

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Independence is the hard fact of the day. States need each other to survive and fulfill the needs and aspirations of their people. Diplomacy work as a bridge to promote their relations. When diplomacy breaks down the danger of war or at least of a major crisis is very real. (Plamer, 1961). This is the phase of economic diplomacy. The character of the international foreign policies has profoundly changed. But our country still focusing on traditional diplomacy. Most of the nations want economic betterment by expanding economic relations. The USA, Russia, France, China, India etc. are also doing the same in one way or other. As for Nepal, geo-political reality, economic backwardness and historical experience overtly suggest that economic diplomacy is the only and legitimate outlet to increase our standard economically by exhausting potential natural resources like hydropower and tourism, preserving independence and sovereignty diplomatically.

At a crucial period in the history of mankind, when more and more people are being swamped by the vicious cycle of poverty and duress, the international community and national governments made a noble commitment on social development in the World Summit for Social Development (WSSD). They committed themselves to the goal of eradicating poverty in the world through decisive national actions and international cooperation as ethical, social, political and economic imperative of human kinds. The commitment is focused to efforts and policies to address the root cause of poverty and to provide for the basic needs for all. These efforts should include the elimination of hunger and malnutrition, the provision of food security, education, employment and livelihood, primary health care, safe drinking water and sanitation, and adequate shelter, and participation in social and cultural life.’

Foreign aid can play an important catalytic role in relieving poverty and improving the quality of life of those living in hopeless conditions of distress and deprivation. The impact of international aid, however, has much to be desired. When the vast majority of the country’s population is living in poverty, development efforts should be reflected in improving living standards of the people. Any development program should be assessed by its impact on the people for whom development is initiated in

the first phase. The impact of aid programs will be shaped through achievements in poverty reduction, environmental protection, citizen's participation in the development process, along with institutional transparency and accountability.

To attract foreign investment, economic policies have to be clear-cut. The Ninth Plan has laid down major economic policies. 'Poverty reduction and sustainable economic development (NPC, 2002: 73) constitute the main elements of the economic policy objectives and strategies of His Majesty's Government of Nepal. The Ninth Plan (1998-2002) has set the target of GDP growth rate at 6.5 percent. The long-term growth for the next twenty years period has been aimed at 7.2 percent with the achievement of these growth targets together with the implementation of sectorial programs of poverty alleviation, the plan has targeted to bring down the present threshold of 42 percent of the Agriculture Perspective Plan (APP) within the next 20 years, the population of below poverty line been envisaged to reduce to 10 percent. But at present, different national and international reports, surveys data shows that Nepal failed to maintain mentioned targets on time. Therefore, Nepal being less developed country need heavy foreign aid to improve its targets on time. And it is possible only when its economic diplomacy must be on pick.

Diplomacy is an important component of foreign policy. It is the method of managing international relation among the nations. Each and every nation of the world employs diplomacy in relation to their foreign policies. 'Diplomacy is the means of adjusting conflicting national interests. National interests embody the subjects and issues that are seriously taken into consideration while framing foreign policy. In this sense foreign policy is said to be the extended form of domestic policy. Diplomacy pervades substantially over all the states. 'It is an essential element in only reasonable relation between man and man and between nation and nation(Roy, 1983).

Diplomacy and foreign policy are closely related to each other. Actually, foreign policy implies the overall policies of a nation for whose achievement, a nation does its best at the time of dealing with other by means of negotiation, the method by which their relations are adjusted and managed by ambassadors and representatives, the business and art of the diplomats. If proper diplomacy is exercised, desired results will be inevitable. Thus economic diplomacy is the inseparable means to achieve the results preconceived by the government. (Economic Diplomacy,1933: 388,).

Nepal is one of the poor developing country in the world. Moreover, it is sandwiched between two giant nations of Asia. In this regard, while framing and executing economic diplomacy, all these bare hard facts reign supreme. By ignoring these realities, it cannot be implemented. Nepal couldn't play major role in settling conflicts between India and China during the war period of 1962. At the regional level also, Nepal couldn't be effective in managing conflicts and tensions. Rather it invites more burdens to the country. In view of its small size, location and topography, its conflicts managerial role does not match in comparison to its immediate neighbors. The traditional way of using diplomacy can no larger give advantage to Nepal. The traditional diplomacy means political aspects of diplomacy. The political diplomacy mainly centers on political roles that a nation performs in the international relations. Mediation, good office, initiation of negotiation and dialogue are some of the political roles fallen within the areas of political diplomacy. As Nepal is in between two nuclear powers of the world cannot do these things. It can hardly play mediating role. What it can do is that Nepal can offer logistic support to the concerned parties. Offering of logistic support does not represent strong and able capability of a nation. On the contrary, it expresses the actual status of a nation in terms of its role in the world affairs. In opposite to it, India and China are the major powers of the world with rapid economic growth. Taking all these into consideration, Nepal is bound to move new moves in its traditional way of diplomacy. Since diplomacy denotes 'the application of intelligence and tact to the conduct of official relations between the governments of independent states, intending sometimes also to their relations with states or more briefly still, the conduct of business between states by peaceful means. Nepal should not do late to make a leap from traditional diplomacy to economic diplomacy.

Economic diplomacy is the new concepts being used in the international diplomatic scenario at present. It is the product of the era of the nineties. The last phase of the twentieth century witnessed unexpected upheaval in the international platform. China seems to be making its foreign policy in and around economic interest. By introducing major reforms towards market economy, in depth, it gives maximum attention to strengthening its businesses and trade through economic diplomacy. It can be said that even the single one super power is guiding its foreign policy around the pole of economic activities. The heavy focus shifted towards sought Asia by the USA cannot

be ignored in this regard. Nepal has to adopt such foreign policy which can employ economic diplomacy. Economic diplomacy conceives that a nation has to give more emphasis on economic activities while executing foreign policy. The political role that Nepal can play in the world is caught with the wave of globalization and liberalization. It can assume its role directingaffords towards garnering aid and assistance in the areas like tourism and water resources. An aggressive form of economic diplomacy has been must in Nepal's foreign policy.

1.2 Statement of the Problem

Nepal is an independent and sovereign country lying in between two nuclear powers and fast growing nations India and China with different ideologies. It necessitates Nepal to adopt independent foreign policy. But there are lots of problems. Firstly, it is blamed that Nepal is not pursuing independent policy in the strict sense of the term. This voice has been strongly raised after the restoration of democracy. Secondly, the traditional way of diplomacy is still prominent and central even after the restoration of the democracy. Nepal's foreign policy generally depicts true realities of the nation. All the political parties need to sit together to achieve national consensus on foreign policy. Diplomacy is considered as eyes and ears for the protecting national interest. It can never be made on the basis of the vested interests of the political parties and politicians.

The government is the main actor to finalize and execute foreign policy. The Ministry of the Foreign Affairs has always upper hand in the execution of the foreign policy. It should always be ready to speed up the execution of diplomacy. The function of foreign ministry and embassies abroad is not only performing traditional roles in the changed context. The Royal ambassadors and other diplomats cannot confine to manage official visits and submit letters of credentials. They are supposed to do much more specially on economic fronts. The management of the diplomacy is very weak. Political interference is obviously discernible even in diplomacy. The governmental organizations perform major roles to conduct economic diplomacy. Together, Nepal is adopting market economy. In an open and liberalized society, private sector cannot be ignored. Private's investors, industrialists and entrepreneurs can contribute immensely to the promotion of the economic diplomacy through private diplomacy and through their trade chambers of commerce. At present, the role of private sector has not been utilized as it is expected.

The research questions of this study are as follows:

- What is the status and effects of the economic diplomacy of aid commitment and disbursements?
- What is the role of the governmental and non-governmental agencies and organizations in promoting economic diplomacy with India and China?
- How can evaluate the development trends of projects funded by India and China?

1.3 Objectives of the Study

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

1. To highlight the effect of the economic diplomacy on aid commitment and aid disbursements.
2. To analyze the role of the government and non-government agencies and organizations in promoting economic diplomacy with India and China.
3. To evaluate the development trends of projects funded by India and China.

1.4 Scope of the Study

This study is not compiling each and every aspects of foreign aid rather foreign aid with economic diplomacy which may provide the answers of the research questions. And research questions may provide a lot to policy makers. So this study is though very specific but very important for the state. Its scopes areas follows:

- i. To support governmental and non-governmental diplomatic agents,
- ii. To promote the nation's development projects,
- iii. To reduce unemployment level,
- iv. To reduce poverty level,
- v. To exhaust potential natural resources,
- vi. To give an international reorganization.

1.5 Significance of the Study

Nepal by leaps and bounds should make a shift of its traditional way of conducting diplomacy towards economic diplomacy to attract maximum foreign aid from India and China to boost hydropower and tourism sector for the rapid economic development of the country. The urgent work it needs to do is that its diplomacy has to be centered around foreign investment in tourism and hydropower sectors as in these two sectors Nepal has great potential. Foreign investment has been exceedingly necessary for it. As Nepal is endowed with natural beauties and water resources, it can make progress and prosperity only when tourism and hydropower sectors flourish as expected. The sad fact is that Nepal alone cannot invest on water resources. Large scale hydropower needs huge investment which Nepal cannot effort internally, so it needs foreign aid, economic assistance and loan. Foreign investors have to be welcomed to invest on such large scale projects so that Nepal can reap benefits from such naturally gifted resources. The boost of tourism industry is another side of the coin. In short Nepal is in need of foreign aids and assistance to give a boost to tourism industry and to established large scale hydropower projects. To allure the flow of international investment, Nepalese diplomacy should focus on two neighboring countries India and China first then to the rest of the world. Nepalese diplomats and agents must orient their efforts towards approaching international investors, industrialists and organizations. Until and unless Nepal adopts economic diplomacy, its objective to boost up economic development cannot be realized.

1.6 Limitations of the Study

The study mainly focuses on the area of aid from India and China that can be done by promoting economic diplomacy. This dissertation limits itself between the years 1992 to 2012. Despite this, it also makes a simple and brief review of the aid from these two countries to accelerate development. Thus the main focus of this study runs around the development progress of Nepal by Indian and Chinese aid through economic diplomacy.

1.7 Research Methodology

1.7.1 Research Design

This study is based on analytical as well theoretical research design. This study analyzes the process of economic diplomacy and foreign aid inflow of India and China to Nepal. Moreover, its sectoral contribution in Nepal's development. The researcher evaluates the data theoretically to analyze impact of economic diplomacy on Indian and Chinese aid.

1.7.2 Nature and Sources of the Data

This analysis of the study attempts to get various empirical results using only secondary data. The required data are collected from various sources like Ministry of Finance, Embassy of India and China, National Planning Commission, Central Bureau of Statistics, World Bank reports, NRB and different news-papers articles as well as published and unpublished documents of various research institutions.

1.7.3 Data Processing

In the process of data, the available secondary data from various sources are collected, classified, tabulated and interpreted to meet the objective of the study. Most of the data have been presented in percentage; tables are used according to the situation and requirement of the study.

1.7.4 Data Analysis and Interpretation

In order to make an empirical analysis simple method is used. The collected data are classified, tabulated and interpreted with the help of percentage, average according to the situation and requirement of the study.

1.8 Organization of the Study

This thesis is broadly divided into five different chapters. The first chapter includes the background, statement of the study, problem of the study, objective of the study, scope of the study, limitation of the study and methodology of the study and lastly organization of the study as well. The second chapter in which theoretical frame work of economic diplomacy are divided into before and after democracy of the Nepal. The third chapter focuses on foreign aid which are divided into two sub topics. Chapter four is focuses on economic diplomacy. Chapter five is focuses on summary, conclusions and recommendations. And finally this study is closed with references.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Conceptual Review

In the last decade India has increasingly transitioned toward becoming an “emerging donor” country. As part of its “South-South” strategy, India seeks to use its foreign aid programs as a tool to further its own economic, political, and strategic interests, while also taking into account the needs of the recipient country. Its foreign assistance spending consists of grants, preferential loans, contributions to international organizations and international financial institutions, and subsidies for preferential bilateral loans. However, rather than organizing its aid programs under one unified aid agency, India’s development assistance is channeled through a variety of ministries and government departments, including the Ministry of External Affairs and the Ministry of Finance. In the same way Chinese aid also used.

Some Conceptual Reviews are as follows:

Although traditionally considered largely as a recipient of foreign aid, India in the last decade has increasingly transitioned toward becoming an “emerging donor” country. The Indian government does not release official figures on the amount it spends on foreign development assistance or “report its aid flows to the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC).”Therefore, most figures are approximate, based on how foreign assistance activities are allocated in India’s annual budget.

The OECD estimates that India spent US\$539 million in 2009–10 on foreign assistance. In 2010, according to its annual budget, the Indian government allocated US\$785 million for aid-related activities. An analysis by the Real InstituteElcan found that budget allocations for aid-related activities have grown at a Compound Annual Growth Rate (CAGR) of 6.9 percent from 2004 to 2010 (www.aidinasia.org.)

Data could only be found in relation to government-related foreign assistance programs. No information could be found on private contributions.India has been providing significant economic and military aid to neighboring countries in South Asia since the 1950s, soon after its independence. It is only in the last decade, however, that India has relied on foreign assistance as an increasingly important foreign policy tool to further its own economic, political, and strategic

interests. According to economist Dweep Chanana, there are three parts to India's foreign assistance spending: "grants and preferential bilateral loans to governments, contributions to international organizations (IOs) and financial institutions (FIs), and subsidies for preferential bilateral loans provided through the Export Import (EXIM) Bank of India." As mentioned above, India has traditionally given foreign aid mainly to neighboring countries. Even today a large proportion of its foreign aid goes to surrounding countries like Bhutan, Afghanistan, Nepal, and Burma. According to experts, India is "one of the five largest donors to Afghanistan with commitments of over \$1 billion since 2001." In the last decade, however, India has increasingly attempted to broaden its influence through its aid programs. In particular, aid to Africa has grown at a "compound annual growth rate of 22 percent over the past ten years" from 1989–1999. In 2007, in a joint initiative with the African Union (AU), India helped to set up "a pan-African e-network to connect schools and hospitals in Africa with top institutions in India." Moreover, in 2008, after an India-Africa Business Summit, India "pledged \$500 million in concessional credit facilities to eight resource rich West-African nations." In May 2011, at the second annual Africa-India forum summit, India announced a \$5 billion credit line for African countries over the next three years (www.loc.gov/law/regulationofforiegnaid/india.php).

