signed on 16 February 2010 in New Delhi (Ministry of Foreign Affairs Nepal, 2019). This technical school is a state-of-art infrastructure project in the area of vocational training in Bagmati province of Nepal.

Chapter 4. Nepal-China Relations

4.1 History and Culture

The relations among Nepal and the People's Republic of China are age old and profound established. Nepal-China relations have consistently stayed agreeable and sincere. The memorable and multi-faceted two-sided relations between the two nations have developed since the times of Nepali priest and researcher Buddhahadra (mid fifth Century), Princess Bhrikuti (first 50% of the seventh Century) and Araniko (Anige, Second 50% of the thirteenth Century) and early visits of Chinese priests and researchers like Monk Fa Xian (Jin Dynasty), Monk Xuan Zang (Tang Dynasty) (Embassy Of The People's Republic Of China in Nepal, 2011).

Nepal and China exchanges of emissaries in the mid-7th century shows the deep relations between both the countries. Fa Xian, a Chinese monk in the Jin Dynasty and Xuan Zang from Tang Dynasty, came to Lumbini, birthplace of Lord Buddha, on pilgrimages. Songtsen Gampo, King of the tubo Kingdom in the tang Dynasty married a Nepalese Princess Bhrikuti. The Nepalese artisan Arniko build a Buddhist pagoda in Lhasa in the Yuan Dynasty. The white pagoda in Beijing's Miao Ying Temple was also build under Arniko's supervision. Nepal and China cultural relationship with the introduction of Buddhism in China in 67 A.D. (Embassy Of The People's Republic Of China in Nepal, 2011).

4.2 Political and Diplomatic Relations

The relations between Nepal and the People's Republic of China are age old and deep rooted. Nepal-China relations have always remained friendly and cordial. President Chiang-Kaishek met with Nepali ambassador to India, Bahadur Shumsher

and talked about the possibility of renewing relation between Nepal and China. A short break in Nepal-China relations after China's Revolution of 1911 until 1949 was noticed (Mishra, 2003). After the establishment of People's Republic of China under the leadership of Mao Zedong in the first session of People's Congress on September 23, 1954 (Bhattarai, 2010), Premier Chou Enlai while presenting the report on the work of Government said that China was prepared to establish relations with Nepal on the basis of equality. This response was welcomed by Government of Nepal. Premier Zhou Enlai also invited Prime Minister Tanka Prasad Acharya of Nepal to make his first official visit to China from September 26 to October 7 in 1956 (Sharma, 2018). During his visit an agreement was signed on China providing economic aid to Nepal, with the presence of Chairman Mao (Bhasin, 1994, p. 153) . Premier Zhou Enlai visited Nepal in January 1957. During his visit to Nepal, he expressed much hope for bilateral relationship between Nepal and China. Nepal's first elected Prime Minister B P Koirala visited China in March 1960 (Kumar, 1963). Prime Minister Koirala met Chairman Mao and other senior Chinese leaders to strengthen the bilateral ties between Nepal and China and has signed an agreement on locating and demarcating the Nepal-Tibet boundary. During his visit, Chinese government also agreed to provide loans for Nepal to build a new road linking Kathmandu an Lhasa, capital of TAR.

King Mahendra of Nepal visited China in the year 1961 (Kumar, 1963), which opened a new avenue for Nepal-China bilateral cooperation. He was able to bring a support on financial and technical assistance from China worth millions of Chinese Yuan with which roads, paper mills, hydropower plants, and a number of factories were built. Prime Minister Kriti Nidhi Bista visited China in 1972 (Sharma , 2018) and King Birendra in 1979 to China promoted the Nepal-China relationship to a

higher level. Chinese Premier Zhao Ziyang in 1981, President Li Xiannian in 1984 and Premier Li Peng in 1984 to Nepal also marked an important event in the history to increase the bond between Nepal and China (Sharma , 2018).

The two countries formalized their relations on 1 August 1955 by establishing diplomatic relations (Thapa & Cottle , 2022). The relations between the two countries have been marked by friendliness, understanding, mutual support, cooperation, and respect for each other's sensitivities. Both countries have relentless faith on the ideals of the Five Principles of Peaceful Co-existence. Nepal is firmly committed to One China policy and is also committed not to allow its soil to be used for any inimical activities against China. The two countries share a range of 1,414 kilometers border in the Himalayan range of the northern side of Nepal (Ministry of Foreign Affairs Nepal, 2020). Nepal has its Embassy in Beijing, Consulates General in Lhasa, Hong Kong and Guangzhou and an Honorary Consul in Shanghai.

Both countries have a long tradition of exchanging high-level visits on a regular basis which have been contributing to strengthening and consolidating bilateral ties. Both countries have been utilizing the bilateral, regional and multilateral forums to hold meetings between the leaders in order to maintain regular contacts and share views on the issues of mutual interests.

Prime Minister Pushpa Kamal Dahal 'Prachanda' visited China on 23-29 March 2017 to attend the Annual Session of the Boao Forum for Asia (BFA) 2017 and held meetings with Chinese President H.E. Xi Jinping and other leaders of China in Beijing (Bhattarai, 2017). He also addressed to the BFA's Opening Session on 25 March 2017 on the theme "Globalization and Free Trade: The Asian Perspectives". In October 2016, he had a meeting with the Chinese President on the sideline of the

BRICS-BIMESTEC Outreach Summit in Goa, India. Nepal is not a part of the BRICS but due to the functionless SAARC, BIMESTEC has been active.

