

David Amongst Goliaths: The Far-Reaching Effects of  
Regime Change in Nepal on Aid and International  
Politics

by

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## List of Abbreviated Words

APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
<i>BJP</i>	<i>Bharatiya Janata Party</i>
OECD	Organisation for Economic Co-operation and Development
CA	Constituent Assembly
CCP	Chinese Communist Party
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ODA	Official Development Assistance
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
MoFA	Ministry of Foreign Affairs (Japan)
NEA	Nepal Electricity Authority
PLA	People's Liberation Army
SAARC	South Asian Association for Regional Cooperation
TRWO	Tibetan Refugee Welfare Office
USAID	United States Agency for International Development
UNESCO	United Nations Educational, Scientific, and Cultural Organization
USSR	Union of Soviet Socialist Republics

## Preface

The political situation in Nepal from 2006-2008 had been in shambles. A nearly decade-long civil war led by the Maoist Party in an attempt to achieve their overall objective of stripping the monarchy of its powers was finally coming to its conclusion. While the Maoists did succeed in overthrowing the monarchy, giving rise to a Federal Republic in its place, the civil war caused over 16,000 deaths and disagreements within the parliament regarding a new constitution caused long political gridlocks.

In the context of this violent and bloody conflict and overall chaos ensuing the nation immediately following its aftermath, foreign aid coming from China, Japan, and United States dramatically and mysteriously increased in 2008. This mystery is further shrouded by the fact that all three donor countries were deeply affected by the global recession of 2008 *and* the fact that the Maoist Party, who led this civil war and won a majority of the seats in the Constituent Assembly, were deemed a terrorist organization by the United States.

This puzzling increase in aid to Nepal despite the fact that a “terrorist” organization coming to power caused widespread chaos in the country is exactly what this thesis explains. Why *did* aid to Nepal increase in 2008? What are the political circumstances in Nepal and otherwise that led to this increase in aid, and how can we explain this anomaly through theoretical models?

The first chapter provides a historical overview of the political development in Nepal leading up to the circumstances of 2008. It establishes that aid and influence from China, Japan, and the United States did increase in 2008, and it will also include

data on trends of foreign aid and influence at this time. For data that is available, it will establish sources of the aid and the sectors in which they are utilized.

Once I have established a thorough understanding of the background I will investigate the political atmosphere of each of the donor countries in relation to Nepal's policies, and establish regime change in Nepal to be the main factor in the increasing aid and influence from each of the countries. The third chapter will track the increasing influence of China in Nepal in 2008. It will attribute this increase to a more China-friendly Maoist government, which in part can be attributed to the secular nature of the new regime. It will also acknowledge China's need to suppress Tibetan protests and Nepal's hydroelectric potential as other motives to increase its influence.

The fourth chapter will track Japanese foreign aid disbursed by Japan International Cooperation Agency (JICA). For the case of Japan, I argue that Japan's regional leadership goals, and an attempt to serve domestic and American security interests were the main motivations for increasing foreign aid to Nepal. Similarly, the fifth chapter tracks American foreign aid to Nepal disbursed by United States Agency for International Development (USAID) and establishes that the increase in aid happened because of the United States' foreign policy goals of the time, which include assisting developing countries to democratize and an earnest effort to catch up to China's increasing influence in Asia. Secularization, or religious freedom, also plays a significant role in the particular case of aid from the United States as it was seen as a step towards a more equal Nepal.

The sixth chapter will conclude this thesis and return to McKinley and Little's recipient need and donor interest models, suggesting a modification to their recipient need variable to include recipient political conditions, and a new variable, secularism, be added in order to better explain why aid might increase or decrease after regime change. It will also consider post 2008 developments in aid and question whether aid-giving patterns have remained similar.

While Nepal is a small country in South Asia often unnoticed by most economic powers of the world, the civil war's aftermath and the establishment of a new regime had consequences that reverberated beyond the borders of Nepal and changed the dynamic of international politics. Through this project, we not only learn something interesting and useful about the way foreign aid impacts the international dynamic, but we also learn about a big impact made by a small country.

## CHAPTER 1: INTRODUCTION AND LITERATURE REVIEW

Throughout the early 2000s, schools were shut down almost every other day, curfews were put in place, and the streets of Nepal were often flooded with protests. This was the result of a civil war that lasted for about 10 years known as *Jana Andolan II*, People's War. This civil war began in 1996 when the Maoist Party of Nepal demanded to abolish the monarchy and bring true democracy to the streets of Nepal. While a federal republic replaced the monarchy, the civil war also brought on 16,000 deaths, 10 years of chaos, and a very uncertain political future.<sup>1</sup> While February 13, 2016 marked the 20<sup>th</sup> anniversary of the start of the civil war, the transformative impact of its consequences on Nepal's regime and on the geopolitics of Asia still remains to this day.<sup>2</sup>

While the power dynamic between the donors, China, Japan, the United States, and the recipient, Nepal, had always been complex, the new regime in Nepal complicated things even further. A China-friendly Maoist regime in Nepal allowed for Chinese influence to grow exponentially, causing the Japanese and American governments to work hard to expand their spheres of influence as well.

This thesis will focus on regime change in Nepal, where a Maoist Party-led federal republic replaced a monarchy, and argue that this particular change provided China a political opportunity, and Japan and the United States a strong motive to further develop their impact on Asia. It will argue that regime change was the main driving force behind significant growth in foreign aid to Nepal from these three countries. Regime change, for this case study, refers not only to the official transition

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<sup>1</sup> France-Press, Agence. "Nepal Maoists Mark 20th Anniversary of the Start of the Civil

<sup>2</sup> Ibid.



from a monarchy to a federal republic, but also to its consequences, which include a Maoist Party led Constituent Assembly, and political disorder and disputes as the result of a 10-year civil war. Additionally, it will refine McKinley and Little's recipient need and donor interest models to include recipient political conditions and secularism as important new variables.

### **Literature Review: Evolution of Foreign Aid**

Exploring the literature on foreign aid, more specifically Chinese, Japanese, and American foreign aid to Nepal, exposes a huge gap in the research. Studies that link foreign aid to regime change in general or studies that explore multilateral, geopolitical effects of foreign aid are rare. The studies that *do* consider a correlation between foreign aid and regime change examine the results from a democracy perspective, and argue that aid has a positive effect on democratization. While researchers consider democratization as an effect of foreign aid, my thesis examines the opposite: changes in foreign aid as an effect of regime change. Nevertheless, there is very little evidence of a general correlation between regime change and aid-giving patterns.

Foreign aid can be categorized as bilateral or multilateral donations disbursed in the form of grants, loans or technical assistance programs and is used “primarily [as] a tool of hard-headed diplomacy.” Aid has been used for decades for geopolitical gain and scholars have established this important feature of aid in their work.<sup>3</sup> In fact,

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<sup>3</sup> Lancaster, Carol. *Foreign aid: Diplomacy, Development, Domestic Politics*. Chicago: University of Chicago Press, 2008. Print. 3.

research from the 1970s and 1980s began to show correlations between the amount of aid provided to a country and the geopolitical implications of the amount given.<sup>4</sup>

Most of the research done on the motives and implications of foreign aid has been based on U.S. bilateral aid. This narrowed perspective is likely due to the fact that a common example for massive use of official foreign aid begins with the Marshall Plan. “Intended to rebuild economies and spirits of Western Europe,” the Marshall Plan began after World War II, and allowed aid to be donated towards stability in the European region to prevent the spread of communism. It was this latter political interest of foreign aid that allowed scholars to conclude, “bilateral aid donors have been driven importantly by their own interests.”<sup>5</sup> Only recently have scholars and policy makers begun to pay attention to foreign aid from other important players in the world economy like Japan and China.

Comprehensive studies on foreign aid include Thorbecke’s (2000) theories on the evolution of the role of foreign aid. The role developing countries evolved “from a dependent to a somewhat more independent relation *vis-à-vis* the ex-colonial powers,” after the Second World War and there was a sudden growing necessity to create doctrines, like the Marshall Plan, to regulate the allocation of aid.<sup>6</sup> The birth of these doctrines was accompanied by a rise in scholars’ and policy makers’ interest in the nature of foreign aid.

One reason for the development of these doctrines is a desire to create a new mechanism for promoting economic development in third world countries once

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<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Thorbecke, Erik. "The evolution of the development doctrine and the role of foreign aid, 1950-2000." *Foreign aid and development*. Routledge (2000). 27.

colonial blocks disintegrated and the division of labor within colonized nations were no longer fully integrated into the economies of the powerful economic countries.<sup>7</sup> In fact, the creation of the United Nations and its determination to “employ international machinery for the promotion of economic advancement of all peoples” has been a driving factor for foreign aid allocation.<sup>8</sup>

Aside from a U.S. centric focus, the evolution of foreign aid and the donor government’s focus not on the economic status, but more so on the political status of the recipient country has also been a well-discussed topic since the global dynamic after the Cold War. During that time, foreign aid was well recognized as a “significant tool of Western diplomacy.”<sup>9</sup> Shifting from the security and reconstruction purpose of aid immediately after World War II, the Cold War brought about an urgently needed potential of the use of foreign aid for political purposes. Wealthier countries were able to aid developing countries and somewhat sway their political ideologies. The idea of the “third world” as it is used today developed around the time of the Cold War era and was often associated with countries that “had limited room for independent maneuver,” which resulted in increased dependence on wealthier countries.<sup>10</sup> Examples of this first-world aid to third-world dynamic can be found in situations in which the U.S. was giving aid to countries and nudging them towards a democratic state or the USSR giving aid to countries and nudging them towards a

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<sup>7</sup> Ibid.

<sup>8</sup> United Nations. *Charter of the United Nations* and Statute of the International Court of Justice, San Francisco: 24 Oct. 1945. Print. 1 UNTS XVI.

<sup>9</sup> Corbridge, Stuart. *Development: Critical Concepts in the Social Sciences. Vol III, Great Transformation (Part Two)*. London: Routledge, 2000. 203.

<sup>10</sup> "Seeing The World Differently". *The Economist*. N. p., 2010. Web. 30 Mar. 2016.

communist state. Foreign aid programs during this time almost always had a prioritized political motive.<sup>11</sup>

Continuing through the Cold War, the Marshall Plan is, again, a prime example of the use of foreign aid as a policy of deterrence and containment. In addition to humanitarian aid, many of the containment-motivated aid policies also included “offering military expertise to threatened nations or giving economic assistance to needy peoples.”<sup>12</sup> From July 1945 to June 1947, the United States devoted almost \$20 billion to international assistance programs, of which \$16 billion has been for aid (\$9 billion for Europe and 7 billion for the rest of the world).<sup>13</sup> At the time of the Marshall Plan’s establishment, a threat of communism was already brewing, so the U.S. wanted European stability and was willing to commit significant funding for the reconstruction project. Aside from the threat of communism, the conditions after World War II in Europe, which included economic political devastation, was thought of as a breeding ground for Fascism to rise.<sup>14</sup> The U.S., through the Marshall Plan, attempted to prevent the spread of communism and a destructed Europe from the extreme right-winged influence in the interest of protecting U.S. security.

Alesina and Dollar (2000) study the way in which recipient country conditions affect the allocation patterns of foreign aid. They conclude that in addition to donors’ strategic interests, a colonial past, political alliance, and the democratization of

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<sup>11</sup> Griffin, Keith. "Foreign aid after the Cold War'." *Development: Critical Concepts in the Social Sciences* 3 (2000): 645-85. 645.

<sup>12</sup> Wevill, Richard. *Britain and America After World War II: Bilateral Relations and the Beginnings of the Cold War*. 1st ed. 46 Vol. London: I.B.Tauris, 2012. 178.

<sup>13</sup> Alexander, Sidney S. *The Marshall Plan*. No. 60-61. Washington: National Planning Association, 1948. 7.

<sup>14</sup> *Ibid.* 9.

countries affect the amount of aid they receive.<sup>15</sup> This study has also established that foreign direct investments, unlike foreign aid, is largely linked to economic prosperity and is seldom influenced by strictly political motives.<sup>16</sup>

On the other hand, Griffin and Enos (1970) in “Foreign Assistance: objectives and Consequences” explain that the “desire of the country for power” is what determines who donates and who receives.<sup>17</sup> Griffin and Enos also claim, for scholars arguing that a genuine desire to alleviate pain and suffering can be a motive for foreign aid, that nations as a group of people are incapable of such sympathy. Sympathy is reserved for the individual whereas sympathy-motivated aid allocation is never possible at such a large scale.<sup>18</sup> Griffin and Enos ultimately argue that aid is not determined by need, potential, or economic performance. Rather, aid is truly proportional to amount of political intervention necessary.

As foreign aid became even more commonly used as a diplomatic tool, scholars began to study the *effects* of foreign aid, particularly whether or not it has been an effective tool for alleviating poverty and suffering. Scholars studying the effectiveness of foreign aid fall into two camps: those who find that aid can positively improve development outcomes and those who argue that aid ultimately undermines a country’s development, creating what has come to be commonly known as ‘The Aid Trap.’<sup>19</sup>

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<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

<sup>17</sup> Griffin, K. B. and J. L. Enos (1970). "Foreign Assistance: Objectives and Consequences." *Economic Development and Cultural Change* 18(3): 313-327. 314.

<sup>18</sup> Ibid.

<sup>19</sup> Ekanayake, E. M., and Dasha Chatrna. "The effect of foreign aid on economic growth in developing countries." *Journal of International Business and Cultural Studies* 3.2 (2010): 1-13. 2.