Government of India provides a generous aid package to Nepal. Our economic cooperation with Nepal under 'Aid to Nepal' is broad based with specific focus at the grass-root level. A number of projects have been implemented in the areas of infrastructure, health, water resources, rural and community development and education. The economic assistance extended to the GoN during 2008-09 under 'Aid to Nepal' budget was Rs. 120 crores, 161 crores in FY 2009-2010, Rs. 168 crores in FY 2010-2011, Rs. 191 crores in FY 2011-12, Rs. 300 crores in FY 2012-13, Rs. 380 crores in 2013-14 and Rs. 450 crores for FY 2014-15 is being extended. There are around 35 intermediate and large projects under various stages of implementation in Nepal. These include the setting up of Emergency-cum-Trauma Centre (Rs. 100 crores); Manmohan Adhikari Polytechnic (Rs. 25 crores) at Biratnagar; Construction of a Polytechnic at Hetauda (Rs. 38 crores), providing Indian faculty support to BP Koirala Institute of Health Sciences at Dharan (Rs. 1 crore per annum for five years), Installation of 3700 shallow tube wells in various districts across Nepal (Rs. 22 crores), and assistance for construction of 421 sitting capacity auditorium at Lumbini.

India has also provided 442 ambulances and 86 school buses to various agencies in Nepal (NPC, 2010).

The border infrastructure projects including development of about 1450 km long road network in Terai region, five cross- border rail links and development of four integrated check- post. Approval of cabinet was obtained for these projects in August 2009.

(i) Terai Roads

India and Nepal signed the MoU for the development and construction of Roads in the Terai region of Nepal in January 2010. Currently, 19 link/ postal roads covering a total distance of 605 km in the Terai districts are being constructed in Phase -I of the project with GoI' financial assistance totaling approximately Rs. 700 crores.

In view of the delay due to variety of factors, resulting in the lack of progress on entire stretches allotted to the various contractors, it was decided in the last PSC Meeting in October 2013 to immediately start construction work in a prioritized manner beginning with encumbrance-free stretches, with the remaining stretches to be taken up as and when they are made available after removal of encumbrances. Contractor for Packages 3, 4 & 5 (M/s Vishwa-BVSR JV, Hyderabad) has stopped the work and the matter has been referred to Dispute Review Expert (DRE) by the Ministry. Contractor for Packages 2 & 6 (M/s GVR Infra Projects Chennai) has also approached the DRE against penalty imposed by the Consultant and other contractual issues. (Meanwhile, GoN is undertaking maintenance work on 15 roads for which reimbursement of actual expenditure incurred by GoN, (which may be approximately N.Rs.4.60crores) will be sought by GoN on completion of the maintenance work.)

(ii) Integrated Check Posts (ICPs)

India signed the MoU with GoN for the construction of the ICPs at four major border points along the India-Nepal border. These are:-

- i) Raxaul (India)-Birgunj (Nepal)
- ii) Sunauli (India)-Bhairhawa (Nepal)
- iii)Jogbani(India)- Biratnagar(Nepal)
- iv)Nepalgunj Road (India)-Nepalgunj(Nepal).

GoN has confirmed the acquisition of land for ICPBiratnagar. The draft tender document for award of work of ICPBiratnagar is being vetted by IFD. An Agreement has been signed on September 3, 2014 with M/s RITES for the Detailed Engineering Design Services for ICPs at Nepalgunj and Bhairahawa. The agreement for appointment of M/s RITES as PMC for ICPBiratnagar is being finalized by Ministry. Work on ICP, Jogbani began on 24 June 2010. Nearly 53percent work on the counterpart ICP at Jogbani in India has already been achieved.

(iii) Rail Links

India signed and MoU with GoN during the visit of President of Nepal to India in February 2010 for the construction of rail links at 5 locations on the India-Nepal border. These are shown in table below:

Table 2.1: Indian Border Road Projects

S.N.	Location	Length (km)	Estimated Cost (IRs. crores)
1.	Jogbani-Biratnagar	17.65	197.27
2.	Jaynagar-Bardibas	68.00	446.72
3.	Nepalgunj road Nepalgunj	12.11	48.95
4.	Nautanwa- Bhairahawa	15.30	176.14
5.	New-JalapaiguriKakarbhitta	70.00	357.94
Total		183.06	1327.02

Source: Embassy of India (1981), Kathmandu

SDP Program, which covers projects less than NRs 5 crore (approx. IRs. 3.125 crore), focuses on the critical sectors of health, education and community development. So far 227 Projects have been completed and 230 Projects are under various stages of implementation in almost all the 75 districts of Nepal with a total outlay of over IRs 500 crore. MoUs for 14 new SDP projects worth Rs.34.57crore were signed in 2013-14. MoUs have been signed in the current FY so far (www.indianembassy/foreignaid/projects/nepal).

In 1955, Nepal established diplomatic relations with the People's Republic of China and exchanged resident ambassadors by 1960. In 1956, both nations signed a new treaty terminating the Treaty of Thapathali of 1956 and Nepal recognized Tibet as a part of China. In 1960, Nepal and China signed a boundary settlement agreement and

a separate treaty of peace and friendship. Nepal also began supporting the chance of China's seat in the United Nations. In 1961, Nepal and China agreed to build an all-weather road connecting the Nepalese capital Kathmandu with Tibet. During the Sino-Indian War of 1962, Nepal maintained neutrality. In the 1970s King Birendra of Nepal proposed Nepal as a "zone of peace" between India and China and in the 1980s, Nepal began importing Chinese weaponry, which in the perception of the government of the Republic of China, was in contravention of India-Nepal 1950 treaty; and has since sought to establish extensive military cooperation in a move to reduce perceived Indian influence. When the United States, United Kingdom and India refused to supply arms to the regime of King Gyanendra of Nepal, who had assumed direct rule to suppress the Maoist insurgency during the Nepalese civil war (1996–2006), China responded by dispatching arms to Nepal, in spite of the ideological affinity of the Maoists with China. After the peace process and national elections in Nepal in 2008, the new Maoist-led government announced its intentions to scrap Nepal's 1950 treaty with India, indicating a stronger move towards closer ties with China. In 2007-08, China began construction of 770 kilometers railway connecting the Tibetan capital of Lhasa with the Nepalese border town of Khasa, connecting Nepal to China's wider national railway network(<https://en.wikipedia.org/chinesediplomaticrelation>).

Nepal offers a lucrative destination for investors given that 50 per cent of the population makes up economically active young people who can provide cheap labor and a well-developed capital market and financial institutions and huge market potential in its immediate neighborhood, India and China, with whom Nepal enjoys good cordial relations, besides the conclusion of the most favorable bilateral trade and transit agreements. Yet the inflow of FDI has remained negligible in comparison with other developing economies. The accumulated capital, knowledge, skills, outreach and technical know-how of the Non-Resident Nepal's (NRN) - the most viable and sustainable source of investment - have yet to be injected into the national economy.

In the new emerging regional and global context, Nepal cannot remain an exception and should employ sound economic diplomacy with specific policy priorities and guidelines, adequate manpower, financial, technical and legal resources to benefit from its ever expanding international relations. It is also essential to attract foreign investment, advanced technology and management skills and knowledge to exploit the abundant national resources. Forgoing close coordination, cooperation and

collaboration between the concerned stakeholders and avoiding the culture of appointing near and dear ones instead of competent diplomats is just as crucial to make our economic diplomacy more result-oriented, prudent and meaningful. It will ultimately contribute to reviving our national economy, achieving the much touted double-digit growth, improving the people's living standard, reducing poverty and generating employment (www.martinchautari.org.np (2014)).

2.2 International Review

Important international literatures on economic diplomacy and foreign aid have been reviewed.

Muni (1973) in his book has studied the foreign policy of Nepal. There were three principal motives at play behind the evolution, content and execution of Nepal's foreign policy. Borrowing George Liska's expression, the motives may be termed "Security, Stability and Status". As spelled out above, these three basic motives do not give a clear picture of the formulation of Nepalese foreign policy. Thus, some reference should be made to the basic needs of Nepal which find their expression in one form or another in its foreign policy. Conditioning factors of a foreign policy can be said to fall into two broad categories. In the first category included the constants, that is, the factors having a permanent and stable character like geography, history and the general socio-cultural structure. In the second come the variables that is the factors which are imperatively changing.

Malhotra(2002) mentioned that the international economic system is facing a crisis which is characterized by strains of stagflation in the developed market economics, a structural underdevelopment problem in the developing countries and slowing down of growth rate in and collapsing of the socialist world. In this troubled situation complex issues of interdependence are not being adequately appreciated. The developing countries often complain that their interests are being adversely affected by the policies of the developed world, while the developed countries blame the developing countries for mismanagement and sub-optimal utilization of resources.

Mihaly (1965) in his book has given that descriptive facts about affairs and political condition of Nepal. Mihaly has attracted unusual attention from aid donors. Nepal has been receiving aid from so many sources, from the beginning until today. They are mainly the USA, India, and China, USSR, Germany, Japan and Australia etc. He

further shows that Indian and Chinese aid conflicted in purpose. India gave a greater urgency to implement the economic aid program after the political charge of Nepal to exclude Chinese influence from Nepal. According to him, in minor aid program, few of them are successful to fulfill their targeted aims, but in aggregate they created serious problems in Nepal. At last he has shown two types of foreign aids in Nepal. Short project did not increase political consciences as hoped by donors. In the long term impact, he says that the aid not only failed to attribute as significant boost of Nepal's economy but also it might even have made growth more difficult to achieve.

During the period of king Mahindra's regime in Nepal, Nepal- India relationship was given new orientation with perfect understanding between HMG and the government of India. During the period the Indian assistance to Nepal had been both fruitful and meaningful. Under tripartite agreements between Nepal-India and USA, Nepal received substantial assistance from India and USA (Brajacharya, 1990).

Plamer(1961) wrote that while the Versailles Peace Conference was sitting, he (Karl Manshofer) published his Democratic Ideals and Reality, in which he declared that a new world order must be based upon an understanding of geography and its influences. He contended that the so-call heartland, bounded Yangtze River, and the Himalaya Mountains dominated politically, its position was invulnerable because world politics was in the long run a struggle between continental and oceanic peoples, and the heartland was safe from sea power. Clearly he believed in the superiority of land power over sea power, in contrast to the views of the famous American exponent of sea power, Captain Alfred Thayer Mahan whose famous dictum runs this way. Who rules Eastern Europe commands the Heartland. Who rules the Heartland commands the World-Island (Eurasia-Africa) who rules the World-Island commands the world.

Phulara (1974) in his master's thesis has shown that Indian aid has provided substantial assistance for the development of Nepalese economy at the best of here capacity. Since, 1951, India extended support to many areas of economic development. He further states that the economic assistance from India in different sectors of Nepalese economy has taken 38 percent the total assistance to Nepal 1951 to 1972. However, he was unable to mention the assistance after flowing 1972 in different sectors.

Roy (1983) wrote that despite the intricately relationship between foreign policy and diplomacy with each other, inherent difference cannot neglected. If foreign policy is the regulator of foreign relations, diplomacy is the means of executing foreign policy. J. D. Child says that foreign policy is the substance of foreign relations whereas diplomacy is a process of which means foreign policy is conducted.

Rodan (1961) analyzed the objective of foreign aid for under development countries. International Aid for Underdeveloped Countries and states that the purpose of an international program of aid to accelerate economic development of countries up to a point where a satisfactory rate of growth can be achieved on self-sustaining basis. According to him, foreign aid assumes much important as means to break the various circle of poverty and accelerate the economic growth rate. Also asserted that a reasonable amount of aid is determined by the absorptive capacity of the developing countries' economy. He pointed out that the aid should be for generating, capacity or efforts. Ideally, aids were therefore to be allocated where it would have maximum catalytic effect in mobilizing additional national resources. He listed out the major achievement of aid which has increased in life expectancy, the fall of infant mortality, the rate of growth and the development of socio-economic overheads.

Rose (1842) in his book wrote that even in his day 18th century-Nepal's most formidable problem in the formulation and implementation of foreign policy was the preservation of the country's independence in the face of the concurrent but separate threats posed by the newly emerging dominant popular in northern India, the British East India Company and a slowly but steadily expanding Chinese presence in Tibet Present-day Nepal thus perceives its critical geopolitical situation in terms of a long traditional buffer state and with some deeply ingrained attitudes towards the policies and tactics required to maintain its political and cultural integrity.

Hinggins (1968) emphasized the importance of foreign aid by saying that it is highly unlikely that measures to increase voluntary domestic saving along or even measure for voluntary and compulsory saving together can provide all underdeveloped countries.

2.3 National Review

Dahal(1997) stated that political factor plays immense role to determine foreign policy. In the heady of cold war, two major divisions into the capitalist and communist blocs emerged on the basis of political belief and ideology. Nepal is the staunch member of the non-alignment movement of the third world which affirms

faith in the consolidation of the UNO. Nepal does not aspire to establish relations on the basis of political assertion to any country of the world. It has formulated such a foreign policy through which relations can easily be established and executed with both capitalists and socialists.

Dhungana (1982) put forward the view that there is not even any sector which is free from foreign aid. In the impact of foreign aid, he says that, because of small resource flow, foreign aid has only marginal effects in recipient countries. He further adds that not foreign investment out of the gross foreign assistance come only about 25 percent.

Dharmadasani (1988) in his book has shown that Nepal has been taken as a main component in his study regarding the foreign aid in which an attempt has been made to analyze the nature, dimension and implication of Nepal's dependence on foreign aid to sustain the development process. The central theme of the study is that within the prevailing structures constrained of Nepalese society, the process of development has itself contributed to the growth of external assistance. The study has analyzed the data relating to foreign aid. In this context, the study examined the role of foreign aid in the process of planned development till 6th plan. He examined the flow of aid from India, USA, China, and other donors as well. He has also analyzed the impact, impediments and implication of foreign aid in Nepal. In this study about donors of Nepal, he says that only a few countries among the bilateral donors in Nepal have contributed in a manner that can lead to self-sustain growth.

Gurung (1986) explained that foreign assistance to developing countries is related less with economic consideration but more with strategic and political implication. Economic development continues to be externally oriented and most of foreign agencies have had to rely on its own infrastructure before planning into aid programs. The poor domestic saving rate and resources to finance the development expenditure required the external assistance. Thus, there is excess reliance in meeting government expenditure.