The Vice President of Nepal Nanda Bahadur Pun visited China on 19-24 September 2018 to attend the 17th Western China International Fair in Chengdu, Sichuan (Ministry of Foreign Affairs Nepal, 2019). In July 2017, the Vice President also visited China to attend the 23rd Lanzhou China Investment and Trade Fair where Nepal was designated as the 'Guest Country of Honor'. Vice President attended the 4th China South Asia Exposition and 24th China Kunming Import and Export Commodities organized by the People's Government of Yunnan in June 2016 (Ministry of Foreign Affairs Nepal, 2016).

Nepal- China relationship reached to peak when K P Sharma Oli became a Prime Minister from October 2015 to August 2016. In March 2016, the Prime Minister K P Sharma Oli paid an official visit to China at the invitation of Li Keqiang, Premier of the State Council of the PRC (Ministry of Foreign Affairs Nepal, 2016). Both sides signed ten cooperation agreements or MoUs with his Chinese counterpart on using China's sea port facilities, enhancing railway connectivity and building a transmission line between both countries, building a regional international airport in Pokhara, and seeking to sign a bilateral free trade agreement to explore oil and gas reserves in Nepal. He also signed primary framework of the BRI during his visit to China (The Himalayan Times, 2016).

Prime Minister of Nepal, K P Sharma Oli paid an official visit to China in his second term from June 19 to 24, 2018 at the invitation of Li Keqiang, Premier of the State Council of the Peoples Republic of China (Business Standard, 2017). The Prime Minister engaged in separate delegation level talks with the President of China Xi

Jinping and Premier Li Keqiang at the Great Hall of the People on 20 and 21 June 2018. During the bilateral talks, Nepal and China through in-depth discussion covering all aspects of bilateral relations and reaffirmed their commitments to further widen and deepen the relations for mutual benefit for both the countries. During this visit, an outline for a long-term economic assistance from China to Nepal was drafted (The Himalayan Times, 2018).

During the visit of the Prime Minister Oli to China along with 100-plus delegation team in June 2018, a fourteen-point Joint Statement was issued by Nepal and China and fourteen agreements including Memorandum of Understanding (MoU) on Cooperation in Railway Projects were signed between the two governments (Ministry of Foreign Affairs Nepal, 2018). Besides, other nine agreements were signed between Nepali public and private enterprises and their Chinese partners on the economic cooperation between the two countries. The Prime Minister also had meetings and interactions with central and provincial leaders, businessmen, academics, university administrators and students, media and members of the Nepali diaspora. During the visit, Prime Minister Oli visited Lhasa, the capital city of Tibet Autonomous Region (TAR) of China and had a substantive discussion with the Chairman of the People's Government of the TAR Qi Zhala to strengthen the cultural and historical relations between Nepal and TAR.

At the invitation of Wang Yi, State Councilor and Minister of Foreign Affairs of PRC, Minister for Foreign Affairs Pradeep Kumar Gyawali paid an official visit to China on 16-21 April 2018 (NCFA, 2019). During the visit, Foreign Minister Gyawali called on Vice-President of the PRC, Wang Qishan and held official bilateral talks with State Councilor and Minister of Foreign Affairs, Wang Yi. During this visit

Gyawali was also invited in the Sichuan University to deliver his remarks among the Nepalese students studying in China.

Deputy Prime Minister and Minister for Foreign Affairs Krishna Bahadur Mahara paid an official visit to the PRC from 6-11 September 2017 at the invitation of Wang Yi, Minister of Foreign Affairs of China (The Himalayan Times, 2017). During his visit, he held meetings with the Premier of China, Li Keqiang and State Councilor Yang Jiechi. Another bilateral visit by Deputy Prime Minister and Finance Minister Krishna Bahadur Mahara was made, leading a Nepali delegation to attend the 'Belt and Road Forum for International Cooperation' organized in Beijing on 14-15 May 2017 (Giri, 2017). He also visited China in July 2016 as special envoy of the Government of Nepal and in September 2016 to attend the China's Tibet Tourism and Culture Expo in Lhasa.

Vice Premier of the State Council of the PRC Wang Yang paid an official visit to Nepal on 14-17 August 2017. During his visit, Nepal and China held an official meeting led by Bijay Kumar Gachhadar, Deputy Prime Minister and Minister for Federal Affairs and Local Development from Nepali side and Wang Yang, Vice-Premier of the State Council of China from the Chinese side (Embassy of Nepal, 2017). During the visit, three documents were signed first, Agreement on Economic and Technical Cooperation second, Framework Agreement on Promotion of Investment and Economic Cooperation, and last, Letters of Exchange for Oil and Gas Resources Exploration in Nepal.

The Chinese President Xi Xing Ping visited Kathmandu during his return trip from India on October 12 and 13, 2019 (Muni, 2020). 20 different agreements were signed between China and Nepal during Xi's visit to Nepal which includes railway

and road connectivity between China and India. During his visit to Nepal, a strong security component that aim at developing greater engagements between two security i.e, police forces agencies, intelligence outfits, border management organizations and the law enforcement authorities were inked. A joint communique' on improving Kimathanka-Leguwarhar section of the Koshi Highway and also the development of Koshi, Gandaki and Karnali economic corridor as a North-South corridors of Nepal was further stressed which shows a light in economic development of Nepal through the China's assistance.