Bornscier, Chase-Dunn and Robinson (1978) identified the comprehensive effects of foreign aid which include: 1) an increase in inequality within countries who receive foreign aid, 2) short-term increase in the rate of economic growth of recipient countries, 3) long-term decrease in the rate of economic growth of recipient countries, where level of these changes are dictated by the level of development of the recipient countries.<sup>20</sup> In addition to general effects on the political economy of the recipient, an investigation regarding the correlation between foreign aid and its effect on economic growth under different political regimes shows that aid in totalitarian regimes “has a robust positive significant influence on growth.”<sup>21</sup>

Scholars have also examined correlations between aid and democratization. Targeting technical assistance programs that focus on bettering the electoral processes, promoting civil society organizations within recipient countries, and on improving education, which effects the income per capita, has been a priority for many donors.<sup>22</sup> While this form of specified aid has the potential to contribute to democratization, Knack establishes no evidence that aid promotes democracy, even in cases strictly confined to the Cold War years.<sup>23</sup>

Bermeo (2011) studies this relationship further and determines that “the relationship between aid and democratization depends on the political characteristics

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<sup>20</sup> Bornschieer, Volker, Christopher Chase-Dunn, and Richard Rubinson. "Cross-national evidence of the effects of foreign investment and aid on economic growth and inequality: A survey of findings and a reanalysis." *American journal of Sociology* (1978): 651-683. 651.

<sup>21</sup> Islam, Mohammad Nazrul. "Political regimes and the effects of foreign aid on economic growth." *The Journal of Developing Areas* 37.1 (2003): 35-53. 35.

<sup>22</sup> Ibid.

<sup>23</sup> Knack, Stephen. "Does foreign aid promote democracy?." *International Studies Quarterly* 48.1 (2004): 251-266. 251.

of the donor.”<sup>24</sup> Aid from democratic donors is often associated with an increase in the democratic potential of the recipient country. However, this scenario is particular to countries where donors reward the democratizing steps that the recipient countries take to make their political systems more inclusive.<sup>25</sup>

The literature on foreign aid and its ineffectiveness is primarily centered on the fact that developing countries may become too dependent on this seemingly unlimited source of revenue. The results of this dependence are obviously dangerous because of the stark similarity to colonialism, but motives behind foreign aid must be studied at a deeper level to understand the root of this phenomenon. However, scholars such as Boone (1996) have been able to conclude that even a large amount of “aid does not significantly increase investment, nor benefit the poor as measured by improvements in human development.”<sup>26</sup>

The positive effects (i.e. benefiting the poor or improvements in human development) of foreign aid, according to Sachs and Stiglitz (2007), can only be accomplished with a *significant* increase in the amount disbursed.<sup>27</sup> In addition to increasing aid, Edwards (2015) argues the notion that a more specified form of intervention is more effective than donating to organizations with broad objectives.<sup>28</sup> Moreover, according to Collier’s (2002) conclusions, rebellions and coups are

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<sup>24</sup>Bermeo, Sarah Blodgett. "Foreign aid and regime change: A role for donor intent." *World Development* 39.11 (2011): 2021-2031. 2021.

<sup>25</sup> Ibid.

<sup>26</sup> Boone, Peter. "Politics and the effectiveness of foreign aid." *European economic review* 40.2 (1996): 289-329. 289.

<sup>27</sup> Edwards, Sebastian. "Economic Development and the Effectiveness of Foreign Aid: A Historical Perspective." *Kyklos* 68.3 (2015): 277-316.

<sup>28</sup> Ibid.

frequently caused by slow growth and low income, which can be alleviated by aid.<sup>29</sup> However, a large amount of aid tends to make a coup more likely and Collier concludes that the “payoff [of big aid is] not big enough to justify the cost.”<sup>30</sup> The only exception to this case is aid related to security up keeping in post-conflict situations, which are often significant in contributing to the overall stability of the country.<sup>31</sup>

McKinley and Little (1977) establish recipient need and donor interest models regarding foreign aid, the main theory of focus of this thesis. According to them, the two-fold nature of aid is humanitarian relief and the promotion of national security. The recipient need model is premised on the fact that a lack of resources is the “major obstacle to development in low-income countries,” so technically, the amount of aid disbursed should be just enough to allow the recipient country to overcome these obstacles.<sup>32</sup> In other words, the amount of aid disbursed should be proportional to the amount needed by the recipient country. Obviously, recipient need is not always the sole incentive for foreign aid and there is often a discrepancy between the amount donated and the amount needed, which can be described through the donor interest model. According to the donor interest model, amounts of aid that exceed the need of the recipient must have a political motive to serve the self-interest of the donor country.

### **Literature Review of Nepal’s Main Sources of Aid:**

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<sup>29</sup> Collier, Paul, David Dollar, and World Bank. *Globalization, Growth, and Poverty: Building an Inclusive World Economy*. Washington, DC; New York, N.Y.; World Bank, 2002. 104.

<sup>30</sup> Ibid.

<sup>31</sup> Ibid. 106.

<sup>32</sup> McKinley, Robert D., and Richard Little. "THE US AID RELATIONSHIP: A TEST OF THE RECIPIENT NEED AND THE DONOR INTEREST MODELS\*." *Political Studies* 27.2 (1979): 236-250. 237.



## China, Japan, and the United States

### *China:*

Research on Chinese foreign aid is centered not on foreign aid specifically, but instead on China's foreign direct investments in Africa. Although Chinese trends in foreign aid have only been under media's spotlight for a few years, Beijing's foreign aid programs targeted towards Africa began as early as the 1950s. As China's international commercial interests grew, so did its aid disbursements, making Africa a major recipient. In fact, by 1975, "China had aid programs in more African countries than did the United States," and has contributed around \$75 billion on development projects in Africa in the past decade.<sup>33</sup>

While China's aid programs in Africa boast efficiency and proper implementation, scholars and politicians have harshly criticized the government for exploiting Africa's raw materials.<sup>34</sup> They have also condemned the lack of transparency in aid data, the delivery system of the aid, as well as the local problems caused by some of the expanded programs.<sup>35</sup>

Similar to the rapid involvement of Chinese foreign aid in Africa, Chinese involvement in the South Pacific through aid has also been a prominent part of the literature. "China's growing need for natural resources and its policy of securing access through state-led 'resource diplomacy'" seemed to be the main factors contributing to Chinese interests in the South Pacific.<sup>36</sup> However, there have been no

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<sup>33</sup> Ibid.

<sup>34</sup> Xue, Lan. "China's Foreign Aid Policy and Architecture." *IDS Bulletin* 45.4 (2014): 36-45. 37.

<sup>35</sup> Ibid.

<sup>36</sup> Brant, Philippa. "Chinese Aid in the South Pacific: Linked to Resources?" *Asian Studies Review* 37.2 (2013): 158-77. Web. 158.

evidence of resource deals as a specific part of foreign aid transaction with this region, and it has been established by Brant (2013) that “the foreign aid program is being utilized to support commercial activities, including in the resource sector.”<sup>37</sup>

Similar to Chinese programs in Africa, the information regarding the Chinese government’s aid program in general is “non-transparent and poorly understood.”<sup>38</sup> According to Bräutigam’s (2011) studies, a substantial amount of China’s foreign aid, which includes “export credits, non-concessional state loans or aid used to foster Chinese investment,” is not officially filed under the category of ODA.<sup>39</sup> Although the purpose of China’s financial aid is developmental, it can be disbursed in the form of export credits and non-concessional state loans.<sup>40</sup> The disorganized data that *does* exist regarding Chinese foreign aid must be interpreted cautiously, since loans may not have been approved, projects may have been cancelled, and time-consuming projects may have been counted more than once.<sup>41</sup> Though difficult to track, the large-scale donations made to parts of Africa and South Asia and the rapid and substantial growth of the Chinese influence in other parts of the world make their aid patterns an important case to study.

#### *Japan:*

Similarly, a historical investigation of literature regarding Japanese foreign aid reveals both awe of Japanese aid programs’ rapid growth and criticism of the use of aid for domestic economic development. Because of Japan’s status as the world’s

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<sup>37</sup> Ibid.

<sup>38</sup> Bräutigam, Deborah. "Aid 'With Chinese Characteristics': Chinese Foreign Aid and Development Finance Meet the OECD-DAC Aid Regime." *Journal of international development* 23.5 (2011): 752-764. 752.

<sup>39</sup> Ibid.

<sup>40</sup> Ibid.

<sup>41</sup> Lum, Thomas, et al. "China's foreign aid activities in Africa, Latin America, and Southeast Asia." *Russia China and Eurasia-Social Historical and Cultural Issues* 25.2 (2009): 175.

largest donor starting in 1989, the sheer size of its aid-giving program attracted scholarly attention.<sup>42</sup> “Besides the size,” according to Söderberg (1996), “the fact that Japanese ODA is radically different from that of other donors makes it interesting.”<sup>43</sup> Japanese aid’s specific focus on infrastructure development has been of intrigue to scholars as well as its rapid growth and size.<sup>44</sup>

In the late 1980’s, American scholars were critical of Japanese foreign aid and many developed theories regarding the lack of humanitarianism in their programs. Americans viewed Japan as an economic rival, and were more alarmed by their growth than they were by the Soviet Union’s military capacity.<sup>45</sup> Japan was accused of “pursuing a strategy of myopic commercial gains, [as] they leave the tedious and expensive burden of protecting Western security for Americans to assume alone,” as they continued to provide aid to developing countries, particularly in the ASEAN region where labor and raw materials are cheap.<sup>46</sup>

Surrounding this rhetoric, however, is the argument that the rising quality of Japan’s foreign aid program fails to show a purely mercantilist motivation.<sup>47</sup> Bobrow (1996) claims, “Japan clearly is not empty-headed about aid, purely selfish, or simply a follower of others.”<sup>48</sup> Japanese commercial investments in these developing

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<sup>42</sup> Söderberg, Marie. "The business of Japanese foreign aid." *Five case studies from Asia*. London & New York (1996). 1.

<sup>43</sup> Ibid.

<sup>44</sup> Ibid.

<sup>45</sup> Chan, Steve. "Humanitarianism, mercantilism, or comprehensive security? Disbursement patterns of Japanese foreign aid." *Asian Affairs: An American Review* 19.1 (1992): 3-17. 3.

<sup>46</sup> Ibid.

<sup>47</sup> Ibid.

<sup>48</sup> Bobrow, Davis B., and Mark A. Boyer. "Bilateral and multilateral foreign aid: Japan's approach in comparative perspective." *Review of International Political Economy* 3.1 (1996): 95-121. 95.

countries made the stability of these recipient countries a key concern for Tokyo.<sup>49</sup> Additionally, “Japanese policy on foreign aid,” to provide major public goods in these regions, “seems far more subtle and less myopic than implied by this popular view.”<sup>50</sup>

*United States:*

While “giving foreign aid to other countries has been a key tool of American economic statecraft since World War II,” literature on U.S. aid during the Cold War Era dominates the discourse on the use of foreign aid.<sup>51</sup> A comprehensive study by Fleck and Kilby (2010), which examines U.S. foreign aid and its development from the Cold War to the War on Terror, depicts how despite widespread corruption, dictators in Indonesia, Philippines, and Zaire “could count on substantial U.S. funding.”<sup>52</sup>

At the time of the Cold War, research was centered on debating whether “international/systemic conditions, societal/domestic forces, or state-centered factors best explained the actions of nation-states.”<sup>53</sup> While some studies maintained, “security-driven imperatives of the anarchic international environment were responsible for state behavior,” others concluded that motives were largely political rather than security-based.<sup>54</sup> Scholars often argued that “foreign aid programmes originated as part of the ideological confrontation known as the Cold War and that the

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<sup>49</sup> Ibid.

<sup>50</sup> Chan. 14.

<sup>51</sup> Milner, Helen V., and Dustin H. Tingley. "The political economy of US foreign aid: American legislators and the domestic politics of aid." *Economics & Politics* 22.2 (2010): 200-232. 200.

<sup>52</sup> Fleck, Robert K., and Christopher Kilby. "Changing aid regimes? US foreign aid from the Cold War to the War on Terror." *Journal of Development Economics* 91.2 (2010): 185-197. 185.

<sup>53</sup> Meernik, James, Eric L. Krueger, and Steven C. Poe. "Testing Models of U.S. Foreign Policy: Foreign Aid during and After the Cold War." *The Journal of Politics* 60.1 (1998): 63-85. 63.

<sup>54</sup> Ibid.

motives behind aid were always more political than economic.”<sup>55</sup> In fact, economic and humanitarian justifications were a front for the fact that aid was being used, by the United States and many other countries during this time, to sway the political allegiance of developing countries.

While the entirety of the Cold War was an example of using aid to contain communism, “the international development and food policies pursued by the United States do not simply move forward with a blank slate” in the upcoming decades.<sup>56</sup> Studies that question whether systematic factors shape policies regarding foreign aid have depicted that legislators’ support of foreign and systematic determinants have no relationship.<sup>57</sup> “Foreign aid does not have significant political and economic consequences for legislators and their constituencies,” and as a result, aid is driven by a combination of American foreign policy objectives and underlying domestic politics.<sup>58</sup>



As evidenced by literature review on Chinese, Japanese, and American aid, research on the effects of regime change on foreign aid is seriously lacking. Additionally, studies rarely consider the multilateral affects of bilateral foreign aid, and simply consider the impact and outcomes of the aid solely for the donor and recipient countries. Literature on Chinese foreign aid focuses on its lack of transparency, Japanese foreign aid on economic interests, and American foreign aid

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<sup>55</sup> Griffin. 645.