Khadka (1991) in his book stressed that development in many less developed countries blocked not only by the lack of resources and necessary factors for production but also by the absence of proper mechanisms or institution. Concluding that foreign aid has not helped to alleviate poverty in Nepal, Khadka argues that foreign aid has, on the country led to the country up the path of perennial dependence. Yet, he suggests that the donors should stop providing aid to Nepal if the government

does not introduce the necessary changes and organs that the government does not introduce the necessary charges and argues that the government should use its discretion and reject aid if the donors are not willing to provide it in the best interests of the country.

Khadka(1970) argued that for the US, the political objectives of aid in Nepal were anticommunist rather than pro democracy. Arguing that the main thrust of Nepal's foreign policy was to sets her neutrality, in dependence, sovereign by the non-alignment in relation to its neighbor and the superpowers, he shows that foreign aid was employed to lessen its perceived political and economic dependence on India. Khadkathinks that foreign aid will have strategic value even after the demise of the cold war since the world will become increasingly multi-polar The US will constitute one of the power centuries while other will be Western Europe, Japan, China and Russia. But as a substantial portion of aid the west will be supplied to the countries of Eastern Europe and West Asia, the amount of aid of Nepal is likely to become scarcer, as donors no longer have any direct security interests in the country. In this scenario, the declining of allocation of aid to Nepal is not good. He suggests promoting regional exchange on a wide range of fronts including that of water resources. Interestingly for the present exercise, Khadkasuggests that small western European donor would probably emerge as the main donors for Nepal in coming years.

Khadka (1997) in his book focused on the relationship between development assistance and foreign policy. He accords primary interest to strategic ones over humanitarian and other concerns in determining foreign aid flow and argues that foreign aid is essentially an extension of foreign policy. For instance, Nepal's two neighbors India and China were not substantially economically better off than Nepal till 1980's but they parted with some of their strategic and security interests which were more important than economic development.

We observe that the foreign aid is one which cannot be substituted by any other kind. In different context and indifferent objectives, it may assure different forms.

Upreti&Thapa(1998) in his book has shown six kinds of aid in different perspectives which are as follows.

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

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

Multilateral Aid: The aid inflows through IMF, WB, IBRD etc. **Bilateral aid:** Bilateral aid is the flow from the government of another. The terms and conditions of aid vary from country to country. Upreti (1998) says bilateral aid is politically motivated and certain sector of its economic of the recipient countries are focused which they want to develop with the help of foreign aid and many others may remain neglected.

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

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

United Aid: It is not related to any specific project. It is given to raise capital for the plans and annual development budget of the recipient countries. The recipient country is free to utilize such aid according to their needs and priorities. It provides freedom to recipient countries to purchase machinery, equipment and other material from the cheaper market.

Acharya & Regmi(2003) in their article have given emphasis on economic development, reveal in the foreign policy of small developing countries such as Nepal which must have, besides others, the following two objectives: national security and promotion of its social and economic development. They may also constitute the two

main elements of foreign policies of the developed more powerful and greeter nationals as well. But in case of poorer and less developed countries vulnerable to internal and external pressure, the need to meet those two objectives is the most urgent.

Bista (1991) attempted to explain that Nepal has lacked of development with reference to cultural factors. In spite of the heavy flow of aid, Nepal remains backward due to the dominances of a particular value system which he associates with Hinduism particularly Brahmin, and calls it the culture of fatalism.

Pyakurel, Adhikari&Dhakal (2008)in their article have explained the availability of economic resources which are fundamental for overall development indicative of a nation. For this, it requires to increase the productive capacity of the economy, which again depends on the increasing share of investment in total GDP. To increase investment, it requires really total consumption and increasing domestic saving. However the trend of consumption shows that it is growing continuously. For the period of 1994-2004, the total consumption rate grew up from 85 percent to 87 percent of total GDP this leads to be dependent on foreign assistance for investment.

The available data since FY 1984/85 demonstrates the increasing trend of foreign aid vis-à-vis the increase in national expenditure. The share of foreign aid in the total expenditure which was minimal in the initial periods started increasing as a mix of loan and grant since FY 1963/64.

In the successive periodic plan of the country, foreign aid as percent of the development expenditure ranged on an average from around 50 percent to the highest of 100 percent in the first plan period, Foreign assistance financed 60-80 percent of Nepal's annual development budgets in 1990s and accounted for over 10 percent of GDP. In the first three of tenth plan, the component of foreign aid had increased from 18.9 percent to 23 percent. This indicates the dependency of the nation on foreign aid again. In every FY or in periodic plan, foreign aid has increased in order. So, Foreign Aid is a major component of the budget.

Since 1954-1975, only after 1975, grant assistance was in increasing order in a regular basis and sharply increased from 1980 becoming a largest supporting country to Nepal.

Poudyal (1980) in his master's thesis has concluded that India has been a pioneer and continues to be the foremost in the field of assistance to Nepal in initiating and accelerating the process of her economic development. His study has included the Indian aid to Nepal since 1979/80. After 1979/80, many economic activities have been held under India-Nepal co-operation.

CHAPTER-III

CHARACTER OF ECONOMIC DIPLOMACY AND FOREIGN AID TO NEPAL

3.1 Introduction

After the restoration of democracy in 1990, Government of Nepal adopted policies of open market economy with necessary legal and administrative measures and gave high priority to integration of Nepalese economy into regional and global economies. In this context, the Government emphasized economic diplomacy in order to mainstream objectives of socio-economic development into foreign policy objectives. Multilateral Economic Affairs Division (MEAD) was formed within Ministry of Foreign Affairs to undertake the following functions:

- Formulation, implementation and monitoring of programs relating to economic diplomacy.
- Promotion of Nepal's interest in economic affairs of multilateral international institutions.
- Promotion of national interests in WTO as well as the issues of LDCs.
- Formulation of programs in consultation with different agencies of Government of Nepal & private sectors.
- Coordinate on, and communicate with, Nepalese missions abroad.
- The High Level Economic Diplomacy Implementation and Monitoring Committee under the chairmanship of Foreign Minister, which can give direction to other mechanisms responsible for economic diplomacy, is the highest monitoring mechanism. Focal Points consisting of senior officials of the sectorial ministries more often meet to prepare for the meeting of the high level committee. MEAD acts as the secretariat of these mechanisms. As the private sectors are included in the mechanisms, their role in economic diplomacy is also crucial. The following areas have been identified in economic diplomacy:
 - Development Cooperation
 - Foreign Direct Investment

- Promotion of Tourism
- Promotion of Export Trade
- Promotion of Foreign Employment

Sources: AIDIA, (www.aidiaasia.org/news) (2014).

The issue of nationalism or nationality has been a hot topic for the political parties ever since Nepal moved on the path of modernization following the 1950 change. Like the leaders of first generation of democratic movement, the leaders, who championed the republican system, are also emphatically raising the issue of nationalism. There is no dearth of people to argue that the nationality is in jeopardy as a result of the collective failure of the parties in writing constitution and their obsequiousness towards the foreign power centers. Like nationality, the matters of foreign and economy policies have been also contested because of the growing deficit-trust among the major forces. These topics are actually complementary each other. Without a dynamic foreign policy boosted by strong economy, nationality simply turns out a hollow slogan only to be exploited by demagogues to lead the masses into a populist trap. In principle, all agree that national interest should be the central plank for the formulation and execution of foreign policies. However, it requires a minimum consensus among the key domestic players. A divided society cannot frame and implement independent foreign policy effectively. In the era of inter-dependent world, the foreign policy should be a catalytic factor to spur economic growth by activating economic diplomacy and attracting investment to the country. Only with a vibrant economy, the country can perform in the international forums with considerable aplomb.

At the same time, consideration of the security concerns of the neighbors is another important aspect of any foreign policy because this will enhance mutual confidence to respect each other's sovereignty. Against this backdrop, BP ChintanPratisthan and FES jointly organized a one-day seminar 'Nepal's nationality, and foreign and economic policy' on July 18 with the objective of brainstorming as many ideas as possible on the given topic. A motley of people, including politicians, intellectuals, professionals, students and cadres of different political parties, shared their views in the seminar.

3.2 National Interests Must Guide Foreign Policies

As a chief guest of the program, Nepali Congress senior leader and former prime minister SherBahadurDeuba said that the national interest should guide the country's foreign policy. "The foreign policy should not be swayed by anti-Indian or anti-Chinese rhetoric. We should develop cordial ties with India, China and the western countries," said Deuba. He noted that Nepal should be sensitive about the security concerns of the neighboring countries. He claimed that the NC government formed after 1990 introduced program and policies in line with BP's thoughts. Accordingly, it gave priority to education, health and irrigation. "The high ratio of literacy and expansion of drinking water facilities are due to the policy of NC," he said. Deuba also said that the trend of going abroad for higher study had declined as the schools and colleges here started to impart quality education. Deuba admitted that education became expensive for the poor, so, the government should pay attention to enhance the access of all to the quality education. Touching his recent India visit, he said that India was ready to provide soft loans to Nepal to set up industries that would, in turn, help reduce trade deficit of the country. Stressing on foreign investment for economic growth, he took a swipe at those who blow up the issue of nationality. "No matter how much they make a big talk about nationalism, the country could not reduce its trade deficit," he added. He said that BP stressed value-based democracy and we should all follow it. MadhesiJanaadhikar Forum Nepal ChairmanUpendraYadav said that geopolitical reality should be taken into account while devising and executing its foreign policy.

Nepal and India share open borders; some of them are in disputes, creating occasional hiccups. Closing borders is not the solution. We have to manage them. It is in the benefit of two sides to resolve the border disputes based on the mutual understanding. A benign cooperation from India is widely expected to solve the border disputes because this issue has brewed anti-Indian sentiments here that will hurt both the nations in the long run. India has played its role in the political movements of modern Nepal. But, following the Janaandolan-II, a hard reality came to the fore- whether India likes it or not - China's influence on the Nepalese politics has increased with the rise of UCPN-M. This is like a windfall for China and it is interesting to see how India will react to this development. As one US scholar put it, Nepal's foreign policy has been guided by a strategy for survival since centuries. Our

ancestors fought throughout history to keep Nepal's dignity intact. This is a reason why the country has remained independence till the day. The strategy for survival helped to protect the nation. Now we have to shift from survival strategy to development strategy. Without development, our survival has become almost impossible. Therefore, peace, unity and socio-economic development should be the cornerstone of the country's foreign policy. We should focus on following three facts. There are many countries in the world that are smaller than Nepal. But, they are more independent, self-reliant and enjoy more self-dignity than Nepal. For example, Switzerland is three times smaller in geography and five times smaller in population than Nepal. But, it exercises more freedom than Nepal because it is very rich. Nepal also possesses big potential in terms of natural and human resources. What we lack is the right leadership, right idea, right policy and programs to achieve the development goals. The issue of federalism, particularly ethnic federalism, has been flared up because of the lack of balanced socio-economic development. Ethnic federalism will push the country towards disintegration. What we need first – development or ethnic identity? Had the Nepalese lost their ethnic or linguistic identity? The small country like Nepal houses 103 ethnic groups and 93 languages. Development will not happen overnight if the federal states are carved out on the basis of castes. Let's make our development process proportionate and inclusive, and introduce reservation for the backward people. Let's promote the works that enhance meritocracy but do not recommend incompetent persons in the name of inclusion. If we continue to blame each other for the failure of social-economic systems, if we always keep the country in the state of instability, this will naturally be a matter of concerns for our neighbors. The situation may lead them to intervene in Nepal. It is difficult to gauge the nature of the intervention. But, the interference seems to be inevitable. In order to avoid their interference and maintain our independence, the strategic dimension of our foreign policy would be the development of the country.

Chinese envoy Chuntai said that the Chinese government was keen to support Nepal in the development of socio-economic areas. "They include program related to technical assistance, training and food security," he added. On the social front, the Chinese government has supported Nepal to build Araniko Highway, Sunkoshi Hydropower, BP Koirala Memorial Hospital, Civic Hospital and Banepa Polytechnic Institute, among others. On the economic front, the northern neighbor has pledged financial support for the development of Tatopani dry port, regional international

airport in Pokhara and Upper Karnali Hydropower Project, expansion of the Ring Road in Kathmandu and other projects.

1. China is also likely to construct an Inland Container Depot in Rasuwagadhi in the near future. Nepal has requested China to help upgrade the Kathmandu-Rasuwagadhi, Pokhara-Baglung-Beni-Jomsom and Dhulikhel-Tatopani highways. China has also pledged to provide a soft loan to buy four Chinese-made aircraft for Nepal Airlines Corporation.
2. “The new platform of joint cooperation will help to further strengthen the ties between the two countries,” Chuntai said. Nepal needs to ensure political stability for sustainable economic and social growth, he added.
3. Meanwhile, China has emerged as one of the largest sources of foreign direct investment in Nepal. It recorded the highest foreign direct commitment in the last fiscal year, according to the Department of Industry.
4. Similarly, Chinese tourist arrivals to Nepal crossed the 100,000 mark in 2013 reaching an all-time high of 113,173, largely due to improved air connectivity between Nepal and China. Arrivals from China in 2012 amounted to 71,861 persons. Around 93 percent of the Chinese tourists were first time visitors. Ambassador Chuntai had said recently that the number of Chinese tourists to Nepal would reach 250,000 within a couple of years with increased flights between the two countries and land connectivity through Rasuwa and trans-Himalayan roads.

3.3 Foreign Aid from India

The program of India-Nepal economic cooperation was launched in 1951. The objective of this program was and remains to supplement the efforts of the Government of Nepal in the national development of the country. India’s assistance program in Nepal is guided by the vision that alongside progress in political process in Nepal, it is equally important to ensure that economic deliverables, particularly in the areas of education, health and infrastructure, must reach the people without any pre-conditions in a smooth, quick and unencumbered manner. Towards this end, Government of India is providing technical and financial assistance for multi-sectoral development of Nepal. The scope and breath of India’s economic assistance program has been expanding over the years.

A snapshot of the number of projects is as follows:

Table 3.1:No. of Projects

No. of Projects as on	Small	Large and Intermediate	Total
.3.2004	16	10	26
.3.2005	56	22	78
.3.2006	100	24	124
.3.2007	174	26	200
.3.2008	247	28	275
.3.2009	294	30	324
.3.2010	340	30	370
.3.2011	366	35	401
.3.2012	396	35	431
.3.2013	425	35	460
.3.2014	450	35	485
.10.2014	462	35	497
.11.2014	466	36	502
.05.2015	474	36	510

Source: Embassy of India (2001), Kathmandu

- **Small Development Projects Scheme**

The Small Development Projects are implemented on the basis of a MoU signed between GoI and GoN in November 2003 and renewed in June 2006, August 2008 and August 2011. The validity of the current MoU is until 5 August 2014 and further extended wef 13.08.2014 until 05 Aug 2017. Projects costing less than NRs. 5 crores (\$ 0.7 Million) approximately i.e. IRs. 3.125 crores) are undertaken with focus on areas of Infrastructure Development and Capacity Building in the areas of Education, Health Community Development. The projects are implemented through local bodies of GoN viz. District Development Committee (DDC), Municipality, Divisional office of Department of Urban Development and Building Construction (DUDBC). Embassy of India does not release funds directly to the beneficiary organizations. Funds are released to the local body of GoN in the Districts concerned in four installments based on progress reports received from the local body.