The Premier of China Wen Jiabao visited Nepal on 14 January 2012. State Councilor of the PRC, Yang Jiechi also paid a visit to Nepal on 24-25 June 2013 (IDSA, 2018). Foreign Minister Wang Yi visited Nepal in June 2015 to attend the 'International Conference on Nepal's Reconstruction.' Nepal suffered a big loss and massive destruction due to the earthquake during the year 2015 and hosted a conference to seek a assistance from immediate neighbors. Liu Qibao, Member of Political Bureau and Secretariat of Communist Party of China (CPC) Central Committee and Chief of the CPC Publicity Department of PRC visited Nepal in December 2016 to attend the 7th China Cultural Festival jointly organized by Ministry of Culture, Tourism and Civil Aviation of Nepal, Ministry of Culture of China and the Chinese Embassy in Kathmandu. General Chang Wanquan, State Councilor and Defense Minister of China visited Nepal in March 2017 (Giri, 2017). Minister for Culture and Tourism of China Luo Shugang visited Nepal from 12-15 November 2018 to attend 8th China Festival in Nepal and Exhibition of China's Cultural and Creative Products in the New Era. Shugang held a meeting with Minister for Culture, Tourism and Civil Aviation of Nepal Rabindra Adhikari.

These all-level visits exchanged between Nepal and China also symbolizes the strong diplomatic ties between both the countries in the last one decade.

4.3 Trade and Economic Relations

China has remained as one of the major donors for bilateral assistance to Nepal. Nepal and China first signed an agreement on economic aid in 1956. China has been providing both financial and technical assistance to Nepal in the areas of Infrastructure development, transportation, health, education, hydropower development. Despite the geographical proximity and close high-level contact between Nepal and China, the trade between Nepal and China is little less. Until Chinese President Jiang Zemin paid a state visit to Nepal in 1996, trade and cultural exchanges between the two countries were not that much before.

A number of bilateral mechanisms between Nepal and China has been developed to strengthen the diplomatic ties between the two countries. Nepal-China Joint Consultation Mechanism is one of them, which is led by the Foreign Secretary of Nepal and the Vice Minister of the Foreign Ministry of China. This forum is instrumental in discussing entire realm of bilateral relations. The 12th Meeting of Nepal-China Joint Consultation Mechanism was held in Beijing on 13 December 2018 (Onnis, 2019). During the meeting, there was comprehensive discussion on all important matters of bilateral relations and both sides reviewed the progress made in relation to previous agreements, understandings, and commitments.

Besides, there are other bilateral mechanisms, which include Nepal-China Inter-Governmental Economic and Trade Committee, Nepal-China Joint Committee on Agriculture Cooperation, Border Law Enforcement Cooperation, Border Customs Meeting, Joint Tourism Co-ordination Committee, Nepal-China's Tibet Trade

Facilitation Committee (NTTFC), Energy Cooperation Mechanism, Mechanism for Facilitation on the Implementation of China-Nepal Cooperation Programs and Projects in Nepal etc. The 8th meeting of NTTFC was held on 5-6 July 2018 in Kathmandu (The Kathmandu Post, 2017). The first Energy Cooperation Mechanism Meeting was held in Kathmandu on 28 September 2018. The First meeting of the Mechanism for Facilitation on the Implementation of China-Nepal Cooperation Programs and Projects in Nepal was held in Kathmandu on 3 December 2018 (Pyakurel, 2019).

China is also a second largest trading partner of Nepal in the year 2016 (Prasain, 2022). In the year 2015/16, total exports to China stood at 181 million USD with the marginal increase from the previous year. Imports from China is gradually growing at the rate of 39% per year (Prasain, 2022). The total import of 421 million USD in 2009/10 has reached to 1247 million USD in the year 2015/16. China has also prioritized over 8000 Nepali products for zero tariffs, Nepal exported only 370 products to China (Dahal, Foreign Relation of Nepal with China and India, 2018). China is also a largest source of FDI in Nepal. Chinese investors intend to spend over 13.51 billion USD in Nepal during the Nepal Investment Summit that concluded in Kathmandu in March 2017 (Nepal Foreign Affairs, 2017).

Nepal and China signed an agreement on Cultural Exchange in 1964 which was revised again in December 1999 to include tourism as one of the important components of the Nepal- China relations (Prasad, 2015). Nepal has made yuan, a Chinese currency convertible for trade and business purpose in Nepal. According to Nepal Tourism Board, 150000 Chinese tourists have arrived at Nepal in the year 2018 (China Daily, 2018). According to the Nepal's Department of Immigration, Nepal

received a total of 1,04,664 Chinese tourists in 2017 (The Financial Express, 2018). Nepal waived visa fees for the Chinese tourists from the January 2016 (Dahal, 2018) (Embassy of India , 2015).

4.4 Development Partnership

Nepal-China economic cooperation dates back to the formalization of bilateral relations in 1950's. The first "Agreement between China and Nepal on Economic Aid" was signed in October 1956 (Ministry of Foreign Affairs Nepal, nd). From the mid-80s, the Chinese Government has been pledging grant assistance to the Government of Nepal under the Economic and Technical Cooperation Program in order to implement mutually acceptable development projects.

Chinese assistance to Nepal falls into three categories: Grants (aid gratis), interest free loans and concessional loans. The Chinese financial and technical assistance to Nepal has greatly contributed to Nepal's development efforts in the areas of infrastructure building, industrialization process, human resources development, health, education, water resources, sports and the like.