<sup>56</sup> Clapp, Jennifer. "Fighting Hunger: The Cold War and US Foreign Aid." *Perspectives on Politics* 11.2 (2013): 529-531. 529.

<sup>57</sup> Milner.

<sup>58</sup> Ibid.

on democratization, but it is rare for scholars to develop a case study exploring the effects of regime change on foreign aid and, as a result, on international politics.

While this chapter has offered an overview of the academic scholarship concerning foreign aid, the remainder of the thesis will investigate the applicability of these theories on aid patterns in Nepal, especially in explaining the sharp increase in foreign aid from China, Japan, and the United States following the 2008 Maoist victory. The next chapter provides some context for the remainder of the thesis, offering an overview of the history and political happenings of Nepal in 2008.

## CHAPTER 2: HISTORICAL BACKGROUND

### People's War II: A Look at Nepali Politics

This chapter offers the historical background necessary to understand the remainder of the thesis. It will begin with a brief history of Nepal, followed by an overview of Sino–Nepalese, Japanese–Nepalese and U.S.–Nepalese relations. It will also provide data on the aid and influence increase in 2008 from all three donor countries and will provide a comprehensive background of their diplomatic relations thus far.

Nepal is a small, landlocked country located high in the Himalayan region, situated between India to the south and west, and China to the northeast. In early history, it was a collection of small kingdoms located in habitable sections of the mountains and was never colonized. Starting in the early nineteenth century, with the spread of the East India Company's influence and the solidification of trade routes, pressure to unify the kingdoms into a single country increased.

By 1769, King Prithvi Narayan Shah conquered and united the Eastern and Western regions and founded Nepal as it exists today.<sup>59</sup> Following this unification, the Nepali state's expansion and the threat it brought to the expansion of the East India Company raised fear amongst the British, causing them to launch a war in Nepal in 1814.<sup>60</sup> Although the Nepalese Gorkha army was known for their physical strength and military experience, it was no match for the British Army, so the Nepali

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<sup>59</sup> Reuters UK,. "TIMELINE: Milestones In Political History Of Nepal". N. p., 2016. Web. 25 Jan. 2016.

<sup>60</sup> Brown, T. Louise, 1963, and Inc ebrary. *The Challenge to Democracy in Nepal: A Political History*. 10 Vol. London: Routledge, 1996; 1995; 2002;. Web.

government was forced to give up territory to the British in the resulting Treaty of Sugauli (1816).<sup>61</sup>

This treaty also gave the East India Company the “right to place a resident in Kathmandu,” thereby increasing the exposure to and fear of foreign influence in Nepal.<sup>62</sup> The results of this treaty marked the beginning of outside colonial influence in Nepal and a stark realization of how world powers viewed Nepal’s geographical placement in South Asia to be critical to regional and global geopolitics. Nepal became not only the “conduit for trans-Himalayan trade,” but it has also served as the channel through which cultural ideas such as Buddhism could spread from West to East.<sup>63</sup>

The Rana Years (1846-1951) defined the next era of Nepali politics. Jung Bahadur Rana, who by no doubt was a ruthless dictator who ascended the political ladder by murdering his opponents, assumed the title of Prime Minister in the mid 1800s.<sup>64</sup> He paved the way for Ranas to retain this title by strategizing on the political weakness of the former ruling Shah dynasty and intermarrying between the two dynasties.<sup>65</sup> In this particular system, patronage, centralization of power, hierarchical succession, and maintaining the aristocracy were also some factors that contributed to the existence of the Rana reign.<sup>66</sup>

One of the key pieces of legislation passed during the Rana Period was the *Muluki Ain* (Legal Code) of 1854, which emphasized the Nepalese identity of every

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<sup>61</sup> Ibid.

<sup>62</sup> Ibid. 4.

<sup>63</sup> Ibid.

<sup>64</sup> Ibid. 5.

<sup>65</sup> Ibid.

<sup>66</sup> Ibid. 6.



citizen.<sup>67</sup> The Muluki Ain not only unified the Nepalese citizens, but it also granted political, cultural, and religious dominance to the three bahuns, thakuris, and chettri castes, thereby creating a significant religious cleavage. This political cleavage then created political and socioeconomic divisions within the country that define Nepali society and laws even to this day.<sup>68</sup>

British influence in Nepal increased during the Rana reign. Recognizing the importance of a Gorkha army, the based-in-India British sought to recruit the Nepalese army to safeguard the colonizers from the indigenous Indians. Through World War II, Britain's influence in Nepal increased to the point where they established a strong presence in the capital allowing them to place severe restrictions on Kathmandu's relations with countries other than Great Britain.<sup>69</sup>

Disdain with the Rana reign grew and anti-Rana protests eventually formed the Nepali National Congress in 1947 led by B.P. Koirala, "the man who was later described as the father of Nepali democracy." This was followed by the formation of the Communist Party of Nepal in 1949 and in 1950, the Nepali National Congress joined with the Nepali Democratic Congress to form the Nepali Congress. This union and the birth of the Nepali Congress gave the nationalist movement enough support and funds to back a proper democratic movement.<sup>70</sup>

In 1950, the Ranas sought asylum in the Indian embassy in Kathmandu, and the Nepali Congress launched *Mukti Sena* (Liberation Army) against the regime.<sup>71</sup> The Indian government, however, was seriously concerned about the progress of the

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<sup>67</sup> Ibid.

<sup>68</sup> Ibid.

<sup>69</sup> Ibid. 11.

<sup>70</sup> Ibid. 16.

<sup>71</sup> Ibid.

anti-Rana rebellion and believed that the Nepali Congress was inexperienced and incapable of running a country should they succeed in their attempts to overthrow the monarchy. Thus, India's involvement in the revolution as a mediator led to the Delhi Settlement of 1951, which paved the formation of a "tripartite, power-sharing, coalition government comprising the Ranas, Congress, and the King."<sup>72</sup>

With all three entities—the Ranas, the Congress, and the King--sharing power and constantly looking to undercut each other in a country that seriously lacked any history of democracy, the 'democracy' created an inherently unstable political dynamic. The political parties were immature and inexperienced, and there were "profound internal fissions within the party," which led to poor representation for the people.<sup>73</sup> In addition to poor governance, India's heavy involvement in Nepal's domestic affairs, the Delhi Settlement for example, as well as the growing power of the monarchy helped define Nepalese political history for the rest of the century.

In spite of the tripartite arrangement giving equal power to the three entities, the Ranas' power over Nepal weakened and "the country emerged in 1951 totally unprepared to face the modern world."<sup>74</sup> Because the Rana dynasty had continued a trend of political isolation as a way to shield the country from international political instability, Nepal was unable to modernize during their reign.<sup>75</sup> When the Rana reign ended and Nepal once again became a part of the international community, there came a stark and alarming collective realization that Nepal had fallen really far behind during their period of isolation.

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<sup>72</sup> Ibid. 19.

<sup>73</sup> Ibid. 25.

<sup>74</sup> Ibid.

<sup>75</sup> Ibid.

Ironically, the Indian government, despite their reservations about the abilities of the Congress, and the “Nepali monarchy played a vital role in the Ranas’ downfall.”<sup>76</sup> The tripartite agreement put great pressure on the Ranas to compromise, thereby weakening their position, and Indian support for King Tribhuvan of Nepal strengthened his position.<sup>77</sup> At this time, the government was under the rule of the Ranas, who were discredited and disliked, and the inexperienced Nepali Congress, who were generally unpopular, making King Tribhuvan the only option for a viable ruler.<sup>78</sup> As a result, the power of the monarchy was reestablished on February 15, 1951, and the Rana tyranny began to wither.<sup>79</sup>

The Nepali Congress and the monarchy prepared to write a new democratic constitution, while members of the Rana dynasty “joined the government in a bitter mood, anxious to preserve as much of their authority as possible.”<sup>80</sup> Democratizing the nation, though, proved to be a close-to-impossible task, as Nepal had no history of democracy and no political mechanisms to support a democracy.<sup>81</sup> Disagreements remained and prospects of a democratic nation began to fade before King Tribhuvan passed away in March 1955.<sup>82</sup>

King Mahendra further extended the growing power of monarchy from 1955 to 1959 as a “master of political manipulation.”<sup>83</sup> His foreign policy tactics aggressively attempted to “balance the preponderant influence of India by

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<sup>76</sup> Ibid. 18.

<sup>77</sup> Ibid. 21.

<sup>78</sup> Ibid.

<sup>79</sup> Ibid.

<sup>80</sup> Ibid. 24.

<sup>81</sup> Ibid. 25.

<sup>82</sup> Ibid.

<sup>83</sup> Ibid. 31.

strengthening Nepal's ties with China."<sup>84</sup> However, these tactics were later reversed by the Prime Minister Koirala who focused on the damaged Indo-Nepali relations signing a Treaty of Trade and Transit with New Delhi (1959) and by making improvements on the friendship treaty between India and Nepal.<sup>85</sup>

In the 1960s, the *Panchayat* System was put into place by King Mahendra, which was an assembly elected by members of the community and was void of political parties.<sup>86</sup> The system that Nepal employed specifically was a four-tier Panchayat system in which local voters elected nine members, who would then elect a mayor.<sup>87</sup> Each village sent their mayors to sit on the greater district Panchayat, who would then vote for representatives of zone assemblies.<sup>88</sup> In addition to the votes being geographically separated, they were also demographically separated. For example, women, youth, elders, laborers would all vote for a separate member to represent their particular needs.<sup>89</sup>

This indirect election system created even more distance between the people and the government and "compartmentalized Nepali society."<sup>90</sup> These geographic and demographic divisions that this system perpetuated remained until the first *Jana Andolan* (People's War) in the 1990s. In 1990, the Nepali Congress and the United Left Front "joined to launch a campaign to achieve a multi-party democracy in

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<sup>84</sup> Ibid.

<sup>85</sup> Ibid.

<sup>86</sup> Ibid. 42.

<sup>87</sup> Countrystudies.us., "Nepal - The Panchayat System Under King Mahendra". N. p., 2016. Web. 7 Feb. 2016.

<sup>88</sup> Ibid.

<sup>89</sup> Ibid.

<sup>90</sup> Ibid. 44.

Nepal.”<sup>91</sup> The movement called for strikes in Kathmandu, which quickly gained popularity on such a massive level that the central government was unable to challenge the swarms of protesters.<sup>92</sup>

The Nepali Congress and the United Left Front succeeded in their endeavors, and as a result of their victories, the prime minister resigned and an interim government was established, pending elections in the following year in 1991.<sup>93</sup> The leaders of the People’s Movement wrote an early version of a constitution, which required the monarchy to hand the power back to the people by agreeing to a constitutional monarchy arrangement. The new constitution guaranteed the basic rights of Nepalese people and granted political rights entirely to the citizens. The monarchy agreed to the legalization of a multi-party democracy within a constitutional monarchy.<sup>94</sup>

Despite this drastic change in the 1990s, Nepali political system still continued to be “hierarchical, centralized, riddled with conspiracies, and dominated by a complex patron-client nexus.”<sup>95</sup> Thus, several serious political cleavages including caste, religion, and income continued to cause divisions and prevented absolute equality. These political frustrations were channeled into a desire for *real* change in a movement spearheaded by the Maoist Party.

The Unified Communist Party of Nepal (Maoist Party) was founded in 1994 after the United People’s Front, a political organization created in the 90s, split into

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<sup>91</sup> Nvdatabase.swarthmore.edu,. "Nepalese Force King To Accept Democratic Reform, 'Jana Andolan' (People's Movement), 1990 | Global Nonviolent Action Database". N. p., 2016. Web. 7 Feb. 2016.

<sup>92</sup> Ibid.

<sup>93</sup> Ibid.

<sup>94</sup> Ibid. 1.

<sup>95</sup> Ibid.

factions.<sup>96</sup> This newly formed Maoist Party recognized the shortcomings of the Nepali government at the time and proposed a forty-point list of demands, which included provisions “for an end to the intrusion into Nepal and domination of foreign elements; for a secular state free of all discrimination and oppression with the monarchy stripped of its privileges; and for a wider range of welfare provisions and social and economic reforms.”<sup>97</sup> Unfortunately, members of the Congress-led coalition who were in charge of the government at that time ignored these demands and as a response, the Maoists staged an attack on February 13, 1996. This armed attack consisted of the leaders of the Maoist Party in a violent insurgency involving “killings, torture, bombings, kidnappings, extortion, and intimidation against civilians, police, and public officials in more than 50 of the country’s 75 districts,” and marked the beginning of the Civil War.<sup>98</sup>

There were several political conditions in Nepal that directly contributed to the growth of the insurgency. Despite the fact that the ‘90s were an economically prosperous decade for Nepal, the income gap increased significantly and further intensified poverty.<sup>99</sup> Additionally, the population boom of this decade prevented people from reaping the benefits of economic growth and lack of proper infrastructure continued to be a hindrance for people living in remote regions. All of the economic disparities contributed to pushing the Maoists towards violent conflict as a means for immediate change.<sup>100</sup>

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<sup>96</sup> Hutt, Michael. *Himalayan people's war: Nepal's Maoist rebellion*. Indiana University Press, 2004. 5.

<sup>97</sup> *Ibid.*

<sup>98</sup> Pike, John. "Insurgency In Nepal". *Globalsecurity.org*. N. p., 2016. Web. 30 Mar. 2016.