An overseeing committee consisting of executing agency (DDC etc.), concerned district office (education, health etc.), local community leaders, and beneficiary organizations is constituted to ensure quality and timely implementation of the projects. Implementation of the projects is closely monitored by EC Wing of the Embassy through periodical on-site inspections by the officials.

3.4 Sector-wise Contribution Made by the Government of India in Nepal

Sector-wise contribution made by the Government of India in Nepal is as follows:

- **Education**

School/College/Library buildings: Education creates building blocks for the process of nation-building and is the first step towards the development of any country. Government of India focuses on the creation on infrastructure to provide good buildings, equipped with furniture, labs, computers etc. for providing proper education. It is also ensured that proper toilets and drinking water facilities is provided for students and staff. Government of India is providing assistance to institutions of all levels, starting from primary schools to universities in Nepal. The total number of educational school projects undertaken by the Government of India in Nepal as SDPs covering nearly all Districts in the country comes to 273 at a cost of approximately IRs. 336 crores. Manmohan Memorial Polytechnic(MMP): This is the first polytechnic of its kind in Nepal providing technical education in three engineering streams and several vocational courses to make the people of that area self-reliant.

The project was inaugurated by the Prime Minister of Nepal on 2nd November 2009. The fully residential institute has a capacity of providing education to almost 500 students at a time. Regular Diploma courses in Electrical, Electronic and Mechanical Engineering commenced from November 6, 2008. GoI is extending a faculty support to the Polytechnic for a period of 5 years. A 6-member Indian faculty team was positioned at MMP for the five academic years. Estimated cost of project is IRs. 32 crores.

- **Health**

Health is one of the core areas of cooperation between India and Nepal. Beginning with the supply of medicines and equipment, the cooperation has gone on to build and develop health infrastructure ranging from major hospitals to numerous health posts in even the farthest corners of the country.

Bir Hospital: Five storied OPD complex of the Bir Hospital at Kathmandu was constructed with the GoI assistance in year 1984-85. It has the capacity to accommodate 2500 out-patients and is equipped with sophisticated facilities. A

modern Nuclear Imaging Medicine Centre as well as other equipment for use in the OPD were also provided by Government of India, making this hospital the premier Health Care Institution in Nepal. Services of two Indian experts were also provided for a period of four years for training of medical specialist in Bir Hospital's Nephrology Department.

National Trauma Centre at Kathmandu: The Centre was constructed with the assistance of GoI is a super specialty hospital and first of its kind in Nepal. It has been built on the lines of the Trauma Centre of the All India Institute of Medical Sciences in New Delhi for the treatment of trauma patients. The Government of India, on the request of Government of Nepal decided to build this Centre fully equipped with modern medical equipment's to save valuable lives. The MoU for establishment of the Centre was signed between GoI and GoN on 30.07.2003. Cost of the Project is about IRs. 100 Crores. The National Trauma Centre was jointly inaugurated by the Rt. Hon. H.E. Shri SushilKoirala, Prime Minister of Nepal and H.E. Shri NarendraModi, the Hon'ble Prime Minister of India on 25 November 2014.

B.P. Koirala Institute of Health Sciences (BPKIHS) at Dharan is the biggest hospital-cum-medical College outside Kathmandu Valley which was constructed with GoI assistance of Rs. 120 crores. This hospital is providing medical care to patients of not only the Eastern region but also to patients coming from all over Nepal. Government of India is also providing medical faculty support to the medical college by deputing expert faculty from reputed institutes of India who are teaching the students and also helping the hospital in treatment of patients and capacity development in the field of medicine and surgery. The institute is providing MBBS and Post Graduate Degrees in medical sciences thereby helping make Nepal self-reliant in the health sector. The Institute building was formally handed over to GoN in September 1999. On 11 March 2014, Ambassador inaugurated the College Block constructed at the premises of the hospital with the GoI assistance of Rs 6.86 Crores. Since, 2013-14, India is also providing an annual funding of Rs. 1 crore to BPKIHS for five years towards partially covering hiring of Indian faculty for the introduction of super specialty courses by BPKIHS and or any other program specifically for promoting ties/exchanges with India. Government of India shall provide financial assistance of IRs.2.50crores to BPKIHS for procurement of furniture and equipment for the College Block at BKIHS, Dharan.

Hospitals and Maternity Centers under the SDP Program: Several health posts, nursing campuses maternity centers, eye hospitals, naturopathy hospitals have been undertaken under our Small Development Project scheme. Infrastructure of 25 hospitals has been taken up in the country with Government of India's assistance of Rs. 38 crores in 18 Districts.

Gifting of Ambulances/Buses: In order to facilitate the movement of patients from rural, remote and far flung areas to medical centres in Nepal, GoI has gifted 462 ambulances since 1994 across 73 districts in Nepal. These vehicles provide a vital link for transporting patients to medical centers and hospitals. 90 school buses have also been gifted to various health and educational institutions to facilitate the movement of teachers, students, doctors and nurses.

Goiter Control Program: Iodine Deficiency Disorders (IDD) is a major micro-nutrient deficiency in Nepal. Starting from 1973, GoI has provided assistance of Rs.43crores for the program of control of Goiter and other iodine deficiencies in Nepal. Govt. of India has also agreed to provide Rs. 4.3 crores for Iodine Deficiency Disorders Nepal, the MoU for which has been signed. The program has been very successful in controlling IDD in the country, which has been one of the health related success stories of GoN.

Assistance to Nepal NetraJyotiSangh (NNJS) for Cataract and Trachoma Surgeries Program: Blindness due to cataract is a major health problem in Nepal. It is estimated that there are about 3.20 lakh blind people in Nepal, including about 1.29 lakh suffering from blindness due to cataract. About 20,000 people develop cataract in one or both eyes each year. Trachoma is the second leading causes of preventable blindness in Nepal. Out of Nepal's 75 Districts, 29 Districts are affected by Trachoma. With the assistance of Government of India, Nepal NetraJyotiSangh (NNJS) organizes approx. 400 Diagnostic Screening & Treatment (DST) camps and surgery camp for 52 districts and for T.T. in 14 Districts in the country every year. These camps provide absolutely free medical service to the patients. More than 102,000 patients have been cured for cataract and about 5,100 patients have been cured of Trachoma under this program. Government of India is providing assistance of Rs. 2.10 crores to NNJS during 2014-15 for eye care program.

School Eye Health Care Program: Since 2007 Government of India has been providing assistance to NNJS for holding eye camps in schools in remote areas and providing free of cost 9,000 optical dispensing devices to ‘Vision Impaired’ children and 300 Low vision dispensing device to children in Nepal every year. India has provided a financial assistance of Rs. 2.32 crores to NNJS for its School Eye Health Care Program. A mobile eye care van costing Rs. 13.52 lakhs has also been provided to NNJS for holding eye camps in schools. A Memorandum of Understanding was signed on 17 September 2014 between the Embassy of India, Kathmandu and Nepal NetraJyotiSangh (NNJS) for providing Indian Grant Assistance of Rs.64 lakhs to NNJS for School Eye Health Care Program in various Districts of Nepal.

- **Telecommunications**

Government of India provided an assistance of IRs.74croresto Nepal for the laying of 904 Kilometers Optical Fiber cable along the East-West Highway and setting up of 80 stations of SDH equipment. The fiber optic cable has formed the backbone of telecommunication network in Nepal and has transformed the lifestyle of Nepali citizens and made connectivity faster and reliable.

- **Roads and Bridges**

Government of India has constructed 807 kilometers out of the total road length of 1024 Kilometres of the East–West Highway from Mahendranagar to Mechi (Mahendra Raj Marg) which is todaya life line of Nepal. Twenty two bridges were constructed by Government of India on Kohalpur-Mahakali section of the East West Highway. These were handed over to the Government of Nepal in 2001. Besides this, in recent times, 8 village and urban roads and 1 bridge have been constructed with GoI assistance of IRs. 12.83 crores under Small Development Projects Program to provide easy access to the people of remote villages. Presently work is ongoing for construction of 8 roads and 3 bridges at a cost of Rs. 20.43 crores. GoI is also funding the up gradation of road from Dakshanikali (Kathmandu) to Kulekhani (Makwanpur) at a cost approximately Rs. 9.37crores and an additional fund of Rs.3.11crores has been sanctioned for additional work relating to drainage, land sliding, slop stabilization etc.

Terai Roads Projects: During the visit of the External Affairs Minister of India to Nepal in January 2010, both the Governments signed a Memorandum of

Understanding for the development and construction of roads in the Terai area of Nepal. Phase-I of the project covers development of 19 link/postal roads in Terai districts. These 19 roads with a total length of 605 km being constructed under phase-I with Indian assistance of approximately Rs.700crores will not only provide easy access to about 88 lakhs people but will also help in promotion of trade and industry which will eventually contribute to overall economic development of Nepal. Phase-I will be followed by Phase-II and will cover about 845 kilometers of roads. Physical work has already commenced on all the Packages of Phase I of the roads.

- **Electrification Projects**

GoI is trying to bring smile on the face of those villagers who do not have access to electricity and spend their nights either in darkness or have to burn kerosene lamps for lighting. GoI is providing assistance of Rs.13.77crores for the electrification of 28 Villages through Nepal Electricity Authority. The project is ongoing. Up gradation of ThameKhola Small Hydropower Plant in Solukhumbu District has also been undertaken by GoI with a grant assistance of Rs. 2.76 crores.

- **Drinking Water Projects**

Government of India has launched a scheme of Drinking Water Projects for remote villages where people have to walk long distances to fetch drinking water. GoI has provided assistance of Rs. 13.75 crore for drinking water projects in various districts of Nepal. A project to provide drinking water facility at the base camp of Mt. Everest in district Solokhumbu is being undertaken by Government of India at a cost of Rs. 2.46 crores. AMoU was also signed on 06 December 2014 for providing GoI assistance amounting to Rs.64 lakh for Drinking Water supply project in Mustang Distric. This will mitigate drinking water problems of Purangaon and Ranipawa villages of MustangDistrict. This is also expected to contribute to promotion of tourism as also serve the needs of the local populace.

- **Strengthening of Cross-border Linkages**

Government of India has committed to provide assistance to Government of Nepal for the establishment of Integrated Check-Posts (ICPs) at four major points along the India-Nepal border. These are: Raxaul(India)-Birgunj(Nepal), Saunali (India)-Bhairahawa(Nepal), Jogbani(India)-Biratnagar(Nepal) and Nepalgunj Road(India)-Nepalgunj(Nepal). Both the Governments have decided with mutual consent to start

work on the Raxaul-Birgunj and Jogbani-Biratnagar ICPs in the first phase with Indian assistance of Rs. 270 crores for the segment falling in Nepal. The ICPs will have state-of-the-art infrastructure, facilitating integrated customs and immigration for smooth cross-border movement of people and goods. Home Minister of India laid the foundation stone of ICP at Raxaul on April 24, 2010 while the Minister of State for Home Affairs laid the foundation stone of ICP at Jogbani on 24 June 2010. Minister for External Affairs, Govt. of India laid the foundation stone of ICP Birgunj on 22 April 2011.

- **Cross-Border Railway Links**

Government of India has accepted the request of Government of Nepal for establishment of cross-border railway links at five locations on the Indo-Nepal border. These are (i) Jaynagar in India to Bardibas in Nepal, (ii) Jogbani in India to Biratnagar in Nepal, (iii) Nautanwa in India to Bhairahawa in Nepal, (iv) Rupaidiha in India to Nepalgunj in Nepal, and (v) New Jalpaiguri in India to Kakarbhitta in Nepal. Work on the railway connectivity at Jaynagar-Bardibas involving conversion of 51 km railway line from Jaynagar to Bijalpura into broad-gauge and its 17 km extension upto Bardibas and on the 17.65 km Jogbani – Biratnagar rail link is on-going in the first phase of the project. Estimated cost of the two rail links proposed to be taken up in the first phase is more than Rs 802 crores.

Nepal will get about 22 percent of the energy (about 200 MW) from each dam for free. The two projects will bring more than 200 billion Nepali rupees (US\$2 billion) of Indian investment to Nepal.

Modi suggested India will invest in more hydropower projects in Nepal in the future during his speech at the SAARC meeting on Wednesday: “Do we want to face a future when someone looks down at us from Space and says that this is the world’s darkest corner? Let us treat electricity as a commodity like any other that we invest and trade in. India will fully support these initiatives in the region”. But given the current pace of the deals, many activists are worried environmental and social impacts of hydropower will be brushed aside by a government that ignores their genuine concerns. Nepal is rich in water resources with multiple sources of water, including glaciers, snowmelt from the Himalayas, rainfall and ground water. There are 6,000

rivers, including rivulets and tributaries, totaling about 45,000 km in length. The country contains 2.2 percent of the world's water resources.

Nepal's theoretical capacity for producing power from hydropower projects is around 80,000 MW. However, as at 2014, installed capacity is only around 700 MW of electricity, despite the fact that demand is over 1,000 MW. Thus, Nepal remains one of the lowest energy consuming countries in the world. Demand for electricity is increasing at 7–9 percent per year, and according to the forecast from Nepal Electricity Authority, demand for electricity will reach 3,600 MW by 2027. To deal with the shortage of electricity in Nepal, IBN and other government agencies have stepped forward to implement mega hydropower projects. In September 2014, Nepal signed its first Project Development Agreement (PDA, concession agreement) with a private developer, GMR LTD, to develop the Upper Karnali Hydropower Project, a 900 MW project. IBN has also signed another PDA with SJVNL, an Indian governmental entity, for the development of the 900 MW Arun III. The combined cost of these two projects exceeds USD 2.5 billion. In addition, Nepal has signed the Power Trade Agreement (PTA) with India, paving the way for the free flow of electricity as a commodity across the border.