During the visit of Chinese foreign minister Wang Yi in December 2014, Nepal and China agreed to enhance cooperation in nonvital areas: trade, investment, agriculture, infrastructure, science and technology, connectivity, cultural exchanges, tourism, and security law enforcement (Ministry of Foreign Affairs of the People's Republic of China, 2014). Wang also announced a grant assistance of 800 million RMB to Nepal which is fourfold increase in China's assistance to Nepal from the year 2013 (Embassy of the People's Republic of China in Nepal, 2015).

Table 4.1: China Assisted Project Names

S. N	Projects Name
1	Upper Trishuli Hydropower Project-Power station and Transmission Line Projects
2	Nourishment/Material Assistance in northern 15 flanking regions
3	Kathmandu Ring Road Improvement Project
4	Larcha (Tatopani) and Timure (Rasuwagadi) Frontier Inspection Station Project
6	Pokhara International Regional Airport
5	Upgradation of Syaprubensi-Rasuwagadhi Road
6	Upgradation of Civil Service Hospital
7	Upgradation of Kodari Highway and rebuilding of circumscribing spans at Kodari and Rasuwagadhi

Source: www.nepjol.info

With the signing of the Memorandum of Understanding on Cooperation under the Belt and Road Initiative (BRI) on 12 May 2017 in Kathmandu between Nepal and China new avenues for bilateral cooperation in the mutually agreed areas are expected to open (Pandit, 2019). The major thrust of the MoU is to promote mutually beneficial cooperation between Nepal and China in various fields such as economy, environment, technology, and culture. The MoU aims at promoting cooperation on policy exchanges, infrastructure connectivity, trade connectivity, financial integration and connectivity of people.

The Government of the People's Republic of China provided substantial and spontaneous support in search, relief and rescue efforts of Nepal following the devastating earthquakes of 2015. China provided 3 billion Yuan on Nepal's reconstruction to be used in the mutually selected 25 major projects for the period of 2016-2018 (Kharel et al., 2021). The two countries signed three separate bilateral Agreements on Economic and Technical Cooperation on 23 December 2016, 15 August 2017 and 21 June 2018 for providing Chinese grant of one billion Yuan each

to Nepal for implementing post-disaster reconstruction projects, livelihood projects and other mutually agreed projects. Nepal and China cooperation on first joint military exercise between the Chinese and Nepali armies was held in April 2017 in Kathmandu to counter anti-terrorism activities. Nepal also started to access the internet service through the optical fiber through the route of China. In September 19 2017, “Suning-Yuba Sahabhagita School” established by China Foundation for Poverty Alleviation after the earthquake in Nepal was inaugurated as a part of support to Nepal during the massive earthquake that struck Nepal with huge loss of lives and infrastructure (Rastriya Samachar Samiti, 2017).

China through UNDP supported 31,800 families affected by the 2017 floods in eastern and central Terai districts (UNDP, 2018). UNDP had launched post- flood recovery project in seven most affected districts of Terai; Sunsari, Saptari, Sarlahi, Dhanusha, Mahottari, Rautahat, and Parsa of Provinces 1 and 2, following a US\$4 million grant agreement with the Government of the People’s Republic of China (UNDP, 2018). Grant provided to UNDP by China to support the flood victims in eastern terai is a paradigm shift of China’s priority for spending grant from northern bordering area to terai bordering areas.

4.5 Analysis of Dependency Theory and India-China Aid to Nepal

The debacle of defining Nepal as a weak or small state remain undecisive. Nepal numbered in one of the least developed countries and is landlocked by India and China makes Nepal weak rather than small. But it not easy to identify Nepal as weak or small state by overlooking on the country’s statistics alone. Nepal is located between two giants India and China. Therefore, Nepal needs to take a relational approach to define its capacity. More important than the size or population of the

country is the geographical situation. India and China are the two major powers of the international system. Geographically, India is 22.33 times and China is 65.20 times bigger in size than Nepal (Adhikari, 2018, p. 48). This makes Nepal a small state. But in terms of GDP, India's GDP is 93 times stronger whereas China's GDP is 468 times stronger than Nepal's GDP (Adhikari, 2018, p. 48). Therefore, Nepal is neither small nor weak state as the size and power is asymmetry the country it is exposed to. To maintain economic growth and developmental activities, Nepal persistently depends upon the foreign aid from India and China.

Dependency theory is not a single theory that has its interconnectedness with the foreign aid. According to Ferraro dependency Theory (Ferraro, 2008) is developed in the late 1950s under the guidance of the Director of the United Nations Economic Commission for Latin America, Raul Prebisch. Prebisch and his colleagues were concerned with fact that economic growth in the advanced industrialized countries did not necessarily lead to growth in the poorer countries. The theory is premised on resources being extracted from poorer countries to enrich wealthy nations. Dependency on donor aid for small and weak states have created some direct benefits to the aid offering countries. Donor aid has been used as a potent force to entrench dependency.

Oswaldo Sunkel defines dependency as economic development of a state whose national development policies dependent on external influences policies (Sunkel, 1969, p. 23). Theotonio Dos Santos appreciates the historical aspect of dependency and views dependency as a condition that shapes a certain structure of the world economy in such a way that it favors some countries to the detriment of others and limit the development possibilities of the subordinate economies. Whatever

definition is used to define Dependency Theory, there are certain common things that drag the international system made-up into two state types. The states are dominant/dependent, and core/periphery. Moreover, dependency is a very deep-seated historical process of internationalization of capitalism. One of the main ideas of the dependency theory is that the richer countries always benefit from the poorer countries (Santos, 1970).