<sup>99</sup> Lawoti. 6.

<sup>100</sup> *Ibid.* 7.

In addition to economic conditions, societal structures that had been standing for decades also began to falter and contribute to this change. Increased education undermined the traditional social hierarchies of class, ethnicity, caste, gender, and age, and citizens became more aware of and grew frustrated with the extreme socio-cultural inequality.<sup>101</sup> Education and globalization increased, but policies remained geared towards further marginalizing people from lower castes. The Maoists, however, took advantage of this situation and mobilized these marginalized groups to increase their voter base.<sup>102</sup>

An important catalyst for the intensity of this insurgency was the massacre of the Royal Family of Nepal on June 1, 2001 by an unknown assailant. The immediate members of the Royal Family died, including several members of the extended family and servants of the palace. Following this tragedy, King Gyanendra, the only surviving member of the royal family, succeeded to the throne. With his newfound political power, Gyanendra deployed the Royal Nepalese Army (RNA) in November 2001, which led to a “massive escalation of the conflict and a skyrocketing number of battle deaths,” totaling at 4,647 in 2002.<sup>103</sup>

The Maoists’ strategy during the insurgency was to “recruit, train and equip an army, establish ‘base areas’ in rural hill districts from which all state bodies and institutions would be banished, and gradually encircle the towns and cities.”<sup>104</sup> They used attack tactics, political indoctrination, and the vulnerability of poor citizens in

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<sup>101</sup> Ibid.

<sup>102</sup> Ibid. 11.

<sup>103</sup> von Einseidel. 19.

<sup>104</sup> Hutt. 5.

their village to encourage the citizens to revolt against the existing monarchy and to establish their future voter bases.<sup>105</sup>

Towards the end of the civil war almost a decade later, the Maoists had “denied the state control over around 80% of its territory.”<sup>106</sup> The Maoists, led by Prachanda, steadily displaced local government and resisted King Gyanendra’s attempts to restore an absolute monarchy in 2002 and 2005, gradually leading to the formation of a Seven Party Alliance against what remained of the monarchy.<sup>107</sup> This party alliance eventually formed the 3 leading parties in parliament comprised of the Maoist Party with a total of 220 seats, the Nepali Congress with 110 seats, the United Marxist Leninist Party with 103 seats, and smaller parties with the remaining seats.<sup>108</sup> After two years of political gridlock and a series of interim constitutions, politicians at a historic Constituent Assembly (CA) meeting on May 28, 2008 “endorsed a proposal to amend the interim constitution implementing the declaration of Nepal as a federal democratic republic.”<sup>109</sup>

### **History of Sino-Nepalese Diplomatic Relations**

Before the current role of foreign aid can be examined, it is important to consider the history of relations between China and Nepal. China and Nepal’s relationship officially began when the Tang Dynasty established diplomatic relations with Kathmandu. After these initial efforts, China, Nepal, and Tibet were involved in several unfriendly attacks against one another and from abroad. British invasion into Nepal soon became inevitable because of existing British influence in India, so Nepal

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<sup>105</sup> Ibid.

<sup>106</sup> von Einseidel. 20.

<sup>107</sup> Ibid. 24.

<sup>108</sup> Ibid. 31.

<sup>109</sup> Ibid. 33.



began to search for an ally in China. The mission leader, Chautariya Pushkar Shah, who went to seek help from the Chinese emperor, came back empty-handed as China refused to support Nepal in any case of invasion.<sup>110</sup>

After years of bickering and ignored requests, Nepal entered yet another war with Tibet in 1855.<sup>111</sup> This particular war ended in 1856 with The Treaty of Thapathali, which promised monetary compensation to Nepal from Tibet and Nepalese support in case of an invasion in Tibet. However, the conditions of this treaty became negligible after a year and both parties began interpreting its provisions according to their own interests.

Friendly relations between China and Nepal continued until 1904, when Nepal refused to ally with Tibet in fear of ruining its relations with Britain.<sup>112</sup> It was after this time that Nepalese foreign policy changed, and started to align with British international interests. In fact, Nepal even promised to help Tibet regain a sovereign status in 1912 in its efforts to align with British interests.<sup>113</sup> After Chinese communists invaded Tibet in 1950, they also began undermining Nepalese trading rights and began to ignore the internationally accepted provisions of the 1856 treaty.<sup>114</sup> Friendly relations between Tibet and Nepal faded when China would “no longer tolerate the continuation of the traditional relations between Tibet and Nepal.”<sup>115</sup>

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<sup>110</sup> Ibid. 5.

<sup>111</sup> "Nepalese Army | *Nepalese Army* | N.p., n.d. Web. 23 November 2015. <<http://www.nepalarmy.mil.np/history.php?page=three>>.

<sup>112</sup> Countrystudies.us., "Nepal - China". N. p., 2016. Web. 27 Jan. 2016.

<sup>113</sup> Ibid.

<sup>114</sup> Ibid.

<sup>115</sup> Jaiswal, 13.

Sino-Nepalese relations changed drastically after King Mahendra ascended the throne in 1955. As Nepalese internal politics caused Indo-Nepali relations to deteriorate, China sought to take advantage this opportunity and established itself as a diplomatic ally of Nepal. Relations continued to develop as the Maoist parties formed in Nepal and this ideological closeness allowed for Chinese involvement.<sup>116</sup> Tanka Prasad Acharya, Mahendra's Prime Minister, voyaged to China several times to echo pro-Chinese sentiments, discuss Tibeto – Nepalese relations, and to draw an official line of demarcation.

The Treaty of Thapathali was replaced by a new treaty in 1956, which recognized China's right over Tibet.<sup>117</sup> Another Sino-Nepal Boundary treaty was signed in 1961, and a joint commission to discuss border disputes and maintain official lines of demarcation was created.<sup>118</sup> As Sino-Indian diplomatic relations deteriorated in the early 60s, the Nepali government attempted to maintain a stance of neutrality but still supported the Chinese government's endeavors to become a permanent member of the United Nations.<sup>119</sup>

The Cultural Revolution in China that began in the late 1960s “gave a fillip to the extremist sections of the communist parties, the members of which eventually founded the present day Maoist Party in Nepal.”<sup>120</sup> In terms of diplomatic relations, Sino-Nepalese affairs remained steady through the 1970s. King Birendra sought to balance the growing influence of India by increasing relations with China.

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<sup>116</sup> Ibid. 16.

<sup>117</sup> "Nepal". Country-data.com. N. p., 2016. Web. 6 Apr. 2016.

<sup>118</sup> Ibid.

<sup>119</sup> Ibid.

<sup>120</sup> Singh, Ravi Shekhar Narain. *The Unmaking of Nepal*. Lancer Publishers, 2010.100.

Nepal helped establish the South Asian Association for Regional Cooperation (SAARC) in 1985, which included India, Bangladesh, and other South Asian countries, and began to expand its influence in the international realm. The Chinese government at this time was displeased with the transformation of the monarchy and saw the new government as a step away from Nepal's possible communist state. As the newly established parties found better suited ideological similarities with India's government, Indo-Nepalese relationship increased as Sino-Nepalese relationship was straining.<sup>121</sup> Additionally, Free Tibet demonstrations in Nepal and the introduction of democracy to its regime caused China to fear that political sovereignty would be given to Tibetans. The CCP was also concerned that the Maoist victory in Nepal would fuel the Maoist insurgency in China.

### **Chinese Foreign Aid and Influence in Nepal**

Because China is not a member of the Organization for Economic Co-operation and Development (OECD), Chinese foreign aid data has been very difficult to track and generally lacks transparency. Scholars and aid data collectors have often concluded that even the small amount of data publicized by the Chinese government "doesn't easily fit" into the OECD's definition of Official Developmental Aid (ODA).<sup>122</sup> Chinese foreign aid can be more easily categorized as Foreign Direct Investment (FDI) since much of the money being donated is to directly benefit the

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<sup>121</sup> "India, China and Nepal." *Spotlight Nepal*. N.p., n.d. Web. 11 May 2014. <<http://www.spotlightnepal.com/News/Article/-India-China-and-Nepal-An-Emerging-Trilateral-Re>>.

<sup>122</sup> Aiddata.org,. "China's Foreign Aid White Paper: A Victory For The Aid Transparency Movement? | Aiddata 3.0". N. p., 2011. Web. 23 Dec. 2015.

Chinese economy.<sup>123</sup> Nevertheless, we can still see some increase in aid, FDI, and influence from China to Nepal in the year 2008.

The Chinese government published a White Paper in 2011, vaguely summarizing their foreign aid program from 1950 till present day. Although the vast time-span covered in this white paper prevents thorough explanations of aid-giving patterns in general, let alone aid-giving patterns specifically towards Nepal, it does show that the geographical distribution of Chinese foreign aid in 2009 was heaviest in Africa (45.7%) and second heaviest in Asia (32.8%).<sup>124</sup> Additionally, 39.7% of the total funds were going towards the least developed countries like Nepal.<sup>125</sup>

Although it is quite difficult to measure the exact trajectory of Chinese foreign aid to Nepal, tracking news articles that announce China's pledges to the Nepalese economy through the past decade sheds light on the rapid rate at which Chinese influence in Nepal is growing. Beginning with plans for the Lhasa rail link, news articles regarding the "mushrooming" of Nepal-China study centres along the Indo-Nepalese borders and Nepal taking part in a trade fair in Tibet in order to "further boost Nepal's trade relations and cultural exchanges with China," began to appear in the 2008-2009 time frame.<sup>126</sup> News depicting increased influence can also be correlated with the emergence of Chinese tourists, Confucian learning centers, and a push from the Chinese government to actively encourage Nepalese people to learn the

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<sup>123</sup> Ibid.

<sup>124</sup> News.xinhuanet.com,. "Full Text: China's Foreign Aid ". N. p., 2015. Web. 24 Dec. 2015.

<sup>125</sup> Ibid.

<sup>126</sup> 1) Parashar, Sachin. "*China Using Nepal Study Centres For Spying? - Times Of India*". The Times of India. New Delhi., 2016. Web. 12 Apr. 2016.

2) "*China, Nepal Trade Fair Opens In Tibet \_English\_Xinhua*". News.xinhuanet.com. N. p., 2016. Web. 12 Apr. 2016.

language.<sup>127</sup> One such Confucius Institute has even cropped up in Kathmandu University, one of the oldest universities in Nepal.

A large indicator of the extent to which the relationship between China and Nepal strengthened had been plans to build a rail link between Lhasa, Tibet, and Khasa, Nepal. Around \$10 billion was put on this project in 2008, and it was projected to extend through the Indian border as well. In addition to this rail link, “road and air networks that link a number of Chinese autonomous regions” have also been developed in order to mobilize Chinese troops more efficiently in the Himalayan region.<sup>128</sup>

Foreign aid from China earmarked for the Nepalese security sector also increased around the time the Maoist insurgency ended. In 2008, Lieutenant General Ma Xiaotian pledged \$2.6 million in military aid to Nepal and in 2009, the Chinese delegation met with Nepal’s defense minister Bidhya Bhandari and pledged \$3 million in military aid for a training center for Nepal’s army.<sup>129</sup> These pledges steadily continued through 2011 when General Chen Bingde “announced an additional military assistance package worth \$20 million and assured that more would be on the way” to Nepal.<sup>130</sup>

In addition to increases in foreign aid, Nepal’s trade interactions with China also increased. The China Trade Fair was held in Kathmandu in 2008 with a goal to exhibit Chinese products to Nepali citizens and to “offer an opportunity for Nepali

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<sup>127</sup> BBC News,. "Why China's Influence On Nepal Worries India - BBC News". N. p., 2015. Web. 24 Dec. 2015.

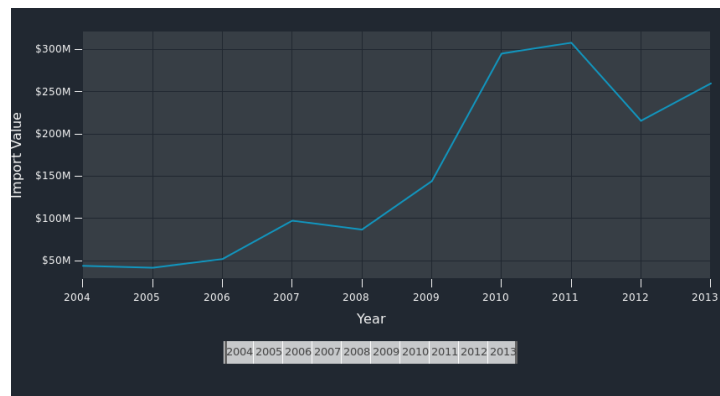
<sup>128</sup> The Jamestown Foundation,. "China’s Strategic Advantage In Nepal ". N. p., 2015. Web. 24 Dec. 2015.

<sup>129</sup> Ibid.

<sup>130</sup> Ibid.

businesspersons and industrialists to assess the quality of Chinese products.”<sup>131</sup> This particular interaction became a major step towards a greater degree of economic cooperation. Additionally, imports from China to Nepal also increased drastically after 2008. The most noticeable increase has been in the “machines” sector as shown by the graph below. Exports from China to Nepal in this particular sector increased sharply, more than tripling between 2008 and 2010 immediately following the insurgency.

Figure 1 - Data Visualization of Chinese "Machine" Exports to Nepal from 2004-2013.