There are several other mega power projects (above 500 MW) in the early stages of development, and IBN has the mandate to take these projects forward. These projects are a high priority for the government and various incentives are in place for investors. There are a lot of ongoing discussions on the proposed power agreement between Governments of Nepal and India. With Nepal's untapped hydropower resources, India's power need, and recent changes in Indian politics, the discussions for power treaty is again back on the table. I was lucky enough to get a copy of the draft of the agreement. In this post, I discuss the important points of the agreement and few areas that need clarification.

3.5 Foreign Aid from China to Nepal: A Brief Review

China has consistently maintained its high position in the aid profile of Nepal. It has been one of the three major donors of aid to Nepal. This aid has helped in meeting various resource gaps in Nepal. At the same time, Chinese presence and participation has acted as a catalytic agent in enhancing the quantum of aid and number of donors which otherwise would not have been attracted by Nepal alone. The counter-

balancing off tactics adopted by China brought in similar reactions from other donor countries which introduced element of competitiveness among the aid donors in Nepal. The mid 1950s saw a significant change in the direction of foreign policy of Nepal. In July 1955, under the "direct rule" of King Mahendra, Nepal established its relations with China on the basis of five principles on peaceful co-existence. And on October 7, 1956, Nepal for the first time negotiated a loan ("Agreement to Maintain Friendly Relations Between the People's Republic of China and the kingdom of Nepal and on Trade and Intercourse between the Tibet Region of China and Nepal (September 20, 1956 and effective from January 17, 1958) agreement with China worth Indian Rs. 60 million. The stated purpose of the loan was budget stabilization. It was to be used over a three year period. Of this total amount, one-third was to be given on installments in foreign exchange and two-thirds in machinery, equipment, materials and other commodities which Nepal needed and China could supply. A similar kind of "a free grant of economic aid of Indian rupees one hundred million without any conditions or privileges attached", was made by China in March 1960.

Since then there is no looking back for the Chinese assistance. China by then had established her authority in Tibet. In May 1956, they reached another agreement which discontinued special privileges and rights Nepal enjoyed in Tibet since 1856. It ceased to receive Rs. 10,000 from Tibet kept for nearly a century to protect Nepalese traders and pilgrims. China also by clear implications abandoned her claims to some form of suzerainty over Nepal. Chinese aid has gone in various areas of Nepalese economy. They include industry, road-building, hydro-electricity, irrigation. Agriculture and social projects like health, education, etc. A ministerial level China-Nepal Inter-Governmental Economic and Trade Commission has been set up in 1985. It has three major areas of operations viz. aid mainly grant, trade and cooperation on mutual benefit schemes like joint ventures and contract basis projects. (Agreement between PRC and Nepal on Economic Aid, October 7, 1956, P. 15). Mostly the Chinese aid have been project oriented and are in grants form. During the last thirty years China extended grants totaling Rs. 900 million. It has so far completed 28 projects, other 5 projects are ongoing and there are four more in the pipeline. After the year 1964, China's aid projects were generally guided by the 'Eight Principles of Foreign Aid' as enumerated below:

1. Was based on the principle of equality and mutual benefit and was never regarded as 'a kind of unilateral aims'.
2. Strictly respected sovereignty of the recipient country, never attached any conditions or asked for any privileges.
3. Was granted in the form of free or low interest loans to lighten the burden on the recipient country as far as possible.
4. Did not seek to make the recipients dependent on China, but sought to help them embark step by step on the road of self-reliance and independent economic development.
5. Was directed toward projects 'which required less investment while yielding quicker results' so that the recipient might increase their income and accumulate capital'.
6. Guaranteed the best quality equipment and material of its own manufacture, at international market prices. (Supplied by the Chinese embassy, Kathmandu, 1988. Ramakant, Nepal, India and China, Abhinav, Delhi, 1976)
7. Saw to that the personnel of the recipient country fully mastered techniques and,
8. Forbade Chinese experts to make any special demand or enjoy any special amenities, but required that they had "the same standard of living as the experts of the recipient country".

The Chinese motive behind extending aid to Nepal are to be primarily seen. In two different contexts, viz. strategic and economic. China had no clear-cut and published objectives of its aid programs till it announced Eight Principles of foreign aid in the year 1964. These principles have also emphasized mainly upon economic paradigms of Chinese aid and in general contexts applicable to all aid recipients irrespective of the location and politico-economic systems.

China's foreign policy is basically propelled by national interests rather than ideology. It is focused on efforts to guarantee national security, maintain internal order and pursue economic development. To meet this range of national interests, it found foreign aid as a useful tool of its foreign policy for many reasons. The new China government after its founding in 1949, strongly believed in the principles of '

proletarian internationalism' which prompted them to provide 2nd technical assistance to the friendly third world countries. To start with. It rendered economic aid to Vietnam and Mongolia in 1953. China's presence in Bandung Conference of 1955. Attracted it more towards the third world.(Yu, 1975.)

- **Strategic Factor**

Nepal located towards the south of the Chinese autonomous region of Tibet is of immense strategic importance to China. In China's two tier 'protectorate' system- to ensure her security.Nepal was always considered as outer protectorate in which China exerted lesser Influence than on its inner protectorates like Sinkiang, Tibet, 10 Mongolia and Korea. It wanted a relatively stable strategic environment especially in its periphery as prerequisites to its own national security and economic development and modernization.

In Nepal, Chinese aid has to compete with variety of aid coming from capitalist countries like the US, the UK, Japan, Germany, the Socialist countries like the USSR and the third world countries like India. Its influence and impact largely depends upon to what extent China could thwart and minimize the influence of other donors in all ideological, political and economic planes. China's basic communist ideology opposed the imperialist's powers in all sphere. The American 'containment policy' in Asia remained as a perceivable threat to China till the Nixon Doctrine of 1969.As the process of Sino-American rapprochement strengthened in the last decade mainly due to China's increasing interest in pragmatic economic modernization, there appeared a sharp change in Chinese attitude to American presence in Nepal and other third world countries. This normalization, however, has vastly increased. (Chang,1982, 3). Increased its reliance on the west for both technical and financial help as well as market accessibility. Though China still considers the US stand on Taiwan as threats to their ideological sense of national sovereignty, they find it different from substantive threats to their security posed by the Soviet Union. China and Soviet Union even having more or less similar ideological and economic systems emerged as bitter foes by the end of 1950s. As this 'lean to one side' policy of China ended, they grew increasingly 'antagonistic' to each other.

China's another major adversary in South Asia has been India whose tradition and well established 'special' relations with Nepal had constantly irked China's geo-political

Interests. In fact there was a stage in the evolution of Nepal's foreign policy roughly during 1955-58 when China would not mention Nepal independently of India. China might have had ultimate goals in Nepal, as a noted scholar, Mihaly writes "in the very long run. China may have looked forward to the incorporation of Nepal into the Chinese state or least to having Nepal as a Communist-controlled client state." But its immediate intention was to loosen India's age old grip over Nepal. The ever flourishing Moscow-Delhi alliance further worried China.

- **China's Economic Assistance (Grants and Loans) to Nepal**

China has not been consistently setting aside a portion of its resources as aid to Nepal on annual basis as have been done by other donors. Its annual volume of aid flows has mostly depended on the size of its different projects and their time schedules mutually agreed (Dahal, 1983).

Table 6.1 gives plan wise inflow of Chinese assistance to Nepal. Though, it shows an increasing trend the second and the third plan witnessed the highest jumps of 204 and 240 per cent respectively over the previous period. This is largely explained by the fact that during this period the roads, industrial, Warehousing and other social projects were taken up and completed at a very feverish rate. The Third Plan constituted almost 16 per cent share of China in total bilateral aid received by Nepal. Since the Fourth Plan this rate of increase has been diminishing. This decline is partly explained by the reduction of the scale of individual projects on grants and its increasing emphasis on aid projects in the form of loans. Also to a certain extent, it's changing global strategy of China to go for massive modernization and readjustment in its own economic system where it requires substantial resources. Further, it is also attributed to increasing commercial attitudes of Chinese ruling elites where they have started bidding very low to win an international contract/tender to work in the third world countries rather than extending generous aid. This aspect has been further elaborated in the following chapter on comparative study. As a result of all these factors, the share of Chinese aid in total bilateral aid to Nepal went down to 4.4 per cent in the Sixth Plan, However one should not overlook the fact that the relative decline in Chinese share is also caused by a quantum jump in the total foreign aid to Nepal especially coming from the multilateral sources.

Table3.2: Chinese Aid to Nepal(FY 1955-56 to 1984-85)

(In Rs. Million)

S.N	Periodic Plans	Chinese Aid	percent Change over the Previous Period	Percent
1.	First Five Year Plan (1956-1961)	32.1	-	8.4
3.	Second Five Year (1962-1965)	45.0	20.4	9.45
4.	Third Three Year Plan (1965-1970)	153.0	24.0	15.18
5.	Fourth Five Year Plan (1970-1975)	210.5	30.0	13.95
6.	Fifth Five Year Plan (1975-1980)	307.7	48.2	7.26
7.	Sixth Five Year Plan (1980-1985)	455.2	-	4.4

Sources: Ministry of Finance(1986), Nepal.

Table gives us an Idea of authorization and utilization of Chinese aid by Nepal. In the absence of any clear-cut layout of annual Chinese aid, the exact calculation of authorized aid becomes difficult. On the other hand, the Chinese authorities disclose the quantum of actual projection only after its completion.

Table 3.3:Authorization and Utilization of Chinese Aid to Nepal

(Rs. in million)

S.N.	Periodic Plans	Amount Authorized	Amount Utilized	Utilized Amount as percent of Authorized Amount
1.	First Five Year Plan	219.6	32.1	14.62
2.	Plan Gap Year	64.2	14.8	23.05
3.	Second Five Year	44.7	45.0	100.67
4.	Third Three Year Plan	170,0	153.0	90.00
5.	Fourth Five Year Plan	329.0	210.5	63.81
6.	Fifth Five Year Plan	264.5	307.7	116.33

Sources: Baidhya, (1984), Nepal.

The authorization part has been crudely estimated by dividing the amount stipulated for different projects by number of years taken to complete the project. The utilization figures, however, are taken from the Annual Budget Speeches and other Economic Survey Report of Ministry of Finance of the HMG.

The utilization figures do not include technical assistance which constitute a significant portion of the total assistance. This is included in the authorized figures. So, the ratio of (Baidya, 1984, 147). Utilization should be much higher than those mentioned above i.e. over all about 71 per cent. China's non-payable loans are regarded as donations which it gives to various poor countries. In case of Nepal, about 44 per cent (\$ 98.7 m) of its total loans were donations between years 1956-73. However, this also depended much on the worthiness of the recipients to receive interest free loans.

Road Building

China has been the second largest donor in terms of road construction. It has so far constructed more than 750 Kms of roads in Nepal constituting about 20 per cent of the total foreign aided road construction in Nepal. Among the major road building projects, it has undertaken, the Arniko Rajmarg, the Prithvi Rajmarg, Kathmandu Bhaktapur Highway, Gorkha-Narayangarh

Highway, Pokhara-Surkhet Road, Ring Road project, and Pokhara-Baglung highway are of immense value to the Nepalese economic and social mobility.

Table 3.4: Production Plan of Bhrikuti Paper Mill in the Seventh Plan

S.N.	Year	Capacity Utilization (in percent)	Printing Paper(Metric tons)	Writing Paper(Metric tons)
1.	1986-87	60	540	1,365
3.	1987-88	65	585	1,260
4.	1988-89	70	630	1,470
5.	1989-90	70	630	1,470
6.	1990-91	70	630	1,470

Source: An Introduction to Bhrikuti Paper Mill, 2039, Bhrikuti Paper Mill, pp. 72-74.

Hydro-Power Projects

Nepal's investment board on Monday cleared China's Three Gorges International Corp to build a long-delayed \$1.6 billion new hydropower project, the single biggest foreign investment in the Himalayan country. The dam, to be built on the West Seti River in northwest Nepal, will generate 750 megawatts (MW) of power when complete, board official Ghana Shyam Ojha told Reuters. A Nepal parliamentary panel first approved the project in 2012 but state-owned Three Gorges had been waiting for the investment board's clearance. The project is forecast for completion by 2021-22 and officials said some of the generated power is expected to be given to locals for free with the rest sold to Nepal. One of the world's poorest countries, Nepal is opening up its vast hydropower potential to help ease chronic power shortages and grow an economy still emerging from a decade-long civil war.

In March, Beijing said it would extend a \$145 million grant for the upgrade of a 114-km (71-mile) road that links the capital Kathmandu with the Tibetan border, as well as other infrastructure projects. Three Gorges is China's biggest hydropower developer and operates the world's largest hydropower plant at the Three Gorges on the Yangtze River. Nepal is estimated to have the potential to generate 42,000 MW of hydropower but today produces 800 MW -- less than the demand of 1,400 MW. In the arena of hydro-power projects the major project of China in Nepal has been Sunkosi hydro-power project.

Sunkosi Project

This project was started in the end of 1968 and was completed in November 1972 at an approximate cost of Rs. 100 million. It has a total capacity of 10,000 KW. This project is being discussed as a case study in the following chapter in greater detail. The power station is located at Lamosangu. It distributes power to Kathmandu valley and the plant's surrounding areas. This plant accounts for nearly 15 per cent of the total installed capacity of power recorded at the end of the Fifth Plan. In the total hydro power generation, its contribution is 19 per cent.

Transmission Lines

The first overhead transmission Chinese were aid from Sunkosi to Kathmandu for which the work started in 1968. The second line of this' connected Sunkosi with Chutara and Barahbise.

Upper Trishuli3A

The Upper Trishuli3A Hydropower Project could find itself in a fix with nowhere to send electricity to when it comes online as there has been little progress in the construction of a transmission line. The 60 MW plant is expected to start generating energy within a year, and the Nepal Electricity Authority (NEA) says the construction of the transmission line hasn't even started. The proposed 220 kV overhead power line linking the powerhouse with the NEA's substation in Matatirtha will be 46 km long. Problems like land acquisition, forest clearance and protest from locals over a number of issues have affected the commissioning of the transmission line project, according to the NEA. Along with the overhead power line, a 220 kV underground cable route about 1 km in length will also be built. "Going by the pace of progress at the Trishuli3A project, it is certain to be completed within the next one year. The powerhouse will be ready for energy evacuation by then," said MukeshKafle, managing director of the NEA. "However, the completion of the project will have no big significance if the transmission line is not completed by that time." The NEA boss described the transmission line project as being one of the most problematic projects for the NEA. The state-owned power utility is constructing both the hydropower project and the transmission line. Although the construction of the hydropower project was delayed by more than three years, the NEA failed to complete the transmission line which should have been erected much earlier as per the initial target for the project's completion.