Andre Gunder Frank in his article titled *The Development of Underdevelopment*, viewed that the capitalist system has enforced a rigid international division of labor which is responsible for the underdevelopment of many areas of the world (Frank, 1966). The dependent states supply cheap minerals, agricultural commodities, and cheap labor, and also serve as the repositories of surplus capital, obsolescent technologies, and manufactured goods. These functions orient the economies of the dependent states toward the outside: money, goods, and services do flow into dependent states, but the allocation of these resources is determined by the economic interests of the dominant states, and not by the economic interests of the dependent state. This division of labor is ultimately the explanation for poverty and there is little question, but that capitalism regards the division of labor as a necessary condition for the efficient allocation of resources.

Donor aid is given to the countries in need with the economic interest of the donor countries. The need might be different in many cases and lead to the economic growth of poorer countries, which in turn results in demand of the developed countries goods and services. Therefore, the dependency discourse is shaping the concept of “development of underdevelopment” (Manzo, 1991). This concept of the development is premised on various argument that the current underdevelopment,

pervasive throughout the world today, is a historical product of the past and continuing economic and other relations between the underdeveloped periphery and the more developed core countries. Donor aid has created more demand for services and employment in richer countries than in poorer countries. Therefore, the affinity between donor aid and dependency is quite prevalent between the poorer countries and richer country with interest. Dependency on aid and grant also made more dependent on donors as solution bearers to multifarious problems compounding.

The foreign aid mechanism of India and China need to be clearly observed so that Nepal can hold its strong position in terms of developmental demands and priorities. Nepal needs to closely look on how India and China being a aid providing countries have their national interest and have its foreign policy approach towards the immediate neighboring countries. India's "Neighborhood First Policy" and China's policy on checking any anti-China activities from the people residing from TAR in Nepal (Roy-Chaudhury, 2018) is the strategy adopted by both countries towards Nepal. India and China have their own deepening security and economic interest in Nepal. Enhancement of security within the region has historically stood out as a principal determinant of India's foreign policy for the subcontinent (Bhattarai, 2018).

Nepal also need to analyze a motive behind providing the aid and assistance from India and China. To analyze the motivation four theoretical approaches will be helpful for Nepal to find out the real motivation to support or provide aid to Nepal. First, power-political hypothesis is the approach where the donor countries or agencies gain support from the recipient country in return. India seeks support from Nepal in United Nations for the permanent position in the United Nations Security Council. Second, political stability and democracy hypothesis helped Nepal to restore

democracy, human rights and freedom in return from various aid agencies in Nepal. Third, the development and performance hypothesis helped Nepal from India and China to forecast the development need in future. Fourth, the strategic-defensive hypothesis is crucial to understand the differences in the provisions of aid that reflect the competition between the rivalry nation in asserting their influences in the aid recipient nations (Fielden, 1998). Therefore, Nepal needs to check the donors competing interest in Nepal's geopolitical situation which results in fulfilling their interest rather than fulfilling the need of the people of Nepal.

Chapter 5 India and China Development Aid in Nepal: Assessment

Nepal remained a fertile ground for experiment in bilateral and multilateral aid activities. Foreign aid and development aid provided by the immediate neighbors of Nepal, India and China is also not within the framework of the experimentation. China defines its aid practice in Nepal within the framework of South-South Cooperation and adopts “mutual benefit and common development” as the basic principle for delivering aid. According the “White Paper on Foreign Aid” published by the Chinese Government in April 2011 (Zhang, 2021), China’s foreign aid is guided by the five principles: first, unremittingly helping recipient countries to build up their capacity to self-develop; second, imposing no political conditions; third, adhering to equality, mutual benefit and common development; fourth, remaining realistic while striving for the best; fifth, keeping pace with the times and paying attention to reform and innovation.

Official development assistance in Nepal appears relatively fragmented. It is fragmented in terms of sectors, ministries and the donors providing countries own interest. FY 2016-17 data on the sector fragmentation by India and China is shown in the table which consists of its percentage contribution to the development of Nepal from its aid portfolio.

Table 5.1: Development Cooperation Portfolio of India and China

Country	Economic/ Commerce	Road/ Air Transportation	Health	Local Development	Energy	Drinking Water	Education
India	-	35.3%	19.5%	20.2%	5.1%	19.5%	21.3%
China	69.3%	19.6%	-	-	11.1 %	-	-

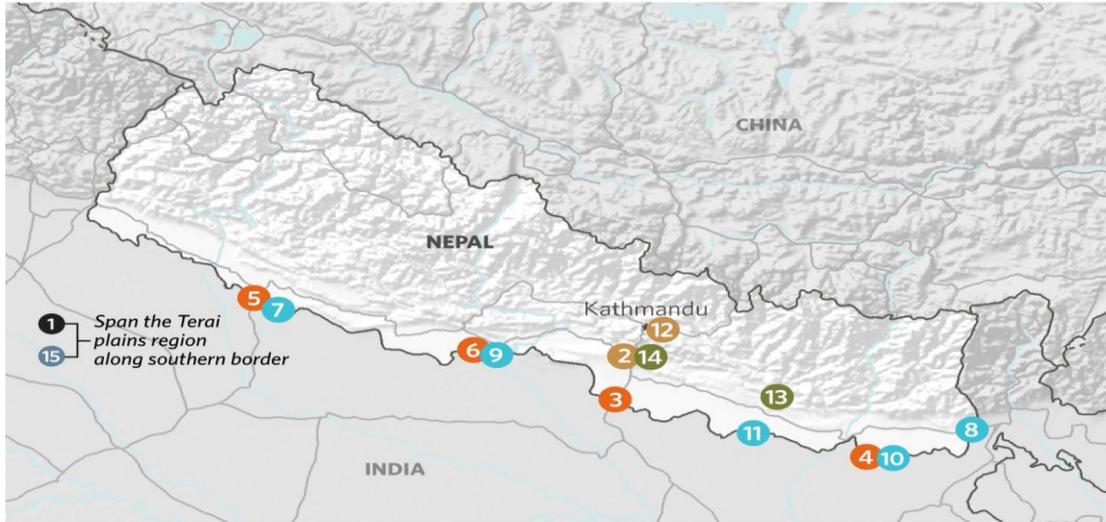
Source: Development Cooperation Report 2018/19, Ministry of Finance, GoN