Source: The Observatory of Economic Complexity (OEC)

This increase in imports is especially bewildering since the global economic recession of 2008 caused China’s growth to slow from 13% to 9%.<sup>132</sup> This economic blunder, in addition to a series of natural disasters that fueled the recession, also affected trade negatively, which was indicated by a drastic fall in demand for Chinese exports.<sup>133</sup> Given the economic downturn and decrease in demand for Chinese products, one would have expected trade, aid, and investment flowing from China to

<sup>131</sup> Tjcoc.gov.cn,. "China Trade Fair 2008 To Be Held In Nepali Capital - Exhibition - 天津商口英文网站" (Tiānjīn shāngwù yīngwén wǎngzhàn). N. p., 2015. Web. 24 Dec. 2015.

<sup>132</sup> News.bbc.co.uk,. "BBC NEWS | Business | China's Economic Growth Slows". N. p., 2016. Web. 29 Jan. 2016.

<sup>133</sup> Ibid.

Nepal to decrease. Surprisingly, in spite of the hostile economic conditions, China dramatically increased its foreign aid and trade in certain sectors to Nepal after 2008.

### **History of Japanese-Nepalese Diplomatic Relations**

Japan and Nepal have had a comparatively friendly diplomatic relationship, which can essentially be attributed physical distance between the two nations. Foreign exchange programs and diplomatic visits alone have comprised of a bulk of the interactions between Japan and Nepal and the earliest exchange can be dated back to 1899 when a Japanese Zen Buddhist named Ekai Kawaguchi visited Nepal.<sup>134</sup>

Based on historical and spiritual ties to Buddhism, Nepal and Japan have developed a very friendly relationship since the late 1800s. During Kawaguchi's visit, he suggested that the Nepali government initiate a foreign exchange program to send 8 Nepalese students to Japan to pursue higher education.<sup>135</sup> Increasing cultural exchanges as exemplified by the foreign exchange program helped form the Japan-Nepal Friendship Society in Japan to continue this relationship.<sup>136</sup> Thus, a series of regular diplomatic exchanges between students, politicians, and members of both royal families has been representative of the extent of Japanese-Nepalese relationship for the past century.

### **Japanese Foreign Aid to Nepal**

Despite this underdeveloped relationship, Japan has been one of the largest providers of foreign aid to Nepal. "As a dedicated development partner and a close friend of Nepal," Japan initiated its aid program in 1969 "in its development endeavor

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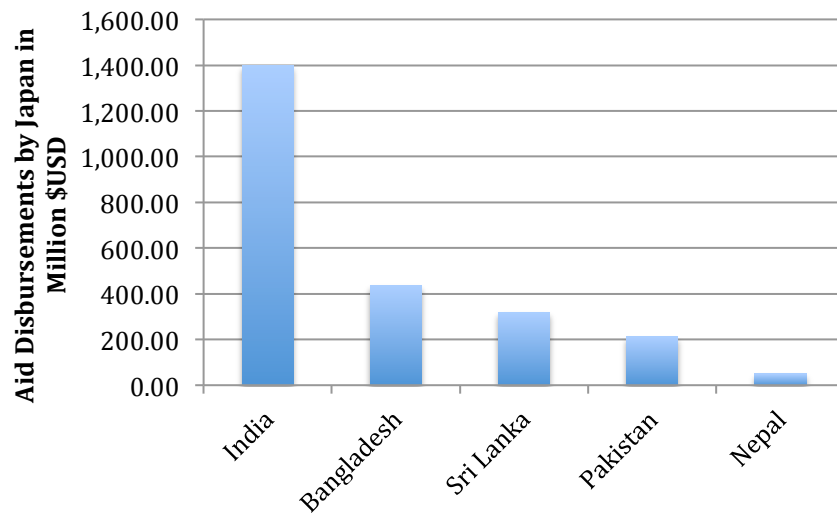
<sup>134</sup> Chimoriya, Bhim. "Nepal Japan Relation Historical Perspective". Wisenepali.com. N. p., 2015. Web. 29 Dec. 2015.

<sup>135</sup> Ibid.

<sup>136</sup> Ibid.

to achieve sustainable economic development and alleviate poverty in Nepal.”<sup>137</sup> Since its inception, Japan has contributed significantly to food aid, infrastructure development, and many other sectors.<sup>138</sup> Japan’s dedication to its close friend continues to this day as depicted by Nepal’s placement amongst the top 5 recipient countries of Japan International Cooperation Agency’s (JICA), Japan’s aid management platform.

Figure 2 - Aid Disbursements by Japan to Asian Countries for the year 2013 in Million USD



Source: Japan’s Official Developmental Aid White Paper 2014 for calendar year 2013

In terms of Japanese foreign aid to Nepal through JICA, technical cooperation aid, grant aid, and loan disbursements all increased from the 2008-2009 fiscal year.<sup>139</sup> Japanese increase in ODA comes at an odd time since the U.S.-based 2008 Lehman Shocks also hit Japan particularly hard. Lehman Brothers Japan was forced to file for bankruptcy, which “produced serious problems in credit markets not only in the U.S.

<sup>137</sup> Np.emb-japan.go.jp,. " Embassy Of Japan In Nepal ". N. p., 2015. Web. 31 Dec. 2015.

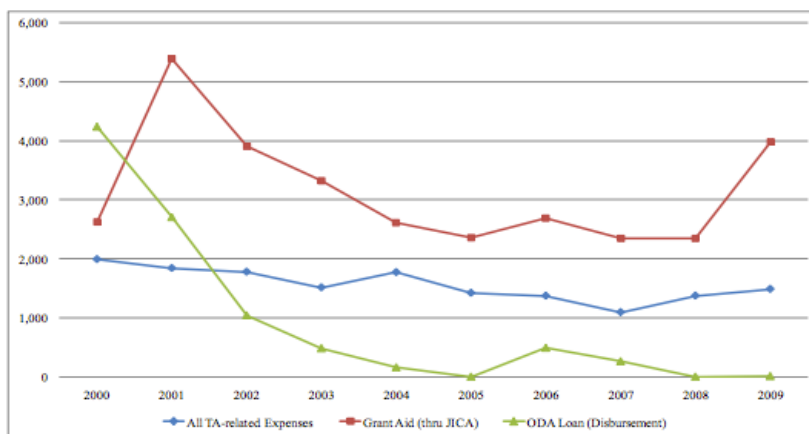
<sup>138</sup> Ibid.

<sup>139</sup> Ibid.



but also in Japan.”<sup>140</sup> The direct effects of the global crisis shocked Japanese economy and “the total value of its goods and services dropped at an annual pace of 12.7 percent in the fourth quarter of 2008.”<sup>141</sup> Once again, Japan’s uncertain economic circumstances should have led to a reduction in aid being disbursed from JICA, but this clearly was not the case.

Figure 3 - JICA's Foreign Aid to Nepal from 2000-2009 in Technical Assistance, Grant Aid, and Loan Disbursements



Source: JICA/NPPR Paper. September 2010

Figure 3 above shows JICA’s donation trends from 2000-2010 with increased donations in grants and technical assistance from 2008-2009 and a particularly sharp increase in grant aid. JICA’s grant aid disbursements in the 2009 fiscal year increased from \$23 million to \$39 million from 2008 to 2009, an increase of 169%, in the agriculture, road, and environmental sectors.<sup>142</sup> In fact, technical assistance projects funded by JICA also increased and was designated towards funding the democratization, peace building, and governance, electricity, water supply, and other

<sup>140</sup> Hoshi, Takeo et al. "Lehman Shock And The Japanese Financial Markets | Economonitor". Economonitor.com. N. p., 2008. Web. 29 Jan. 2016.

<sup>141</sup> Washingtonpost.com,. "Japanese Economy Withered In Late 2008". N. p., 2016. Web. 29 Jan. 2016.

<sup>142</sup> Japan International Cooperation Agency. (2010). *Japan/JICA NPPR Background Paper*.

\* Currency exchanged using historic rate of April 2008 from [www.x-rates.com](http://www.x-rates.com), 8.

sectors, while the increase in loan disbursements was to be used for water supply projects.<sup>143</sup> Thus, it is clear that the chunk of Japanese aid disbursement in Nepal increased and was being used essentially for the infrastructure building and democracy sectors.

### **History of U.S.-Nepalese Diplomatic Relations**

“The first Nepalese official visit to the United States took place late in 1939, during the homeward journey of Gen. Krishna Rana, Nepal’s Minister in London,” and U.S.-Nepalese relations continued to develop with military visits and commercial interests.<sup>144</sup> General Rana’s successor also conducted a similar mission to Nepal, and in March 22, 1947, the Department of State sent a special diplomatic mission to to deliver a letter from President Truman to King Tribhuvan indicating his recognition of Nepal’s independence.<sup>145</sup> In April 25, 1947, an Agreement of Commerce and Friendship was signed, which also included provisions to establish consular relations, and in 1948, official diplomatic relations between Nepal and the United States began with the establishment of a Legation to the United States in Nepal.<sup>146</sup>

Since the 1940’s, democracy-building has been a key U.S. foreign policy objective towards Nepal and they have worked with the Kathmandu to “support inclusive and effective governance, promote political stability and economic development, decrease the country’s dependence on humanitarian assistance, and increase its ability to make positive contributions to regional security and the broader

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<sup>143</sup> Ibid. 7.

<sup>144</sup> Nepal.usembassy.gov,. "History | Kathmandu, Nepal - Embassy Of The United States". N. p., 2016. Web. 29 Feb. 2016.

<sup>145</sup> Ibid.

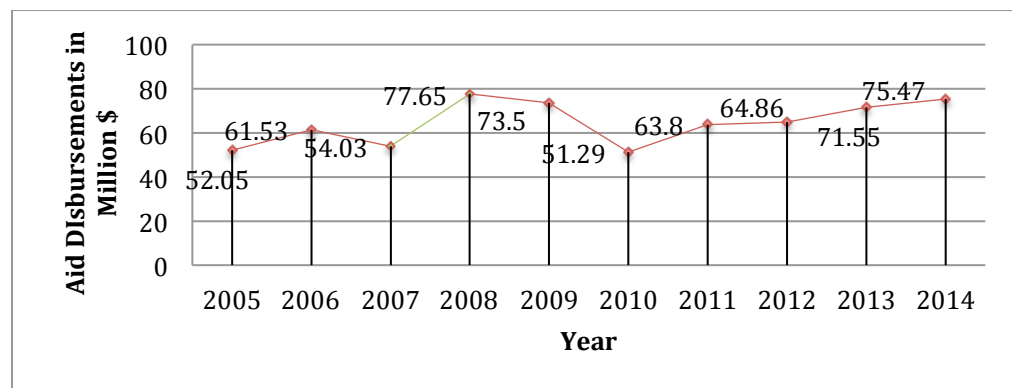
<sup>146</sup> Ibid.

global community.”<sup>147</sup> Values of democracy and inclusion have been integral to the policy objectives of the United States Agency for International Development, USAID, and Nepal, as a recently established democracy, has been a prime target for aid.

### U.S. Foreign Aid to Nepal

U.S. aid to Nepal officially began in January 23, 1951 when an assistance agreement was signed, and USAID began to contribute “to some of Nepal’s most dramatic and remarkable development successes.”<sup>148</sup> Some of these projects have been road-building, telephone exchange, increasing literacy rates, reducing child mortality, and many more.<sup>149</sup>

Figure 4 - USAID Disbursements to Nepal from 2005-2014 in Million USD



Source: OECD/ODA Data.

As shown by the Figure 4, aid increased significantly from 2007-2008, the time of the regime change, from roughly \$54 million to an astounding \$77 million. Since its inception, U.S. foreign aid’s main purpose has been made clear in U.S. government publications that “the primary goal of U.S. assistance in Nepal is to support a successful transition to a more democratic, prosperous, and resilient

<sup>147</sup> Ibid.

<sup>148</sup> Usaid.gov, "History". N. p., 2016. Web. 29 Feb. 2016.

<sup>149</sup> Ibid.

country.”<sup>150</sup> Health initiatives have also been a key objective of U.S. aid to Nepal. The most recent data for aid in 2015 shows a \$84 million allocation of aid to Nepal, from which a around \$41 million is specifically earmarked for the health sector.<sup>151</sup>

Depicted by the contents and graphs of this chapter is the relatively early inception of aid from China, Japan, and the United States and their sharp increase in 2008 conveniently accompanying Nepal’s regime change. While many of the increases in aid are limited to certain sectors, any increase is unexpected and puzzling given the terrible economic circumstances of all three donor countries, and the tumultuous political circumstances of Nepal.

The following chapters will explore Chinese, Japanese, and U.S. foreign aid to Nepal in order to explain the puzzling phenomena of increased aid in the context of foreign policy. It will argue the effects of regime change as some main influencing factors in the increase in aid from the three donor countries and will also discuss secularization, or religious inclusion, of Nepal, as another important factor. I argue, in the upcoming chapters, that while many factors contributing to aid include foreign policy goals of each donor country, the recipient political conditions of Nepal and a new regime open to Chinese influence had a profound affect on all the donor countries’ aid goals.

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<sup>150</sup> Beta.foreignassistance.gov,. "Nepal | Foreignassistance.Gov". N. p., 2016. Web. 29 Feb. 2016.

<sup>151</sup> Ibid.

## **CHAPTER 3: EXPANDING CHINESE INFLUENCE IN SOUTH ASIA**

The examination of Chinese influence in Nepal makes for a very interesting case. Without having developed many of its own provinces, China has increased foreign direct investments, aid, and other forms of influence, including Beijing-funded Chinese learning centers and language schools, all over the world. Obviously as a neighbor, Nepal has been a regular recipient of these perks and other forms of influence as outlined in the previous chapter.