The NEA extended the contract deadline for the construction of the project until June 30, 2016. Originally, the project was slated for completion by June 30, 2011. "At a time when the country is going through a severe power crisis, the wastage of 60 MW of power will mean a huge misfortune," said Kafle. "There will also be a commercial loss of million of rupees for the state-owned power utility." The NEA is of the view that it can still complete the transmission line within one to one and a half years if the government provides the necessary support. "Support in terms of forest clearance, playing a constructive role to narrow the differences at the local level and providing security to the project," Kafle said. The Upper Trishuli3A project is a run-of-the-river hydropower project located in Nuwakot and Rasuwa districts. Its construction began in fiscal year 2010-11 and has been financed by a soft loan from China Exim Bank.

The project is expected to improve the power supply in the Kathmandu valley. Apart from this, two other projects, the 30 MW Chameliya and 14 MW Kulekhani III, are likely to be completed within a year. Both the projects are being developed by the NEA. “If things move at the current pace and unforeseen situations do not arise, the projects will be ready within a year,” Kafle said. Source: The Kathmandu Post

Upper Marsyangdi

The construction of the Upper Marsyangdi-A Hydropower Project in Bhulbhule, Lamjung has picked up pace, and project officials expect it to be completed in the next 13 months. Work on the 50 MW project started in January 2013, and since then 70 percent of the tunnel digging works, 75 percent of the powerhouse construction and 60 percent of the civil works have been completed. Karna Adhikari, assistant manager of the project, said more than 45 percent of the project had been completed. Its estimated cost is Rs 10 billion. The Upper Marsyangdi-A has experienced work stoppages lasting more than one and a half months with project employees staging protests demanding a hike in their perks and benefits.

In order to make up for lost time and finish the project within the stipulated date, the project has mobilized a rush crew of 1,100 workers (500 Nepalese and 200 Chinese). Sino Hydro, the main developer of the project, said they would start generating electricity by the end of 2015. “We are in a position to complete the project within the stipulated time.” The dam and tunnel digging works are expected to be completed within a couple of months. The dam has been built at the border between Bhulbhule 5 and 6, and water will be brought to the powerhouse at Bhulbhule 3 through a 5-km-long tunnel. The run-of-the-river project is being implemented by China’s Sino Hydro and its Nepali partner Sagarmatha Power Company. It has signed a power purchase agreement with the Nepal Electricity Authority for 6.95 cents per unit. (www.ekantipur.com/uppermarsyangdi/hydropower)

Table 3.5: Sectorial Distribution of Aid

(In percent)

1.	Transport and Communication	53.38
2.	Industry and power	34.98
3.	Agriculture	3.93
4.	Social Services	1.20
5.	Others	6.50

Source: Chinese Embassy, Kathmandu, Nepal

Table 6 depicts as how the Chinese aid has been allocated sector-wise during the period 1956-80. As the Chinese sources do not divulge the exact sector-wise allocation of itsaid, it has been tentatively calculated by gauging the costs of different projects have been completed as well as few were underway. Note: The figures given here are based on tentative calculations of the costs of the different projects. As the table shows Maximum share of aid I.e. about 54 per has been taken by transport and communication sector in the most vital sub-sector is the road-building activities second largest share is taken by Industry and power. This indicates the Chinese interest in developing physical infrastructure in Nepal. In contrast the allocation to other vital sectors like agriculture and social services are hardly 5 percent.

3.6 Sectoral Priority and Allocation of Foreign Aid

3.6.1. Indian Aid

India has extended its aid, what it calls ‘cooperation’, to a varied and complex. It would be general impression that aid from India is usually an urgency criteria, i.e., whenever the Nepal government plans to execute certain development projects it approaches the government of India for funding if they fall under the traditionally and politically determined areas of cooperation of the latter. But sometimes India itself offers its intention to provide aid in some sectors which might fall under the characteristics of ‘mutually beneficial areas’. And over the years, aid from India has covered sectors ranging from transport and communication, health to tourism and hydropower.

Table 3.6: Sectoral Distribution of Indian Aid

(IRs. in Million)

S.N.	Sectors	Amount Disbursement	Percentage
1.	Roads and airports	1566	56.5
2.	irrigation	765	27.6
3.	Agriculture and allied	11	0.4
4.	Community and local development	213	7.7
5.	industries	33	1.2
6.	Postal and communication	19	0.7
7.	others	164	5.6
Total aid		2771	100.0

Source: Indian Embassy (2002), Kathmandu, Nepal.

India has been disbursing aid to Nepal in a large number of areas, possibly in almost every sector of the economy. Strategic motivations for parting with India's precious resources in the form of aid grants to Nepal are too evident. India has been directed towards a very wide range of programs, but among the most important have been the major road projects initiated with the first motor road in Nepal linking Kathmandu with India, continuing up to the present day. Between 1951 and 1990, India invested Rs. 2362.6 Million in this sector covering a length of 1271.7 km*. of the total aid disbursed up to 1990, approximately 57 per cent of all aid disbursed went to building roads and airports.(see table)According to Indian embassy source, about 70percent of the 1000 kms long east- west highway, which is regarded as the main artery of Nepal's transportation, was financed with India's aid money. Another major road projects is the construction of the(HMG/N, ministry of Finance, mimeo, updated) and the Indian embassy(Kathmandu).Sunauli-Pokhara highway. Besides, India also built link roads and urban roads, for example roads from Kathmandu to Trishuli, Dakshinkali, Godawary etc. India has also built a number of bridges on the road projects built by it as well as in certain other areas. Some of the major road projects built by India as grants are shown in table below.

Table3.7: Indian Road Projects

(IRs. inMillion)

S.N.	Projects	Length(km)	Year	Cost
1.	Tribhuban high	116	1953-59	820.00
2.	Dakshinkali road	19	1969	1.96
3.	Siddhartha highway	200	1965-72	225.8
4.	Mahendra highway(eastern part)	300	1969-75	417.8
5.	Kathmandu-trishuli road(repair and pitch)	69	1972-75	10.1
6.	Kathmandu-Godawary road	16	1973-75	10.3
7.	Koshi area road			
	a) Hanumannagar-Rajbiraj	13.5	1983	15.9
	b) Hanumannagar-Fatepur	28.2	1975-77	10.9
8.	MahendraRajmarg (central sector, link road, auxiliary road, etc.)	304	1972-84	1012.5
9	Mahendra Highway(Butwal-Kohalpur)	310	1972-1985	1310.0
10.	Kohalpur-Mahkali Road	200	1992	850
Total		1575.7		4685.3

Source: Indian Cooperation Mission (2012), Kathmandu.

There are three major elements involved in the road sector, the length of the road, the costs, and the benefits arising out of the projects. Implicit elements in the road project are also the motive of the donor agency. In terms of costs and length, there is naturally a big difference between roads built in the earlier period and the one built recently. From political consideration, these road links the east-west sector of the Tarai region bordering with India. The construction of the Tribhuvan highway has connected Kathmandu with border town of India. No matter from whichever side the request for the financing and execution of the road projects came it is due to India's strategic and political consideration that the projects were implemented. India thought that Nepal approaching the other neighboring country China for financial and technical support for building certain road projects in the Terai region would be determined to its strategic interest. This has urged India even to reluctantly undertake certain road construction projects like the Kohalpur-Mahakali section of the road which was originally to be built by China. Another important sector where comparatively heavy amount of aid from India is utilized is the power sector. Of the total hydropower production as of 1983 which was 110 mw about 56 mw of power is being supplied through projects executed through aid from India. The largest project built with Indian assistance is shown in table.

Table 3.8: Power Projects with Indian Assistance

S.N.	Projects	Capacity (in MW)	Year of Completion
1.	Trishuli hydropower station	21	1974
2.	Surajpur power house	15	1981
3.	Kalaiya power house	4.8	1967
4.	Phusrekhola power house	1	1983
5.	Devighat hydro electricity power station	14.1	n.a.

Source: Information Supplied by Indian Corporation Mission (2012), Kathmandu.

Besides these projects, India was to supply 50 per cent of the 20000 kW and 30000 kW power to be generated from two projects, Khoshi and Gandaki respectively. The government of India has also assisted in installing a small power house in Pokhara (1000 kW). There were also power exchanged agreements between Nepal and India under which India had agreed to supply power from the Bihar and Uttar Pradesh state electricity board at Birgunj. Indian aid in the social sector such as drinking water is also significant. The government of India undertook a number of drinking water

projects in the sixties with aim of benefiting about 500,000 population in various parts of the country. The biggest project executed with Indian aid is the Sundarijal and three other, Panauti, Bishnumati and Chhatra projects. In the health sector, India has been providing assistance for constructing of hospitals. One of the biggest foreign aided projects in the health sector is the Indian aided outpatient department of the Bir hospital in Kathmandu which was constructed with an estimated cost of Rs. 139 million, inclusive of equipment worth Rs. 69 million, which according to India's minister of health and welfare, is a 'standing testimony of friendship and cooperation between Nepal and India'. India also has provided assistance for the control of goiter, a common disease in the hill region of Nepal. In the industrial sector, India's assistance is not very significant vis-à-vis others. Its assistance in this sector is to help build industrial states. But the extremely limited domestic markets for its products, the country's landlocked position and protectionist policy adopted by India pose enormous constraints to the industry development of Nepal. However, Indian assistance in building industrial estates has helped to mobilize private capital for certain types of consumer goods industries, although on modest scale. But in other sectors airport construction and building of telecommunication network, Indian aid contribution is significant. India undertook the execution of six airports in Kathmandu, Pokhara, Birgunj, Bhairahawa, Janakpur and Simra through some of these have become less useful due to the opening of the roads links with Kathmandu.

Similarly, aid from India in the telecommunication sector is also important. India helped Nepal to set up telephone exchanges in eight towns in the Terai region. Construction i.e., the general post office and foreign post office, have assisted Nepal to organize its postal communication. In the area of telecommunication quite a few schemes have been implemented. Another major area of Indian assistance is in the irrigation sector. Between 1954 and 1972 as many as 16 projects were operating in Nepal under Indian aid to irrigate about 0.3 million acres of land (with a total cost of 125.2 million rupees). This irrigation potential has been extended substantially over the period. But some of the irrigation projects were for mutual economic interests. India built dams and canals to check flood in the Northern India and Bihar and also to provide irrigation in these states for making its green revolution campaign a success. For these purposes, the cooperation of Nepal was essential as some of its rivers cause suffering in the Bihar state of India due to regular flooding. Some of these projects for mutual benefits are Chhatra canals projects, Khoshi and Gandaki projects, and the distribution system of the western Khoshi canal. Some other fifteen irrigation schemes were completed all in the sixties with a total of 112,920 acreage irrigated.

Of these, the largest being the Tinau irrigation project with a total of 50,000 acreage irrigated. Besides, these sectors, India has been providing assistance in the field of horticulture under which research and development extension services and marketing for fruit varieties are supported. Similarly, India is also providing support for education and manpower development which are important forms of technical assistance.

3.6.2. Chinese Aid

Chinese aid contribution remained high in absolute terms in 1960s and 1970s. However, its total aid contribution to the total aid utilized by the Panchayat government (1961-90) was little more than 3 percent. It is difficult to estimate the sector wise disbursement of Chinese aid because of actual money spent on various projects and programs. The share of Chinese aid in total aid in five year plans is shown in table:

Table3.9: Share of Chinese Aid in Total Aid

(IRs. inMillion)

S.N.	Periodic Plans	Total Aid	Chinese Aid	percent of Chinese Aid
1.	First five year plan	382.9	32.1	8.4
2.	Plan Gap Year	186.4	14.8	7.9
3.	Second five year	47.6	45.0	94.5
4.	Third five year plan	967.8	153.0	15.8
5.	Fourth five year plan	1508.9	210.5	13.9
6.	Fifth five year plan	4240.8	307.7	7.2
7.	Sixth five year plan	10920.0	455.5	4.2
8.	Seventh five year plan	24000.7	232.5	1.0
	Total aid	42225.1	1451.0	3.4

Source: Various Documents

The sectorial breakdown of Chinese aid as of 1982 shows that as much as 66.8 percent of the Chinese aid was for transport, i.e., road construction and about 22 percent was for industrial development (table). The rest went for power and construction.

Table 3.10: Sectorial Contribution

(IRs. in Million)

S.N.	Sector	Total Estimated	Cost Per Cent
1.	transport	689.5	32.1
2.	Power projects	100.0	14.8
3.	Industry	227.0	45.0
4.	Construction	10.6	153.0
5.	others	5.0	210.5

Source: Various Documents

One of the major objective of Chinese aid in Nepal was strategic. The high priority assigned to the road building projects in early 1960s is a manifestation of that objective. Another strategic element in Chinese aid allocation as in the Indian aid allocation, is the large share of the aid in the transportation sector of the total aid. Up to 1980 about 67 percent of Chinese aid was in the transport sector followed by industry and power sectors. China's strategic interest in Nepal was a result of the simmering discord with India in the mid-1950s. The discord was further intensified by the revolt in Tibet and the fleeing of DalaiLama to India. China also perceived a possible indo-us alliance as posing a threat to its relation with the Soviet Union had gone sour. In order to counter India's position as the primary motivation and to deepen trade links with its Tibet region and Nepal as the secondary motivation. China was promoted aid to Nepal in building the proposed road. It is quite obvious that both China and India are attaching top priority in promoting transport sector in Nepal. As early as 1964, China agreed to build some road construction projects in the Nepal-India border at a time when the indo- Nepal relation was at its lowest ebb. On April 27, 1967 Nepal and China agreed to build the 170 km long Janakpur-Biratnagar section of the east-west highway. But India put a pressure on Nepal and finally the project had to be abandoned. India agreed to build this project. Another similar road competition episode having strategic implication is Itahari-Dhalkebar road project which is also 170 km long. Nepal had entered into an agreement with China for the construction of this project with an estimated costs of Rs. 17.6 million. China had made some preliminary survey but again due to political pressure from the

government of India, Nepal requested the former in April 1969 to abandon the execution of the project.

Table 3.11:List of Road Projects with Chinese Assistance

(IRs. in Million)

S.N.	Projects	Length(km)	Cost estimated	Duration
1.	Arniko highway(Bhaktapur-Kodari)	104	88.0	1963-67
2.	Prithvi highway (Naubise-Pokhara)	174	117.0	1967-73
3.	Ring road Kathmandu	27	90.0	1974-77
4.	Gorkha-Narayanghat road	60	344.0	1976-82
5.	Kathmandu-Bhaktapur trolley bus	14	30.0	1973-75
6.	Pokhara-mustang road	407	n.a.	1975*
7.	Pokhara-Baglung road	73	n.a.	1987-90
8.	Kathmandu-Bhaktapur road	13	20.5	1969-71

Source: Chinese Embassy Kathmandu (1973), Nepal.