According to the Development Cooperation Report, India largely provides aid to Nepal in road and infrastructural development, which is 35.3 % of its total aid disbursement. India had provided 19.5% in Health, 20.2% in Local Development, 5.1% in Energy, 19.5% in Drinking Water as well as 21.3% in Education. China had provided 69.3% to economic development and 19.6% in Air transportation. India provided 5.6% in earthquake reconstruction projects during the period of 2018 as well.

Similarly, in FY 2018/19, China was the third highest disbursing development partner, with the annual disbursement reaching 150 million USD (10% of total ODA disbursements). Chinese support was made up of 70% grants and 30% TA. Of this, 86% was on budget, Total Chinese disbursement during the past nine-years from the period of 2010 until 2018 was 446 million USD (Ministry of Finance Nepal, 2019).

India's Major Aid Projects in Nepal

The Indian Ministry of External Affairs is funding several infrastructure projects in Nepal to try to exert New Delhi's influence over the country.



- 1 Terai Road Project (various roads across the Terai plains region)
- 2 Nepal-Bharat Maitri Polytechnic school
- 3 Integrated check post at Birgunj (completed)
- 4 Integrated check post at Biratnagar
- 5 Integrated check post at Nepalgunj
- 6 Integrated check post at Bhairahawa
- 7 Cross-border rail: Nepalgunj Road-Nepalgunj
- 8 Cross-border rail: New Jalpaiguri-Kakarbhitta
- 9 Cross-border rail: Nautanwa-Bhairawaha
- 10 Railway link: Jogbani to Biratnagar Customs Yard
- 11 Railway link: Jayanagar to Janakpur
- 12 Dharamshala: Pashupatinath Temple Complex
- 13 Cross-border transmission line: Raxaul, India to Parwanipur, Nepal (completed)
- 14 Cross-border transmission line: Kataiya, India to Kusaha, Nepal (completed)
- 15 Nepal-Bharat Maitri Irrigation Project (2,700 wells across the Terai plains region) (completed)

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Figure 5.1: India's major aid projects in Nepal

Source: worldview.stratfor.com

Currently there are number of road projects as a part of the upgradation of roads in the Terai/Madhesh areas such as development of cross-border rail links at Jogbani- Biratnagar, Jaynagar-Bardibas, Nepalgunj Road-Nepalgunj, Nautanuwa-Bhairahawa and New Jalpaigudi-Kakarbhitta. Similarly, establishment of Integrated Check Posts at Raxual- Birgung, Sunauli-Bhairahawa, Jogbani-Biratnagar, and

Nepalgunj Road-Nepalgunj have been constructed and started. India plans to connect and upgrade Terai districts check-posts as a part of connectivity projects that ease both country trade and flows of goods through the major trade borders of Nepal.



- 1) Kathmandu Ring Road Improvement Project
- 2) Up-gradation And Renovation Of Civil Service Hospital
- 3) Highway Repair Of Syaphurbesi-Rasuwegadi
- 4) Tatopani Frontier Inspection Station
- 5) Upper Trishuli Hydropower Project
- 6) Pokhara International Regional Airport
- 7) Kathmandu-Pokhara-Lumbini Railway (Proposed)

Figure 5.2: China's major aid projects in Nepal

Source: worldview.stratfor.com

In 2017, China had completed Kathmandu Ring Road Improvement Project, Up-gradation and Renovation of civil service hospital, highway repair of Syaphurbesi-Rasuwegdhi, Tatopani Fronteir Inspection Station and Upper Trishuli Hydropower Project. Pokhara International Airport and Kathmandu-Pokhara-Lumbini Railway are proposed project under Chinese assistance.

5.1 India and China Development Cooperation Comparative Assessment

During the Shanghai Cooperation Organization (SCO) June 2018 summit, Indian PM Narendra Modi echoed about the six dimensions to ensure India's comprehensive security as "SECURE" which is abbreviated for S- Security of citizens, E- Economic development for all, C-Connecting the region, U- Uniting People, R- Respect for Sovereignty and E- Environmental protection (CGTN News, 2018). India's Neighborhood First Policy (NFP) launched by Indian PM Narendra Modi seems to counter China's influence over the South Asian neighbors including Nepal. India has a little choice in this regard. The increase in development aid to Nepal is one of the reasons why India is so much concerned about Chinese influence in Nepal. The aid increment from India also illustrates that India wants to negate the Chinese influence as much as possible and will shift its aid to the hilly and Northern part of Nepal. This shows its clear strategy and economic logic and spending around the Southern and Northern part of Nepal.