This particular chapter will investigate China's diplomatic relationship with Nepal in the form of influence at a deeper level, focusing especially to changes after the Maoist Party won a majority of the seats in the Constituent Assembly, forcing a significant regime change in Nepal. It will argue the Tibetan refugee population in Nepal, its hydroelectric potential, and official secularization and its impact on foreign policy as three main factors that influenced the increase in aid.

### **Tibetans in Nepal**

Around the time the Maoists declared victory in Kathmandu, and months before the Olympics were set to commence in Beijing, Tibetan monks engaged in peaceful protests in Lhasa in March, 2008. Because of the international media for Olympics coverage hovering over Beijing at this time, the Chinese government sent riot police to intervene, which resulted in "bloody clashes".<sup>152</sup> As a result, 10 people were killed, which caused international attention to focus, albeit briefly, on the

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<sup>152</sup> YARDLEY, JIM. "Violence In Tibet As Monks Clash With The Police". *Nytimes.com*. N. p., 2008. Web. 3 Feb. 2016.

situation of Tibetan unrest as the riots began to grow and the international Tibetan community began to participate.<sup>153</sup>

Naturally, as hosts of about 10 large Tibetan settlements and a geographically close neighbor to Tibet, the movement quickly spread to Nepal.<sup>154</sup> As a result, Beijing increased aid towards Nepal to encourage harsher sanctions on their Tibetan refugee population, and to prevent further influx in its attempt to curtail further criticism of human rights abuses.<sup>155</sup>

### **Historical Development and Present-Day Conditions for Tibetans in Nepal**

Treatment of Tibetan refugees in Nepal has changed drastically since the 1970s. In the 1970s, Nepal “generally facilitated the work of foreign governments and humanitarian aid organizations involved in helping to resettle the first wave of Tibetan refugees,” and granted them equal rights.<sup>156</sup> Tibetans were able to travel freely without paperwork and had the ability to register themselves at the border of Nepal without having prepared additional papers beforehand. Pressure from the Chinese government to suppress the rights of Tibetans began in 1989 and as a result, Nepal’s border authorities refused to admit more refugees.<sup>157</sup>

According to a 2002 Tibet Justice Report, “no statute or regulation of Nepal [defined] or even [referred] to ‘refugees,’” preventing proper government regulations to provide services for Tibetans from China.<sup>158</sup> Some were given Registration Certificates, RCs, which allowed Tibetans to reside in and travel freely within Nepal

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<sup>153</sup> Ibid.

<sup>154</sup> migrationpolicy.org., "Global Nomads: The Emergence Of The Tibetan Diaspora (Part I)". N. p., 2008. Web. 3 Feb. 2016.

<sup>155</sup> Human Rights Watch, ". "Under China's Shadow". N. p., 2014. Web. 3 Feb. 2016.

<sup>156</sup> Tibet Justice Center. "Tibet's Stateless Nationals: Tibetan Refugees in Nepal." June 2002.

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<sup>157</sup> Ibid. 39.

<sup>158</sup> Tibet Justice Center. 47.

and allowed them to circumvent *some* police brutality.<sup>159</sup> However, not every refugee was in possession of these cards, which often forced him or her to resort to getting illegitimately made and expensive citizenship papers.

While these poorly regulated means of identification for Tibetan refugees and incoming pressure from the Chinese government worsened the living standards of refugees in Nepal, conditions deteriorated even further in later years. Closer to the time of the Maoist insurgency, the Dalai Lama's office and the Tibetan Refugee Welfare Office (TRWO) in Kathmandu, which provided guidance and services for many refugees, closed in 2005.<sup>160</sup> Unsurprisingly, it was around this time that King Gyanendra of Nepal "sacked his government and seized absolute power" and considered his close relationship with the Chinese government when asking Kathmandu's Chief District Officer to shut down the TRWO.<sup>161</sup>

By 2008, Tibetan rights in Nepal were being significantly restricted compared to their limited freedom in the 1970s. The Maoists became the leading party in the new government and the monarchy previously led by King Gyanendra was abolished. The protests of 2008 had caused Beijing to significantly increase "measures to limit foreign and cross-border influence," which caused the number of Tibetans crossing the border from 2,200 per year before the protests to less than 1,000 in just one year.<sup>162</sup> Additionally, Nepal and China signed several intelligence-sharing agreements, banned Tibetan demonstrations, and "deployed intimidating numbers of Nepali armed

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<sup>159</sup> Ibid. 3.

<sup>160</sup> Save Tibet. "Dangerous Crossing: Conditions Impacting the Flight of Tibetan Refugees." 2005 Update. 2.

<sup>161</sup> Tibet Justice Report. 25.

<sup>162</sup> Human Rights Watch. "Under China's Shadow".

police in Tibetan neighborhoods on politically sensitive dates, such as the birthday of the Dalai Lama.”<sup>163</sup>

Since 2008, this situation has severely worsened and Tibetans in Nepal not only face discrimination and a serious lack of religious rights, but also face unwarranted detention, use of force, and torture.<sup>164</sup> An increased influence and closer ties with Kathmandu has allowed for the Chinese government to maintain its control over Tibetan refugees in Nepal. In fact, Beijing’s tactics for controlling the sovereignty of Tibetans in Nepal has become more organized, with a clear set of three objectives, which include:

- 1) Ensuring Nepal’s cooperation with China in terms of reinforcing border patrol
- 2) Establishing and maintaining a ban on pro-Tibetan activities in Nepal
- 3) Providing intelligence on Tibetan communities in Nepal to China<sup>165</sup>

### **China’s Growing Need for Hydropower**

In addition to China’s increased interest in Nepal caused by concerns about Tibetan refugees, Beijing also had significant economic interests in Nepal. In 2008 when the Maoists took over, Chinese foreign policy revolved around enhancing sustainable economic growth and improving bilateral relations as the global recession forced Chinese politicians to prioritize economic advancement.<sup>166</sup> More specifically, the government was focused on raising “the living standards of its enormous population, [dampening] social disaffection about economic and other inequities, and [sustaining] regime legitimacy after the demise of the communist ideology as an

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<sup>163</sup> Ibid.

<sup>164</sup> Ibid.

<sup>165</sup> "Under China’s Shadow". Human Rights Watch. N. p., 2014. Web. 30 Mar. 2016.

<<https://www.hrw.org/report/2014/04/01/under-chinas-shadow/mistreatment-tibetans-nepal>>

<sup>166</sup> Ibid.



acceptable organizing principle.”<sup>167</sup> The viability of these goals revolved around maintaining a strong economy through infrastructure development.

While the Chinese economy had been unshakeable since the 1990s, growth rates slowed significantly in the first quarters of 2008. According to World Bank data, China’s economy enjoyed annual GDP growth rates of 11.4% in 2005, 12.1% in 2006, and 14.2% in 2007, but decreased significantly to 9.6% in 2008.<sup>168</sup> As the economy grew, the infrastructure in China also developed. However, maintaining the new infrastructure under the conditions of a stagnated economy forced policymakers to find alternative energy sources in 2008.

One way in which China seeks to harness the energy needed to support its enormous infrastructure is through hydropower. While Chinese dam building relied heavily on Western-manufactured materials in the early 1900s, “Chinese pupils wasted no time copying, underpricing, and outpacing their Western masters.”<sup>169</sup> China spent several decades mastering small dam building internationally, including Nepal, but it was not until 2003 that “they entered the exclusive market for large hydropower projects,” and began to construct domestic projects.<sup>170</sup> China has heavily invested in domestic hydropower and has been able to exceed energy extraction at a level greater than that of Brazil, the United States, and Canada combined.<sup>171</sup> Despite this heavy investment in domestic hydropower, the rapidly decreasing availability of other

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<sup>167</sup> Ibid.

<sup>168</sup> Data.worldbank.org,. "China | Data". N. p., 2016. Web. 3 Feb. 2016.

<sup>169</sup> Bosshard, Peter. "China Dams the World." *World Policy Journal* 26.4 (2009): 44.

<sup>170</sup> Ibid.

<sup>171</sup> Ecology Global Network,. "Hydro Power In China | Ecology Global Network". N. p., 2013. Web. 4 Feb. 2016.

resources forced the Chinese government “to begin investigating other options away from hydropower towards other renewables.”<sup>172</sup>

Besides exclusively domestic hydropower, China has expanded its reach for energy by investing in hydropower abroad. “Chinese dam builders have accumulated a vast knowledge base, having constructed almost half of the world’s 45,000 large dams,” and have applied this knowledge globally.<sup>173</sup> While many of these projects have been concentrated in Southeast Asia and Africa, Nepal has also been a target of China’s dam building projects.

China’s energy demands especially increased towards the end of the last decade as they earned their rank as the second largest consumer of oil after the U.S.<sup>174</sup> At this time, Nepal was a great source of energy for China as an area deemed “geographically remote, or politically risky,” by other potential investors.<sup>175</sup> It also became easier for the Chinese government to exert its international influence on Nepal after years of experience with the “going out” strategy, which “promotes outward investments, exports and subcontracting in overseas engineering projects.”<sup>176</sup> The Maoist government, as part of their agenda to equalize relations with China and to promote Nepalese economic progression, gave Chinese policymakers the opportunity to begin constructing dams in Nepal. As a result, Chinese companies

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<sup>172</sup> Ibid.

<sup>173</sup> McDonald, Kristen, Peter Bosshard, and Nicole Brewer. "Exporting dams: China's hydropower industry goes global." *Journal of environmental management* 90 (2009): S294-S302.

<sup>174</sup> Ibid.

<sup>175</sup> Ibid.

<sup>176</sup> Ibid.

began “aggressively pursuing lucrative deals to tap Nepal’s glacial rivers for hydropower, while state officials [were] cozying up to the Maoists in Kathmandu.”<sup>177</sup>

In addition to geographic barriers, political instability was a significant barrier preventing foreign companies from investing in hydropower in Nepal. Although China and India had been “interested in developing energy projects to take advantage of Nepal’s natural resources, [they were unwilling] to risk investments due to political turmoil.”<sup>178</sup> Despite the fact that political turmoil was not obsolete in Nepal, the establishment of the Maoist government did end the civil war, and gave its citizens hope for a more stable future. In other words, the end of the Maoist insurgency and the establishment of the new regime signaled to the international community a more stable Nepal, thus reducing the previous discomfort of investment in Nepal’s vast hydroelectric potential.

After China completed construction on the Three Gorges Dam, the government invited delegations from Nepal, Pakistan, South Africa and Congo to visit the dam, “which has become a showcase for China’s engineering prowess.”<sup>179</sup> It was after this interaction that China’s Assistant Minister for Foreign Affairs “pledged to provide Nepal a loan of \$125 million for Upper Trishuli 3 ‘A’ and \$62 million for Upper Trishuli 3 ‘B’,” in 2008.<sup>180</sup> Additionally the Nepal Electricity Authority, NEA, “agreed to a power purchase agreement with SinoHydro,” China’s hydroelectric

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<sup>177</sup> Tharoor, Ishaan. “Nepal’s New PM Makes the Rounds”. September 22, 2008. N. p., 2008. Web. 4 Feb. 2016.

<sup>178</sup> Bergner, Madeline. “Developing Nepal’s hydroelectric resources: Policy alternatives.” University of Virginia (2013).15.

<sup>179</sup> Bosshard.48.

<sup>180</sup> Raghavan, V. R. Internal Conflict in Nepal: Transnational Consequences. New Delhi: Published for Centre for Security Analysis, Chennai Vij India, 2011. Print. 258.

company, to construct a hydroelectric dam in western Nepal in 2009.<sup>181</sup> While a lack of data prevents us from understanding the specifics of Chinese aid and trade, perhaps the sharp increase in the “machines” sector in Sino-Nepalese trade can be attributed to dam-building equipment. Regardless, since the inception of Beijing’s involvement in worldwide hydroelectric potential, Chinese companies today are involved in at least 220 dams in 50 countries, including Nepal.<sup>182</sup>

### **Increasing Chinese Soft Power in 2008**

While the Maoist majority Constituent Assembly in Kathmandu paved the way for a more pro-Chinese government, the overall objectives of Chinese foreign policy also contributed to an increase in influence after 2008. The rhetoric of Chinese foreign policy at this time was focused around an increase in Chinese “soft power.” As opposed to hard power, which represents more coercive methods, soft power is associated with are non-military, “intangible power resources such as culture, ideology, and institutions”, being used widely by China in various regions of the world.<sup>183</sup> In this scenario, China uses institutions as a resource for soft power and “provides the developing world access to cheap credit and inexpensive consumer goods, and many countries are enjoying rapidly rising revenues due to Chinese demand for their exports.”<sup>184</sup>

We have already seen increase in trade with Nepal and a furthering of investments in Nepal’s hydropower as China’s use of institutional soft power in the

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<sup>181</sup> China, AidData. " | Aiddata".China.aiddata.org. N. p., 2016. Web. 4 Feb. 2016.

<sup>182</sup> Bosshard. 47.

<sup>183</sup> China’s Foreign Policy and “Soft Power” in South America, Asia, and Africa. *Congressional Research Service, Library of Congress*. 110<sup>th</sup> Congress 2nd Session. April 2008. Vii.

Nye, Joseph S. "Soft power." *Foreign policy* 80 (1990): 153-171. 167.

<sup>184</sup> *Ibid.* viii.