*A survey was conducted in 1973 for the road by Chinese team and it agreed to provide financial and technical assistance in 1975 for the road. Later in March 1984 China agreed to construct the Pokhara-Baglung sector and finally contract was awarded in March 1987 for this road. Source: Ministry of Finance, HMG/N, Project under Chinese assistance (mimeo), Kathmandu.

Like the road project built with Indian assistance, road by Chinese also guided by political-economic motives. Two road projects built with Chinese assistance, i.e., the road which links Bhaktapur, one of the three cities in the Kathmandu valley to Kathmandu, and the Bhaktapur-Kodari road are directly guided by this consideration. The road linking Bhaktapur with Kathmandu and then linking to the boarder to China was prestigious carrying type that means even other donors would have agreed to build it, had the government proposed. The economic justification for this road was very convincing, though which donor should build the road would have been vital political decision. Similarly, road linking Kathmandu also has politico-economic significance. But the direct benefits or gain of this project are so high that people would not criticize overly for ulterior political motives. In order to reduce Nepal's dependence on India and at the same time strengthen its economic links with Nepal, China helped Nepal established various import substituting type industries. These are the also the industries in which China has developed expertise and technical know-how. China provided technical and economic assistance to Nepal to build five

important substituting and consumer goods industries, viz., leather and shoe factories, brick and tile factories, a cotton textile mill, a sugar factory and a paper mill.

Table3.12: List of Industries Established with Chinese Aid

S.N.	Name of Industries	Date Started	Date Completed	Estd. Cost	Remarks
1.	Bansbari leather and shoe factory	1963	1965	23	30,000 pairs of shoes and 20,000 of hides
2.	Harishiddhi brick and tile factory	1965	1968	14	15,000 million of bricks and 0.5 million tiles
3.	Hetauda cotton textile mills	1973	1978	160	15,000 spindles and 10 million meter per year
4.	Bhaktapur brick and tile factory	1974	1979	-	-
5.	Bhrikuti paper mills	1983	1987	350	10mt/day production
6.	Lumbini sugar mills	1987	1990	100	1000mt/day, alcohol
7.	Leather gloves and apron manufacturing unit	1984	1986	0.65	200 pairs of gloves and 100 aprons /day

Source: Various Document of Chines Embassy Kathmandu, Nepal.

Chinese government undertook to provide aid in such a highly essential area such as linking telecommunication service by offering trolley bus services between Kathmandu and Bhaktapur. The utility of such project lies in the fact that it has facilitated the transport for greater number of urban population. The trolley bus services was built during the period 1973-75 with an estimated cost of Rs. 90 million.

Apart from these two sectors, aid from China in other sectors is not very significance. In power sector the Sunkoshi hydro-power is important. China had agreed to execute Pokhara water circulation and irrigation project (for 1500 kW of power generation and 1030 hectare of irrigation). Nepal and China also agreed for the construction of

the Kamala irrigation project, but this project was also to be withdrawn by China as India thought that the presence of Chinese on the border would be politically and strategically harmful to India's interest. In other fields such as warehouses and creation of the other physical facilities such as national trading complex and Birendra international conventional hall received some assistance from China. Other areas of assistance include commodity and cash* assistance for providing training to Nepalese citizens in China. In other areas such as technical assistance for education and survey experts (for conducting g for the geological survey for the exploration of phosphate and petroleum deposits in Nepal) China had provided some assistance to Nepal.

CHAPTER-IV

PROMOTERS OF ECONOMIC DIPLOMACY

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

4.1 Governmental Organizations

Government represents the overall interests of the nation in time of negotiation with the other parties. The effective and situational conduct of the governmental organizations can immensely enhance the efficiency of diplomacy. Various organizations of the government are equally important for the successful enhancement of economic diplomacy. Out of them the, Ministries of Foreign Affairs and Finance assume the first and foremost role in promoting. The foreign ministry basically needs to work upon foreign policy of the nation. It formulates and executes policies related to the international relations. The foreign affairs of the nation get expressed through it. The nation establishes diplomatic mission in the capitals of the major countries. The diplomatic missions abroad are entailed to do the following main functions:

- To promote the welfare of the Nepalese citizens living in the receiving state.
- To promote friendly relation between Nepal and receiving state.
- To make arrangements for the high level official visits of the delegates to Nepal and vice-versa.
- To represents in the receiving state.
- To report to the HMG/N about socio-political development of the receiving state.
- To negotiate with the government of the receiving state.

These functions of the Royal Nepalese missions abroad fall within the traditional domain of diplomacy. In the changed scenario, foreign ministry and Royal Nepalese

missions should work in a different way. The Ministry is the main body to make external policies. This is the phase of economic diplomacy. Thus, it should be well prepared to bring economic returns through it. First of all, the government should fix our national interests considering the inevitability of economic diplomacy. Then, the Foreign Ministry should work along this line. The Royal Nepalese missions abroad can be the excellent means to promote economic diplomacy at governmental level. As recommended by high level task force (HLTF) in 1997 to actively pursue economic diplomacy, economic relations and co-ordination division has been set up in the ministry of foreign affairs to co-ordinate economic activities inside and outside the country. The ERCD will act as facilitating and co-coordinating body. His Majesty the government has established the international Business Forum (IBF) in the Ministry. It will act as an interacting forum between MoFA and the private sectors so as to enable to evolve guidelines on major aspects of economic activities. The International Relations Desk(IRD) have been set up in the line ministries related to economic activities such as the Ministries of Finance, Trade, Industry, Tourism, Water Resources and Labor. These three institutions are established with a view to promoting economic diplomacy and achieving its goals and objectives.

The Formulation of High Level Task Force(HLTF) 1997

His majesty the government formed a high level task force in 1997. The task force was authorized to make analysis and suggestions on diplomacy and foreign policy. The task force comprising political scientists, foreign policy experts, diplomats and MP made an in-depth study on foreign policy. The task force realized that the government should make an immediate shift from traditional diplomacy to economic diplomacy. The diplomatic scenario in the international relation has already changed. The demise of cold war, the rapid development of the science and technology, the globalization of economy, the concept of liberalization were deeply studied by the HLTF. The task force then came to the conclusion that Nepal has to make emphasis on economic activities through economic diplomacy. The Royal Nepalese missions abroad can be reliable instruments to carry out it giving continuity to traditional roles of foreign policy. The HLTF finally recommended to actively pursue economic interest of the country. Since then, the need of an aggressive policy of economic diplomacy has been advocated through governmental channels and private sectors. The HLTF report suggested great importance on economic diplomacy in order to

promote Nepal's export trade and tourism, seek employment opportunities abroad and attract greater flow of foreign aid to the country. The HLTF of 1997 gave to recommendations to the foreign ministry. As suggested by it to actively pursue economic interests through economic diplomacy, the MoFA has set up an economic relations and coordination division to activate the Royal Nepalese missions for economic activities abroad and to coordinate and cooperate the line ministries and private sectors at home to give a boost to its role in economic diplomacy. An International Business Forum (IBF) has been set up to act as an interacting forum between MoFA and private sectors so as to enable to evolve guidelines on major aspects of economic activities. The HLTF placed importance on the policy formulation to promote economic diplomacy. The objectives of the policy formulation are as follows:

- To promote Nepal's export trade,
- To attract greater flow of foreign investments in Nepal,
- To promote Nepal as an attracting tourist destination,
- To promote overseas employment opportunities for the Nepalese workers and help repatriate their overseas earning safely and to look into their wellbeing,
- To disseminate information about Nepal,
- To prepare conducive atmosphere for developing relations between the business and industrial houses of Nepal and foreign countries,
- To arrange free flow of information to the Nepalese business and industrial communities about the laws, customs tariff, market potentialities, transportation costs, business trend etc. of any particular country,
- To explore markets for Nepalese products in foreign countries.

4.2. Non- governmental Organizations

The role of the government and its machinery is the one side of the coin in promoting economic diplomacy. The other side comes under private sectors. Private sectors, specially, trade organizations are the part and parcel of economic development. In a country where economic diplomacy is to be strengthened, the role of business community and its respective organizations is given top priority to expand economic relations with the corresponding foreign organizations. The trade and commerce

chambers can help the government mainly in two ways. First of all, they can suggest and recommend policies to be taken by the government. The government can formulate practical economic policies to increase the economic participation of private sectors. Development of strong national economy is always the priority of the state. Private entrepreneurs can pinpoint practical suggestions where foreign direct investment is extremely required and where national capitalists themselves can invest. In Nepal's own context, the role of private sectors is largely important. Non-government organizations, especially, trade, industry and commerce related forums are to be encouraged to take part in policy making process. The private sectors can contribute the nation to the rapid growth of economy not only policy making level, but also at implementation level by expanding economic relations with foreign countries and their organizations. The role of Federation of Nepalese Chambers of Commerce and Industry (FNCCI) is substantially important in expanding economic relation at people to people level. As the umbrella organization of Nepalese business community, the FNCCI has organizationally made effort to carry out the role. The FNCCI is committed to protecting the rights of business and industrial communities along with expanding relations with foreign business and industrial chambers and federations. The FNCCI has adopted the following objectives:

- To act as a catalyst for business and industrial development in the country,
- To reinforce business community's commitment to the society,
- To provide advisory services to the government and lobby and when required in formulation and execution of business and industry related policies, acts and programs,
- To foster cooperation among various national organizations related with business and industry,
- To provide up to date information services to business and government and community at large,
- To create awareness and support for business and industry efforts on quality and environment and industrial relation.

FNCCI activities are under pinned by the principles of professionalism in operation, partnership approach in working with government, presentation of total business and

industry view, philosophy in favor of fairness, transparent, deregulation, decontrol and delicensing, strong belief in fair competition and private initiative, working through extensive consultations in deciding industry and business policies, close cooperation with foreign federation, chambers proposals.

The FNCCI is the member of the following international organizations:

Source: FNCCI (2013), Kathmandu, Nepal

- International Chamber of Commerce (ICC),
- International Organization of employer's (IOE),
- SAARC Chamber of Commerce and Industry (SCCI),
- Asian Trade Promotion Forum(ATPF),
- World Assembly of Small and Medium Enterprises (WASME),
- Standing committee for the chamber of commerce of group 77,
- Confederation of Asia-Pacific chamber of commerce and industry (CACCI).

The FNCCI has signed memorandum of understanding (MOE) with the following foreign chambers and organizations:

- Federation of Bangladesh chambers of commerce and industry (FBCCI),
- PHD chamber of commerce and industry (PHDCCI),
- Stadtparkasse Koln-Asia, Pacific Centre, Germany,
- The central chamber of commerce of Finland (CCCF),
- Austrian federation of economic chamber (AFEC),
- The federation Israeli chamber of commerce (FICC),
- Federation of Egyptian chambers of commerce (FFCC),
- Egyptian Businessmen's Association (EBA),
- The association chamber of commerce and industry of Indian (ASSOCHAM),
- Friedrich NaumanStiftung,
- Federation of chambers of commerce and industry of Srilanka (FCCISL),
- The chamber of commerce and industry of Romania (CCIR),

- Confederation of Indian industry (FICCI),
- Federation of Pakistan chambers of commerce and industry (FPCCI),
- Union of Myanmar chambers of commerce and industry (MCCI),
- Japan chambers of commerce and industry (JCCI).

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

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

CHAPTER-V

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

Nepal foreign policy objectives are dedicated as much by its geographical location and historical factors as by the regional and global environments. Being a country located between two fast growing economy at present world, India and China, which are much larger by all accounts, so the fundamental objective of Nepal's modern diplomacy should maintain its sovereignty and independence. Besides, since the capacity to withstand the pressure of external influence hinges on economic independence, development of a self-reliant economy has also been one of the major objectives pursued by Nepal more vigorously during the penchant periods. The logic behind the this argument is that so long as its national economy remains dependent on one or the other country, both its domestic and foreign policies, which at times are so entrenched, will not be independent from outside influence.

Summary of findings are as follows:

- Policies and strategies can only be made operational through a series of policy instruments that are pragmatic and implementable. An important requirement in this regard is that there is clear linkage between policies, strategies, instruments and the institutional framework required for translating policy objectives into reality. In the absence of proper identification of appropriate policy instruments and the institutional framework, these policies and strategies would largely remain unimplemented.
- Adhering to Prudent Resource Allocation and Management Procedures: Aid effectiveness depends, inter-alia, on realistic budgeting, prioritization of public expenditure programs and screening of projects. In this respect, special attention will be paid to the improvement of the budget formulation process as follows: (i) the linkages between annual budgeting and periodic plans will be further strengthened through coordination of activities among MoF, NPC and line ministries, through the MTEF process discussed above. (ii) Budget allocations will follow clearly defined priorities and ranking of projects in terms of their potential for achieving sectorial and national development

targets. Adequate considerations will be given to forward planning for resource needs of on-going projects and programs so as to complete projects by stipulated times and to avoid cost and time overruns, and (iii) In order to avoid over-stretching of the development budget, rigorous project screening and evaluation of new foreign-aided projects will be made mandatory before they are included in the development budget.

- Joint Programming Approach: Donors will be encouraged to undertake joint programming of development assistance in order to channel resources to priority areas on the basis of their preferences and excellence and to agree on joint funding in the case of large projects requiring multi-donor involvement. With regard to the program formulation, funding and implementation modalities of such programming consultation with and leadership of the government would be required. This approach is also useful in avoiding duplication of efforts as well as developing effective partnerships for development. In cases where disbursements of aid resources fall below expectations, joint recipient-donor investigations would be undertaken to look into the causes responsible and suggest remedial measures.
- Effective Project Planning and Implementation: Project planning exercises would be undertaken at the beginning of the project cycle. Such exercises would focus, among other things, on the justifications of projects, the extent of foreign aid resources required, implementation schedules, etc. and would cover all key aspects of project formulation, identification, selection, and monitoring and evaluation. Institutional capacity for project planning exercise would be strengthened.
- HMG will redouble its efforts to improve implementation of projects financed by domestic and foreign resources by (i) making counterpart funds available in time, (ii) decentralizing decision-making authority all the way down to the project or program managers in the field, and holding them responsible for performance, and (iii) standardizing bidding document to avoid procurement problems.
- Improvement in Project Evaluation, Impact Study, Supervision and Monitoring: Rigorous project evaluation, as well as impact studies of at least

major projects would be undertaken. A strong feedback mechanism capable of incorporating voices of stakeholders and interested parties would be established. A system of "public hearing" on impact study reports of the projects would be initiated. A reasonable number of aid projects implemented under each sector will be studied on a periodic basis by independent groups of experts. Supervision as well as monitoring of the project implementation will be strengthened and established wherever necessary in order to avoid problems and to deliver expected benefits. For making supervision and monitoring effective, efforts would be made to create project monitoring committees at operational level.