China also has its own strategic interest over Nepal concerning its security challenges due the Nepal's border to Tibet Autonomous Region (TAR). According to the United Nation High Commissioner for Refugees Nepal (UNHCR-Nepal) has almost 20,000 Tibetan Refugees in refugee camps in various cities of Nepal (UNHCR-Nepal, 2005). The largest Tibetan camps are in Kathmandu and Pokhara and hence, China aid is more targeted to these geographical areas to monitor and apprehend any sorts of illicit movements by the Tibetan refugees in these cities against China.

Equally, accessing some future trajectories of India and China relations with regards to the economic prosperity, both the countries will come together because

India is already a part of Shanghai Cooperation Organization (SCO) and Wuhan Summit. India is also a second largest and founding member of Asian Infrastructure and Investment Bank (AIIB) (The Ministry of Finance India, 2021). India reluctance not joining Belt and Road Initiative is entirely political rather than economical. Hence, India and China end goal is to grow economically and not to compete with each other in South Asian region but just to vouch its traditional influence over the region and countries. Subsequently, aid diversification to Terai/Madhesh from China will not bother much to India if Nepal guarantees and assure its genuine security concerns. In this case, Nepal could potentially benefit from both the country's economic progress and the aimed connectivity project joining the region.

Nepal can also benefit from both India and China economically by bridging both the countries for its own development prospects. Nepal strategic location between the two countries provide the strategic space for cooperation with India and China for trilateral cooperation.

Chapter 6 Summary and Conclusion

A comparative assessment of India and China's development cooperation with Nepal during the period between 2008 and 2018 was crucial. Nepal went through many political turmoils in between the period, but the ODA from India and China remained very much pragmatic in terms of providing grants and loans to Nepal without any hesitation to speed up the development activities of Nepal. Regime and political system change has not been the main challenge in restricting the smooth disbursements of foreign aid to Nepal. Indian and China's foreign policy to help need to remain strong even after the 70 years of diplomatic relations between these two countries. The aid fragmentation from both the countries to Nepal has been shifted from one sector to another, which also shows that the need and priority of Nepal's development are not stable, and India seems largely focused on grassroots developments, mainly in the Terai region related to socio-economic empowerment of people with small scale infrastructure. China is found to be interested mostly in large-scale infrastructure and mostly focused on the area where Tibetan refugees are based in Nepal. This pattern has shifted. India is also showing interest in the northern border of Nepal by funding the reconstruction of monasteries and schools, as well as China on the southern side.

Nepal's relations with India and China have a long history and have deep-rooted traditional relations for ages. The relationship is marked by geographical, religious, cultural, political, diplomatic, and economic close ties. Two major wars have been fought between India and China between 1950 to 2000, and they contested each other with territorial disputes. India and China's interest in Nepal are growing rapidly to foil the overgrowing interest of both the countries. In this context, how

Nepal proactively benefits from both the nations and attracts investments rather than grants and aid is a big question. India's and China's presence in Nepal is an opportunity for Nepal to practice self-reliance that translates not to the utopian ideal of Autarky but controlled engagement beneficial to the socio-economic developmental needs of Nepal. As Nepal establishes the balancing approach to relations with both India and China, it is also clear that in order to maximize the opportunities and minimize the risks in its relationship, Nepal should adopt a clear and clever approach to deal with both the nations. India and China also need to present in a responsible way to protect their diplomatic and economic relations with Nepal. Growing interference in politics and development aid priorities will ultimately create distrust among the nation, and the relationship will gradually fade away. From the dependency point of view, Nepal's relation with India and China, especially in the ODA, is growing interdependency, which might not be the same case when Nepal enters into the category of a developing nation soon.

Nepal cannot always benefit from foreign aid and assistance, and it is not the solution to sustain development. The two sides of the aid, either constructive role or destructive role, need to be separated as early as possible to see what is beneficial for Nepal in the long run. Nepal's progress in developmental activities where inward remittances played a pivotal role in gearing up the national economy of Nepal. Nepal should also calculate the cost of benefits from remittance over foreign aid. Foreign aid and aid-providing agencies must restrain their institutional compulsion to equate missions successfully. Therefore, Nepal should not be the doormat of the aid-providing agencies; instead, look into its national priorities.

Nepal occupies a unique and complicated position in the geopolitics of having immediate neighbors of India and China. Kathmandu tries to balance these two giants, but it has become upswing, particularly in trade, investment, and regional connectivity. It has often been argued that capitalizing upon the Sino-Indian rivalry is one of the strengths of the Nepalese foreign policy. Even though it has not been able to neutralize the dynamics between the two countries, there lies two probabilities of it either acting as a bridge between the two gigantic neighbors or becoming a zone of contestation. It is high time for Nepal to move beyond the connotation of ‘buffer’ associated with it for a very long time now. It must realize its potential as a significant ‘transit’ state in South Asia, which has the potential of creating an identity of its own. Therefore, Nepal needs to shift from a ‘buffer’ to a transit state in South Asia. Local generated revenues and remittances should be utilized as aid alternatives. In addition to this, addressing the concern of India and China in Nepal could stop them from spying on each other on Nepali soil and bring trust among each other. Another crucial issue that Nepal needs to look upon by luring more investors in Nepal from India and China by drafting investment-friendly policies. Aid alternative mechanisms should also be developed as Nepal enters into the federal governance model. This also allows more area of investment by both the nation in developing manufacturing plants and bringing foreign direct investments to Nepal. Nepal needs to sustain its economic growth by producing more and more inside the country and generating more jobs for young people. This need to be one of the main priority of Nepal and its foreign policy approach to deal with India and China in bringing FDI in Nepal.