South Asian region, but Beijing's foreign policy goals of 2008 sought an increase in its sphere of economic influence in all of Asia. One way of ensuring this progression is by "strengthening ties to [its] traditional ally Pakistan and slowly gaining influence with other South Asian states to check Indian influence in its own backyard."<sup>185</sup> Along with increasing its influence in Nepal and Pakistan, Beijing had also been courting Sri Lanka, and Bangladesh.

The Chinese government, in Sri Lanka, is "building a highway, developing two power plants, and constructing a new port facility at Hambantota harbor."<sup>186</sup> In order to expand its access points to the ASEAN countries and to "ensure the safety of Chinese sea lines of communication across the Indian Ocean," Sri Lanka has been a target of influence for China.<sup>187</sup> Sri Lanka has also been benefiting off of Chinese military aid in its fight with Tamil insurgents.<sup>188</sup> Similarly, China's relationship with Bangladesh developed significantly during the 2007-2009 soft power-building period. China had become "an important source of military hardware for Bangladesh," and had been interested in taking advantage of their cheaply run garment sector as well.<sup>189</sup> Bangladesh's vast energy resources have also been attractive to both India and China, and Chinese investment in these resources may be on the horizon.<sup>190</sup>

### **Border Tensions**

A sharp increase in border tensions between China and India have also contributed to increased interactions with Nepal. The Sino-Indian border, measuring

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<sup>185</sup> The Heritage Foundation,. "China: Expanding Global Influence: Foreign Policy Goals, Practices, And Tools". N. p., 2008. Web. 6 Feb. 2016.

<sup>186</sup> Ibid.

<sup>187</sup> Ibid.

<sup>188</sup> Ibid.

<sup>189</sup> Ibid.

<sup>190</sup> Ibid.

4,057-kilometers, has not been demarcated, and borders are arbitrary.<sup>191</sup> Since the Sino-Indian war of 1962, “the two sides lay claim to chunks of territory,” including a 36,000 square kilometer territory claimed by India and occupied by China in Aksai Chin, and a 90,000 square kilometer territory claimed by China and occupied by India in Arunachal Pradesh.<sup>192</sup> The arbitrary division of these territories, and the vague language referring to the “chunks” of territory has been one of the root causes of border disputes.

Border disputes between China and India have been a regular occurrence for several years now, but situations surrounding Sino-Indian border disputes began to grow increasingly tense in 2008. For example, Pangong Lake, located between the border of India and China, has a 5-kilometer stretch along the bank, which has been an area of dispute between the two countries.<sup>193</sup> While incursions for both sides are common, “things started turning tense as Chinese crafts approached” an Indian boat patrolling the area.<sup>194</sup> Despite the fact that this issue has been under contention since 1999, the situation escalated in 2008.

Additionally, Sikkim, located in Indian Territory has been another area under contention. Chinese troops belonging to the People’s Liberation Army (PLA) entered the Sikkim territory more frequently in 2008, so that there were 65 incursions by June of that year.<sup>195</sup> In addition to Chinese troops physically entering the territory, they had also “threatened to demolish stone structures in the area,” which was a warning

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<sup>191</sup> Ramachandran, Sudha. Atimes.com. "China toys with India's border." N. p., 2016. Web. 8 Feb. 2016.

<sup>192</sup> Ibid.

<sup>193</sup> Archive.indianexpress.com.,. "Pangong Lake Is Border Flashpoint Between India And China - Indian Express ". N. p., 2016. Web. 7 Feb. 2016.

<sup>194</sup> Ibid.

<sup>195</sup> Hindustan Times. “India to Raise Sikkim Incursion with China” <<http://www.hindustantimes.com/>> 19 June 2008. Web. 05 Apr. 2016.

“echoed and endorsed by Chinese officials.”<sup>196</sup> Not only did the frequency increase, but “the Chinese [were] making deeper forays into Indian territory,” and were seen to be threatening the overall security of the region.<sup>197</sup>

In the midst of increasing volatility between China and India’s borders, maintaining an influence over Nepal became even more important for the stability of the region. Nepal often acts as an important buffer between the two countries, a role that becomes even more important in areas where China and India share a border. As China and India continue to clash economically and politically, these border disputes are bound to increase in frequency and in intensity, in which case an alliance with Nepal and support of their politicians would be integral for the Chinese government to assert its dominance over India or vice versa. Thus, the Chinese government, in this very attempt to maintain its influence in Nepal for an upper hand with India, ramped up its aid for infrastructure building and increased Chinese influence in Nepal.

### **China, India, and the Maoists: Secularism**

As an important member of the South Asian region and as Nepal’s other giant neighbor, India plays a significant role in Nepalese foreign policy. Since the beginning of their relationship, cultural and historical ties have drawn India and Nepal close. The 1950 Treaty of Friendship between the two countries was a particularly significant contributor to the positive developments of their relationship. It loosened bilateral economic policies significantly and gave each country more freedom to live and work in the other, thus promoting a greater degree of cultural and economic exchange. This significant political step towards a more cooperative state

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<sup>196</sup> Ramachandran.

<sup>197</sup> Ibid.

combined with the already existing religious, cultural ties made the Indo-Nepalese bond very durable.

As majority Hindu nations, religion had been a significant cultural link between India and Nepal for centuries. The official secularization of Nepal and the inclusion of religious freedom in the constitution pulled the national identity towards a more modernized future, away from its old “Hindu nation” reputation, away from its ties to India, and towards a more equal international standing. As a result of this new identity and a step towards a more equal, more inclusive political standing, the Chinese government saw the opportunity to forge a more lucrative relationship with Kathmandu.

Though the present day Indian political system is technically secularized, Hindu favoritism exists throughout society. Employment discrimination, discrimination in Army, and legislative discrimination against non-Hindu religions still exists throughout the country.<sup>198</sup> Additionally, cultural discrimination is prominent and in several states there is a ban on cow slaughter, which affects the livelihood of non-Hindu butchers.<sup>199</sup> “Official functions of the government whether at the central or state levels often commence with Hindu ceremonies of lighting lamps, breaking coconuts, and recitation of [Hindu epic verses],” so religion is definitely still intertwined into public society.<sup>200</sup>

Thus, the transition from a Hindu monarchy to a secular state in Nepal broke old ideological ties with the still religiously active state of India. In fact, some of the

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<sup>198</sup> "Why India Is Not A Secular State". <http://www.outlookindia.com/>. N. p., 2016. Web. 7 Mar. 2016.

<sup>199</sup> Ibid.

<sup>200</sup> Ibid.



Hindu fundamentalist protesters at the time of Nepal's secularization were mostly comprised of Indian nationals who were opposing the change in Nepal in the hopes of encouraging greater religious principles in India's politics.<sup>201</sup> In the 1990s when the absolute monarchy was replaced by a constitutional monarchy, the *Bharatiya Janata Party (BJP)*, one of the strongest parties in the Indian government, "pleaded for the Hindu religion and had asked the Constituent Assembly to include the term 'Hindu' in the new constitution."<sup>202</sup> After the secularization, Jaswant Singh, former BJP External Affairs Minister of India, felt "diminished" and expressed, on behalf of the party, a deep disillusionment with Nepal.<sup>203</sup> The fact that Nepal is a majority Hindu country obviously does not change with the establishment of a new government, but the strong symbolism of secularizing breaks Nepal away from a past of strong cultural ties with India.

In addition to the negative effects of secularization on Indo-Nepalese relations, "certain circles in New Delhi harbor a fundamental distrust for the Maoists as India reckons with its own ongoing Marxist-Leninist revolt."<sup>204</sup> While the Indian government publically maintained its allegiance with the Maoist government *after* their 2008 victory, they "had staunchly defended the monarchy throughout the bloody civil war," in an attempt to quench political unrest stemming from Maoist ideologies

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<sup>201</sup> Cailmail, Benoît. "The Fall of a Hind Monarchy." *Centre Asie IFRI*, Paris, France. December, 2008. 17.

<sup>202</sup> Ibid. 18.

<sup>203</sup> Ibid.

<sup>204</sup> Tharoor.

in their own territory.<sup>205</sup> In fact, new Maoist-led CA is often referred to as the “expansionist enemy”.<sup>206</sup>

Amidst a deteriorating relationship with India, Nepal’s diplomatic relations with China strengthened after the new Maoist regime took over. Maoist leader Prachanda “has gone on record hailing the Chinese Communist Party’s pragmatic model of capitalism,” despite the fact that the Chinese government was opposed to the very insurgency he led.<sup>207</sup> Additionally, after the establishment of the federal republic, Prachanda’s first overseas trip was to China.<sup>208</sup> The Chinese government also took advantage of this opportunity and reciprocated Nepal’s attempts for a stronger relationship. Beijing sent its “first nine-member official foreign ministry delegation to Nepal headed by Chinese assistant Minister of Foreign Affairs, Ha Yafei.”<sup>209</sup> In fact, the Chinese government completed a total of 38 official Chinese delegation visits to Nepal during Prachanda’s term.<sup>210</sup>

The secularization of Nepal’s new regime broke off ideological ties with India. As a byproduct of this transition, Kathmandu’s willingness to equalize its relations with its neighbors granted China a political opportunity to influence the Nepalese government regarding Tibetan refugees, hydropower, to extend its soft power in South Asia, and possibly to quench border tensions with India. As a result, Nepal’s allegiance began to sway heavily towards China and away from India.

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<sup>205</sup> Tharoor, Ishaan. "When the Maoists Take Over - TIME.Com". April 15, 2008. N. p., 2008. Web. 5 Feb. 2016.

<sup>206</sup> Ibid.

<sup>207</sup> Ibid.

<sup>208</sup> Sunil, W.A. "New Maoist-Led Government Installed In Nepal - World Socialist Web Site". Wsws.org. N. p., 2016. Web. 6 Feb. 2016.

<sup>209</sup> Idsa.in., "China And Maoist Nepal: Challenges For India | Institute For Defence Studies And Analyses". N. p., 2016. Web. 5 Feb. 2016.

<sup>210</sup> Kumar, Satish. "China’s Expanding Footprint in Nepal: Threats to India." Focus, volume 5, No 2, April 2011. 85.

## **Conclusion**

Despite the fact that China has had a long and complex relationship with Nepal and its neighbors, all of the reasons for increased influence over Nepal are tied to the establishment of the Maoist Party. The new Maoist regime, in its attempts to better its relations with China, allowed for Beijing an open political opportunity to build its alliance with Nepal. The Tibetan protests, an opportunity to tap into the hydropower potential of Nepal, regional foreign policy, and border disputes between India, essentially acted as push factors to encourage the Chinese government to take advantage of Nepal's new regime.

Understanding the case of Chinese aid to Nepal in the context of McKinley and Little's model requires a more specified approach to the recipient need model. While it has become clear that China's donor interest clearly consists of other political motives, such as increasing soft power, 'recipient political conditions' is a more useful model to describe this particular case. The fact that regime change, more specifically secularization, created political conditions in Nepal such that China was more easily able to mold a relationship with the Nepalese government became a significant transition. A disconnect with India and a new regime more open to an equal international relationship allowed China the opportunity to expand its influence in Nepali politics.

The next chapter will investigate the reasons why aid from Japan to Nepal increased in the year 2008. It will consider Japan's regional policy goals and China's important role in Nepalese politics as a threat to Japan's sphere of influence, thereby causing JICA to increase their aid. Additionally I will argue that Japan's foreign aid

goals in the year 2008 included anti-terrorist rhetoric, which made Nepal's turbulent political atmosphere a prime candidate for aid increase. Contribution towards Nepal's infrastructure would ease the politically volatile situation and prevent extremist or terrorist ideas from festering. Essentially, I argue that regime change and the new political atmosphere of Nepal definitively influenced the aid increase from Japan.

## CHAPTER 4: JAPANESE REGIONAL GOALS

Japan's political and economic situation was quite erratic and uncertain in 2008. Prime Minister Yasuo Fukuda resigned abruptly in September 2008 to give his unpopular party a fresh start for the next general election.<sup>211</sup> Taro Aso of the Liberal Democratic Party became the next prime minister and this abrupt and quick shift led reporters to deem Japan's system a "political revolving door."<sup>212</sup> The fickle nature of Japanese politics was highlighted as "the era of karaoke politics in Japan, where in quick succession different members of the ruling elite take turns to step up to the microphone and lead the country."<sup>213</sup>

Similarly, Japan's economy at this time was also unstable and deeply affected by the recession of 2008. The GDP had "contracted at an annual rate of 0.4% in three months," which represented a second quarter of negative growth.<sup>214</sup> In fact, Japan's Minister of Economy publically acknowledged that their economy was in serious trouble as "the export-driven economy watched global demand slow down."<sup>215</sup> Both the political and the economic situation in Japan were less than stable in 2008 and increased spending in any sector was unexpected. Still, OECD data makes it evident that Japanese aid to Nepal in all forms, including loans, increased by approximately 32% in the 2009 fiscal year immediately following the victory of the Maoist insurgency in Nepal.

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<sup>211</sup> "Japan's Prime Minister Yasuo Fukuda Resigns ". Telegraph.co.uk. N. p., 2008. Web. 30 Mar. 2016.

<sup>212</sup> Ibid.

<sup>213</sup> "BBC NEWS | Programmes | From Our Own Correspondent | Japan's Political Revolving Door". News.bbc.co.uk. N. p., 2016. Web. 30 Mar. 2016.

<sup>214</sup> Masters, Coco. "Why Japan Has Slipped Into Recession." *TIME Magazine* <<http://content.time.com/time/business/article/0,8599,1859997,00.html>> November 18, 2008.

<sup>215</sup> Ibid.