- Encouraging a "Common Pool" Approach: HMG will encourage a "common pool" approach where co-financing arrangements are involved so that implementing agencies are not bound to submit separate reports as required by multiple donors and the limited capacities of institutions are not over-taxed. The recently developed basket-funding approach that has a simpler reporting format applicable to every individual donor in the consortium will be put into operation. In this model, the cost-sharing of individual project components has to be decided mutually between donors and HMG. It requires HMG to assume full ownership in program execution. HMG shall be made accountable for program outputs and the use of funds. However, the government would also allow separate stand-alone financing of projects, as usual. Hence, there would be two windows modality for financing projects and programs. However, disregard of the nature of funding windows, the project should fit in sectorial priorities.
- Strengthening Financial Management: The financial management of foreign-aided projects will be strengthened as follows: (i) financial disbursement will be closely linked to comprehensive reporting of expenditure by spending units, including indicators of physical progress of projects. (ii) In foreign-aided projects/programs, submission of reimbursement claims on a timely basis will be ensured. (iii) Audit reports will be prepared within six months of the completion of the fiscal year. Delays in submission of expenditure statements will be penalized. (iv) Retrospective financing in any foreign-aided project will not be allowed unless and otherwise agreed with the concerned

donor in advance, (v) Financial accountability system will be developed, and (vi) The budget release process and its criteria will be made fully transparent.

- Improving Disbursements: Mechanisms will be identified to increase foreign aid disbursement in order to reduce the gap between the commitment and utilization of aid funds. In order to address this problem, HMG will make necessary arrangements to reduce delays that come up at various stages. In this respect, top priority will be accorded to making project management more efficient, by addressing bottlenecks and problems, which hamper project activities and schedules. Likewise, reimbursement procedures and practices will be reviewed and actions taken to speed up the process.
- Improving Procurement: HMG recognizes that sound procurement policies and practices are essential to fully utilize funds. HMG will make the procurement procedures more transparent. It will work toward establishing effective country procurement systems consistent with internationally accepted principles and practices as set out, for example, in the UNCITRAL Model Law on Procurement, the European Directives, and the World Trade Organization Agreement on HMG Procurement. The gap between the country's regulatory and financial framework for procurement and donors' procurement guidelines and rules will be reduced to the extent possible.
- Procedural Improvements: Several procedural improvements would be introduced during the period to enhance the effectiveness of foreign aid, both grants and loans. These include, among others, (i) an effort to rationalize and make uniform tax exemptions and other facilities including immunities provided in relation to aid-supported activities; (ii) introduce clarity in the terms and provisions of treaties, agreements and understandings previously entered into with the donor countries and institutions with a view to improving efficiency and effectiveness of aid through standardization, coordination and uniformity in external resource management; (iii) establish criteria for the acceptance of external aid, in the light of the country's rising public debt burden, as noted earlier.
- A detailed manual would be prepared to implement policies and strategies outlined above, to guide the use of policy instruments and institutional framework to assist in the effective utilization of foreign aid. This would simplify and improve the decision-making process with regard to aid.

5.2 Conclusions

This study has attempted to analyze the effectiveness of economic diplomacy to attract more and more foreign aid for development in hydropower and tourism sectors from two fast growing neighbouring countries India and China. Gathering information from various secondary sources and bring analytical and some statistical tools, the researcher has tried to summarize, conclude make some recommendation which have been briefly mentioned in the chapter. The researcher come to the conclusion that the foreign aid means the transfer of financial, social, cultural and technical assistance from the developed countries to the underdeveloped or developing countries and it can be more effective and fruitful to Nepal through economic diplomacy with India and China. Nepal is one of the developing poor countries and also facing many critical economic problems like shortage of electric power, unemployment etc. situated in the south Asia region between two economically emerging nations like India and China. Nepalese economy is passing through a critical phase of low level of equilibrium trap circumscribed by poverty and stagnation over long periods, slow economic growth rate, traditional way of diplomacy and internal conflicts, no commitment and implementation of settled program.

Nepal has very high possibility to mobilize the resources but due to lack of economic diplomacy, there is poor utilization of resources. Even though foreign aid started from Rana regime since 1951 to till now. Every year Nepal is getting large amount of foreign aid from India and China but it is not mobilizing towards top priorities sectors like hydropower and tourism which can lead the country to the path of high growth rate and rapid reduction of poverty and unemployment. The reason behind this is nothing rather lack of the economic diplomacy. Economic diplomacy can work as a tool to attract foreign aid from Indian and China towards these two top priority sectors holding huge potentiality. If Nepal can able to maintain to change its traditional way of diplomacy towards economic diplomacy then the days of prosperity will not far from Nepalese. The increasing trends of foreign aid from India and China to Nepal either by their internal competition or by their foreign policy instrument, in both ways Nepal can be benefited if government focuses on economic diplomacy through both government and non-government agencies.

5.3 Recommendations

In order to achieve these objectives, the following strategies would be deployed for implementing the policies enumerated above.

- **Government-Donor Interaction and Dialogue**

- The quality of dialogue between the government and donors will be enhanced through several measures. Already, the formal consultative group for Nepal has been transformed into the Nepal Development Forum. Further action will be taken to make the forum the central venue for high-level policy discussions on development issues. Particular attention will be focused on linking up foreign aid issues with the broader development concerns of the country and of donors. The local aid group meetings, both at the general and the sectorial levels, will be organized to take up key policy, strategy and implementation issues. Similarly there will be improvements sought for discussion at the thematic and sectorial levels by promoting government's leadership role.
- An important aim of the dialogue between government and donors will be to introduce at the country level the sense and spirit of a development partnership that is advocated at the global and multilateral levels, but that has so far not been realized at the country level. To enable such a development, actions of both donors and that of the government will be made more transparent with significant improvements in the flow of information between and among concerned stakeholders.
- Exploiting the Potential of Institutional Arrangements: Several institutional arrangements currently exist, which have relevance for enhancing the effectiveness of the foreign aid management in the country will be reshaped to cater the need of changed context of foreign aid management. These include: (i) the existing Foreign Aid Coordination Division would be upgraded to External Economic Relations Department in view of the need to address concerns like improving aid resource management, and raising the efficiency in the use of aid resources and serve as “central mechanism” to coordinate all external resources. (ii) A high level committee headed by the Finance Minister will be constituted to facilitate approval of foreign aid financed projects. The Committee will be comprised of Vice Chairman of the National Planning

Commission; Secretary of Ministry of Law, Justice and Parliamentary Affairs; Secretary of concerned ministry related to the project; Finance Secretary and the Joint Secretary at the Foreign Aid Coordination Division, Ministry of Finance as the members of the Committee. Foreign Aid Coordination Division will work as the secretariat of the Committee. (iii) The effectiveness of economic diplomacy will be increased through more fruitful and effective participation of competent HMG agencies in the process.(iv) In order to effectively implement the foreign aid policy, planning divisions of the relevant ministries will be strengthened, particularly in areas of project preparation, evaluation, supervision and monitoring capacity. (v) The Social Welfare Council would be strengthened so that it could provide "one window" services to NGOs/INGOs, and serve as their focal point for all practical purposes.

- **Review Mechanism:** The National Planning Commission will take the lead role in the progress review of the development projects and programs. The efficient implementation of projects would only be ensured through continuing systems of supervision, monitoring and evaluation and through undertaking impact studies. The problem so far has been that these have been undertaken only at random. The importance of these aspects of overall project management will be given due recognition. There will be strong feedback mechanisms, and opportunities provided for a wide spectrum of stakeholders to voice their views on these projects. Reporting systems will be streamlined and, on the basis of these reports, there will be close interaction between policymakers and project implementers. A plan will be prepared to undertake regular and joint evaluation studies of foreign funded project and programs.

- **Formulation of Economy-wide and Sectorial Perspective Plans**

For proper allocation of resources, it is desirable to formulate economy-wide and sectorial perspective plans. These plans will clearly identify sectorial priorities as well as internal and external financing needs at sectorial levels, and relate them to the overall economy-wide plan and financing policy. HMG will encourage the sector program approach to address the needs of specific sectors or sub-sectors. As noted, the sector plans are expected to encompass: (i) an approach that is truly sector-wide in nature, which is consistent with national goals and covers all relevant public expenditure components; (ii) a clearly articulated sector strategy; (iii) appropriate role

for, and assistance from, donors; (iv) implementation arrangements made in consultation with relevant donors to the extent possible; (v) long-term technical assistance needs; (vi) acceptance by partners of joint accountability for program outputs; and (vii) commitment of donors to finance the program either through program support or project support, as discussed above.

- **Ensuring Transparency and Accountability**

Transparency in foreign aid management will be ensured to enhance the benefits of aid-supported activities, reduce inefficiencies and distortions, combat corruption, assist in sound decision-making and make policymaking accountable. Similarly, financial discipline with respect to aid-related activities would be strictly followed to enhance the confidence of the people in foreign aid management, realize maximum benefits and control the misuse of resources. The relevant mechanisms are: (i) make information available to the interested people about the cost and source of finance of each activity and component of foreign-aided programs and projects; (ii) facilitate public flow of information on decisions made with respect to the selection of experts, consultants and key project staff, procurement, sale or auction, pre-qualification, contract awarding, and with respect to criteria used, individuals involved and processes followed in decision-making; (iii) make available to the interested people pre-feasibility, feasibility, audit, evaluation, performance and other reports of aid-supported activities; (iv) reflect all aid resources in the budget and utilize them through the budgetary process as applicable; (v) facilitate and assist public inquiry, and set specific time periods for handling requests, dissents and complaints; (vi) strictly enforce legal measures on corrupt practices, administer reward and punishment rules, and fully observe codes of conduct in public services; (vii) comprehensively prepare, strictly implement and effectively monitor action plan to prevent economic irregularities in aid-supported activities; (viii) select clean, capable and bold personnel for key positions; (ix) make mandatory disclosure of information on commissions paid to agents; (x) encourage the role of media, civil society organizations and individuals in controlling corruption and exerting pressure to take action against culprits; (xi) eliminate discretionary powers embedded in rules and laws; and (xii) make no exception to taking legally prescribed actions against corrupt persons.

- **Enhancing the Quality of Aid**

One of the major objectives of the government is to enhance the quality of aid. Regular investigative studies, for example, joint reviews with the concerned donors,

would form part of this strategy so as to learn from experience and disseminate the best practices. Further, the productivity and benefit of aid shall be maximized to enhance its impact on economic growth and poverty alleviation. While accepting aid, through scrutiny of associated conditional ties needs to be made to ensure that these help and not hinder the smooth implementation of the projects. In this context, sufficient analysis and consultation with stakeholders will be carried out. Some necessary steps to be taken are: (i) to examine conditional ties with respect to critical goals of the project, development strategies, policies and the country's realities, (ii) to obtain support and commitment of all stakeholders to fulfill proposed conditional ties, (iii) to secure formal approval of the competent authority in the case of policy-related conditional ties, and (iv) to design conditional ties in compatibility with the executing agency's institutional capacity.

- **Strengthening Aid Coordination**

Effective aid coordination constitutes another important element of the strategy in order to channel aid in accordance with development policies and priorities, and increase efficiency, effectiveness, and coherence in aid management. The Ministry of Finance as the focal body of the government will play the lead role in overall aid coordination and management in Nepal. The Ministry of Finance, National Planning Commission and line ministries will abide by established practices to improve the mechanisms of aid coordination. Coordination of donor activities will be undertaken at the national level, sectorial level, at the regional level and also in relation to key development issues. In this context, joint chairing of sectorial coordination meetings by the MoF, the concerned line ministries and donors will be encouraged. The MoF and the NPC will improve their systems of record keeping of donor funded activities, classified on the basis of appropriate categories, which will enable the provision of information for policy analysis and management of projects and programs. Databases will be set up, building on current available information within the various units of government. The capability of MoF would be strengthened to enable it to efficiently play the lead role in donor coordination, and to secure support from all stakeholders in aid coordination activities.

- **Project/Program Identification, Selection, Design and Securing Sustainability**

Sustainability of foreign-aided projects will be ensured by paying greater attention to considerations of appropriateness, ownership and sustainability. Rigorous project analysis would be undertaken to establish appropriateness and sustainability. All projects shall be examined from social, economic, financial, managerial,

technological and environmental perspectives. Some relevant measures would be: (i) to eliminate unproductive and redundant projects and focus on key development areas; (ii) to select only those projects that meet development and sustainability criteria; (iii) to establish sector-wide and nationwide merit order of projects on the basis of relevance, potential benefits, efficiency and effectiveness; (iv) to allot aid resources according to the order of merit of projects; (v) to link new projects to utilize the stock of past investments, (vi) to reconcile donors' priorities and comparative advantages with program needs in mobilizing aid; (vii) to design projects at an appropriate level of technology that can be adapted and mastered in Nepal; (viii) to base project design on existing and potential strengths of local institutional and administrative capabilities, (ix) to make activities environmentfriendly; as well as cognizant of gender issues and cultural and institutional sensitivities; (x) to involve beneficiaries, stakeholders and civil society at every stage of the project cycle; and to obtain their full support and commitment for implementation, particularly in relation to local level projects.

- **Create a Foreign Aid Management Information System**

Keeping in view the importance of foreign aid-related information for monitoring and evaluation and for policy planning purposes; an information base would be created, regularly updated and disseminated. The database would include information, among others, on the costs, sources and types of aid financing of each activity and component of foreign-aided programs and projects, disbursement performance, terms of assistance, debt-servicing obligations, and so on.

- **Promoting Institutional Effectiveness**

Measures would be undertaken to promote institutional effectiveness of foreign aidrelated institutions. Such measures include strengthening project implementation capacity of institutions; preparing and implementing human resource development plans based on the objectives and work characteristics of each aid-supported activity, deploying personnel in key positions strictly on the basis of expertise, integrity, capability and commitment; defining clearly the authority and responsibility of project staff, and so forth.

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