Nepal is in the determining position to adopt an imperative steps to take a right strategy between balancing or band wagoning in maintaining relations with India and China. Balancing approach for Nepal is to take a strategy to actively preserve security

and advance interests by increasing its power vis-à-vis the most powerful and threatening actors in order to challenge and offset the dangers. Nepal doesn't see its neighbors as threatening actors. But Nepal need to observe closely by looking at the extent to which states build military alliances as well as increase domestic military and political capabilities in light of the emergence of a threat or potential threat. Increasing tensions between the different camps usually accompany balancing; this is when one side increasingly challenges the position of the other, and when the other responds in kind. Both India and China have increased their military and economic status in the last decade. China economic journey is very close to contest with US whereas India is also stronger in positioning itself in the international world order. In this context, Nepal's position should neither be balancing nor bandwagoning, as Nepal need both its neighbors to benefit for its economic development. Much more, Nepal should take a neutral approach and preserves a good relation with all its immediate neighbors as it is likely to be a preferred alliance strategy when the threatening great power is geographically proximate and has a strong offensive capacity as well as when alternative great power allies are unavailable. Weak and small states bandwagon with the great power but in case of Nepal preferred strategy should be to maintain neutrality to avert the danger of actors that are seeking to maximize their power such as India and China, and to maintain its own position in the international system. Nepal need to emphasize in building good relations with its neighbors and build its capacity to deal both of them keeping itself in neutral position. Neither bonding nor binding approach should be the main mantras of Nepal foreign policy approach in maintain relations with India and China and focus more on getting economic benefits by pleasing both the nation.

Nepal's trade is highly dominated with India. Despite the fact that trade with China is increasing but it is very less compared to trade with India due to difficult geographical terrain in the North and physical distance from the major economic markets of China. Tourism is one of the major sectors of comparative advantage for Nepal that can be alternative to foreign aid and sustain economy. Official Development Assistance from both the countries have been increased in the period of 10 years (2008-2018) but China has distinctive aid policy on providing grant to Nepal. Aid disbursement from China had increased from 2010 and it is top five contributors of foreign aid to Nepal. India is also among the five contributors of foreign aid to Nepal. But China's foreign aid is gradually shifting from grant to the loan portion is becoming more dominant in the total aid structure where BRI initiated projects interest rate is high compared to similar other loan structure provided to Nepal. India's and China's focus on ODA is mainly on infrastructure development, technical assistance, humanitarian assistance among others. Both the neighbors are providing a ODA in good faith to Nepal but Nepal needs to prioritize its own sector where these ODA can play an instrumental role in changing and uplifting the conditions of people of Nepal. The geographical coverage of the ODA by India and China is so much different that it contributes Nepal to the overall development in Southern and Northern part. But the gradual shift of the ODA from India's and China's interest to Northern and Southern part of Nepal might bring some contestation issues in near future.

Aid in Nepal has not brought major developmental changes in Nepal's economic transformation rather it made Nepal's economy more dependent. After accessing the dependency theory and relating with the ODA support to Nepal from India and China, three major characteristics of interdependence can be observed. First,

Nepal relations with India is not limited with trade and transactions, rather the interconnectedness between the people, culture, language, and societies both traditionally and culturally made Nepal more dependent over India. In case of China, Buddhism played a vital role in bringing relation between the people of two countries but the differences in languages, culture, and geography Nepal restrains the relation further. Second, Nepal relation with India and China is far from any military issue and is more dependent over the economic issues. Though both the nation wants their political influence in Nepal but they don't want to engage in any sorts of military forces. The military forces becomes less relevant but interdependence, transnational, and trans-government relations are considered more important to ensure the national interest of Nepal. Third, aid regime in the world has distinctive feature that makes the recipient country over dependent upon the donor countries. India's interest is to deter any Chinese influence in Nepal and control Nepal's political economy by engaging trade facilities and penetrating ODA is the main strategy. Whereas China's engagement in Nepal's trade volume is not as India but Nepal relay on China's aid to make sure that Nepal stand on One China Policy and monitor any Tibetan activities that tarnish the image of China in global level.

There are also certain factors Nepal needs to consider to fully utilize the aid provided by India and China. For enhancing the aid effectiveness various government instruments such as MoF, and MoFA and its coordination mechanisms need to be strengthened. The roles of embassies and permanent diplomatic missions in India and China need to play an active role on establishing a FDI desks at our embassies. Nepal should also adopt the policy of decentralization while appropriating the projects and justify the equitable distribution of the available resources. The ownership and the sustainability of aided projects and the financial management of such projects are also

very important to achieve the goal of the project. Transparency, accountability, and tolerance on corruption should be the key mantras of Nepal to control the flow of aid in Nepal.

Therefore, Nepal relations with India and China have a future potentiality to intricate web of interests. Nepal porous border with India and high Himalaya border with China will remain same. The growing economic interaction between and among the countries and peaceful economic development is the need of Nepal's foreign policy. Foreign aid cannot be an end in itself, it can be only means to an end. Foreign aid should be used in creation of a pragmatic environment for development and stimulating productivity within Nepal. Nepal needs to practice assertive diplomacy to fulfill its National interest of making economic viable country. Nepal upgradation from underdeveloped country to middle-income country by 2026 also symbolizes the same that Nepal should be self-reliant and self-dependent to sustain its economic growth.

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