In this chapter, I argue that Japan strengthened its ties to Nepal not only to maintaining its influence in South Asia, but it was also intended to sway the newly formed and impressionable government towards supporting Japan. Increasing aid in Nepal would thereby mitigate China's sphere of influence in the region and assert Japan's dominance in the region. Additionally, the newly independent Japan International Cooperation Agency (JICA) developed specific anti-terrorism and democracy-building goals in 2008. Because Nepal at this time was a politically unstable and seen as a country vulnerable to terrorism, it became a prime target for Japan's anti-terrorism and democracy-building through poverty reduction and infrastructure improvement.

Japan International Cooperation Agency is the organization in charge of Japan's foreign aid and was established in August 1974. While originally under the jurisdiction of the Ministry of Foreign Affairs, JICA became an independent organization in 2008 and "the sole implementing body of Japan's aid."<sup>216</sup> In the same year, they also merged with Japan Bank for International Cooperation (JBIC), which was an organization solely responsible for concessional loans.<sup>217</sup> In 2008, JICA's financial resources totaled \$10.3 billion, making it the "world's largest bilateral development organization working in around 150 counties, its core professional staff reinforced at any one time by several thousand experts and consultants and both young and senior volunteers working on hundreds of projects."<sup>218</sup> JICA can be viewed as a hybrid structure able to implement policies independently and conduct research

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<sup>216</sup> Feasel, Edward M. *Japan's Aid: Lessons for Economic Growth, Development and Political Economy*. Vol. 132. Routledge, 2014.

<sup>217</sup> Jica.go.jp, 'History | About JICA | JICA'. N. p., 1954. Web. 10 Dec. 2015.

<sup>218</sup> Jica.go.jp, 'New JICA Is Born. The Challenges Ahead For Japan's Development Assistance | News & Features | JICA'. N. p., 2015. Web. 10 Dec. 2015.

regarding the effectiveness of its foreign aid, but can still be influenced by bureaucratic entities like the MoFA. Japanese aid remains a “major policy instrument” and the new JICA continues to work with the bureaucracy to implement aid policies favorable for Japan.<sup>219</sup>

### **Japanese Regional Policy Goals**

Japan’s foreign policy objectives in 2008 were heavily focused on regional politics of East Asia. While these objectives were largely centered on multilateral economic cooperation, the Japanese government was also prioritizing its ability to play a leadership role in the East Asian region.<sup>220</sup> To accomplish this leadership goal, Japan used its economic power and began using ODA as a part of its “responsibility to promote the region’s economic and human development.”<sup>221</sup>

As discussed in the previous chapter, the Maoist leadership viewed the deposed Hindu monarchy’s close relations with the Hindu-dominated Indian government negatively. Thus, over the coming years, they sought to downgrade the half century long friendship treaty with India, and focus on their foreign policy towards China to create a more comprehensive and “fair” bilateral relationship between the countries. The reduction in India’s influence in Nepal and a new regime open to equal international relations paved the way for China to establish an even stronger relationship with Nepal.<sup>222</sup>

Conveniently taking advantage of this political situation, Beijing announced the extension of its railway link from Tibet to Nepal, which would considerably

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<sup>219</sup> Ibid.

<sup>220</sup> Tanaka, Hitoshi. “Japan’s Foreign Policy and East Asian Regionalism.” *Council on Foreign Relations* “New Regional Security Architecture for Asia.” December 2009. 2.

<sup>221</sup> Ibid.

<sup>222</sup> Rediff.com,. 'Maoists To Scrap 1950 Indo-Nepal Treaty'. N. p., 2015. Web. 9 Dec. 2015.

“reduce [Nepal’s] heavy dependence on its giant southern neighbor India for everything from oil to motor parts and medicines.”<sup>223</sup> In addition to infrastructural linkages, cultural and political linkages between China and Nepal also increased at this time. For example, the number of China Study Centres, organizations established in Nepal by the Chinese to promote inter-state cooperation, often built along the Indo-Nepal border, rose from 7 to 19 by 2008.<sup>224</sup>

Japan employed similar tactics in South East Asia with more specified defense donations. Tensions in the South China Sea and clashes with the Chinese government caused Japan to increase cooperation with the Association of South East Asian Nations (ASEAN), most importantly the Philippines and Vietnam. An Asia-Pacific Economic Cooperation (APEC) summit in November 2008 marked a bilateral meeting with President Aquino of the Philippines and Shinzo Abe who welcomed a “transfer of defense equipment” to the Philippines.<sup>225</sup> In terms of Japan’s relationship with Vietnam, cooperation has also been increasing in this area since the peak of the South China Sea conflicts. “Japan promised to provide Vietnam with six vessels last year,” and this commitment is projected to increase.<sup>226</sup>

With its regional influence already threatened in the ASEAN region, the Japanese government watched and recognized the increased activities of China in the SAARC region and sought to implement foreign aid as a tool to sway the Nepali government towards maintaining Japan’s relationship and influence as well.

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<sup>223</sup> Reuters India., 'Chinese Rail Link To Nepal Via Tibet In Five Years'. N. p., 2015. Web. 9 Dec. 2015.

<sup>224</sup> Idsa.in., 'China And Maoist Nepal: Challenges For India | Institute For Defence Studies And Analyses'. N. p., 2015. Web. 9 Dec. 2015.

<sup>225</sup> Mina Pollmann, The Diplomat. 'Amid South China Sea Tensions, Japan Strengthens Ties With Philippines, Vietnam'. *The Diplomat*. N. p., 2015. Web. 12 Dec. 2015.

<sup>226</sup> Ibid.



Understanding the Maoists Party's communist ideological connections to Chinese history and Nepal's economic involvement with Beijing, Japan suddenly increased its grant aid allocation to Nepal to assure the maintenance of their relationship with that country and an influence in the broader South Asian region. Because Japan's relationships with other South Asian countries, like Bangladesh and Bhutan, were relatively distant and weak in 2008, Nepal was Japan's only established access of influence in this area.<sup>227</sup> Thus, it was important for Japan to not only maintain this relationship, but to build it up even further with an increase in aid allocation.

### **JICA's Foreign Aid Objectives: Anti-Terrorism**

JICA's specific foreign aid goals in 2008 included poverty reduction through the cultivation of agriculture, education, health, democratization and peace building, and socio-economic infrastructure improvement.<sup>228</sup> In addition to an economic focus on furthering the development of the region, the US-oriented Ministry of Foreign Affairs in Japan had a heavy focus on terrorism, especially attacks within the South Asian region. For this reason, Japan pledged \$5 billion in New Afghan Aid to "contain insurgencies," around this time as part of its anti-terrorism efforts.<sup>229</sup>

Regarding Nepal specifically, JICA recognized that political volatility following a 10-year civil war in the region makes counter-terrorism an "urgent issue not only for the South Asian region but also for the entire international community."<sup>230</sup> While there were no large-scale *foreign* terrorist attacks in Nepal, the

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<sup>227</sup> Mofa.go.jp,. "Countries & Regions | Ministry Of Foreign Affairs Of Japan". N. p., 2015. Web. 14 Dec. 2015. \*Data for Bhutan and Bangladesh\*

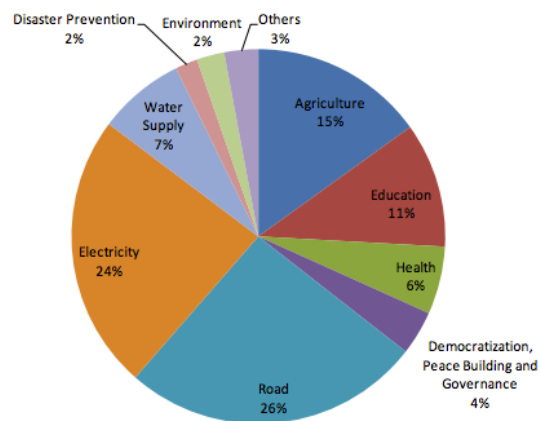
<sup>228</sup> JICA/NPPR. 4.

<sup>229</sup> McDONALD, MARK. 'Japan Pledges \$5 Billion In Afghan Aid'. Nytimes.com. N. p., 2009. Web. 11 Dec. 2015.

<sup>230</sup> Ibid.

Maoist Party committed many crimes in its path to power and the official death toll reached up to 16,278 during the 10-year conflict.<sup>231</sup> According to several reports published by the human rights watch, the Maoist Party was “responsible for several thousand killings, including hundreds of civilians they suspected of being ‘enemies of the people’ or providing information to the security forces.”<sup>232</sup> In fact, the Maoists had been placed on the U.S. Department of States’ list of global terrorist groups throughout the civil war and into 2012, when they were removed from the list.<sup>233</sup>

Figure 5 - Allocation of JICA's Foreign Aid in FY 2009



Source: JICA Data

In order to combat this domestic form of terrorism and to prevent any other terrorist groups from forming, JICA sought to “address potential causes of tension, such as socio-economic, political, ethnic, or religious differences, or unequal resource allocation” through infrastructure development.<sup>234</sup> Figure 5 above shows that most of the aid was allocated towards building roads, improving electricity, and promoting

<sup>231</sup> News.bbc.co.uk,. 'BBC NEWS | South Asia | Nepal Raises Conflict Death Toll'. N. p., 2015. Web. 10 Dec. 2015.

<sup>232</sup> Human Rights Watch,. 'Waiting For Justice'. N. p., 2008. Web. 10 Dec. 2015.

<sup>233</sup> Pokharel, Krishna. 'U.S. Removes Nepal Maoists From Terror List'. WSJ. N. p., 2015. Web. 10 Dec. 2015.

<sup>234</sup> “Issue Brief: Infrastructure for Peace” United Nations Development Programme, Crisis Prevention and Recovery. Feb. 2013. 1.

agriculture, which would alleviate the suffering of many of the citizens living in the peripheries of Nepal and prevent any potential causes of political tension. Additionally JICA's targeted projects revolve around water supply projects, roads, and democratization, which contribute to a stronger infrastructure. Infrastructure development would increase access and standard of living, reducing chances for political extremism to brew and stopping terrorism at its roots.

The efforts from JICA to develop infrastructure in Nepal was also made possible partly because of Maoist goals to "show that it can effectively deliver better governance, infrastructure and basic services," to the country.<sup>235</sup> In fact, the 10 key elements at the core of the Maoist's reconstruction projects very specifically included rebuilding infrastructure destroyed during the conflict.<sup>236</sup> It was at this time, because of the Maoist's goals, the international community "pledged to work constructively with the Maoists both in formulating a new constitution, and in supporting reconstruction and development efforts."<sup>237</sup> Thus, JICA's aid was being disbursed at a time when the new regime in Nepal was also actively prioritizing infrastructure development.

### **Conclusion**

As evidenced by JICA data, aid from Japan to Nepal increased remarkably from 2008-2009, which can largely be attributed to the dramatic government shift in Nepal from a constitutional monarchy to a republic. The strong Maoist majority of the new regime allowed Nepal to improve relations with China. In order to maintain a

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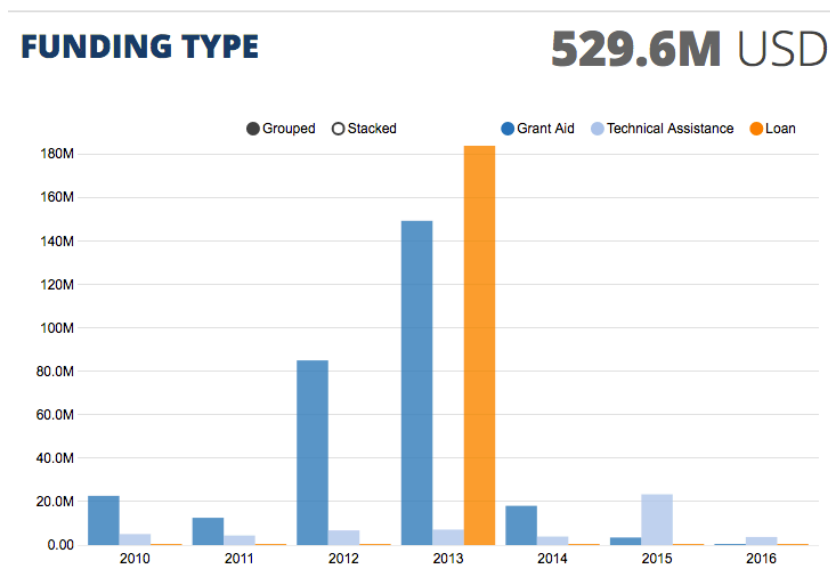
<sup>235</sup> Gautam, Kul Chandra. "Turning The Maoist Victory Into Nepal's Good Fortune". *Himal Mag. N. p.*, 2016. Web. 7 Mar. 2016.

<sup>236</sup> *Ibid.*

<sup>237</sup> *Ibid.*

leadership position in East Asia, to combat China’s influence in Nepal, and to increase its sphere of influence to South Asia, the bureaucracy infused JICA dramatically ramped up its grant aid and loan disbursements to Nepal. Additionally, since JICA’s specific ODA goals included anti-terrorist objectives, the organization ramped up their foreign aid towards infrastructure development because of this especially volatile situation in Nepal and the potential for terrorist activities to brew.

Figure 6 - Japanese Aid to Nepal from 2010-2016 in the form of Grant Aid, Technical Assistance, and Loans



Source: Nepal Ministry of Finance/Aid Management Platform

JICA’s foreign aid disbursements to Nepal, according to Figure 6, differ depending on the type of aid and they fluctuate from year to year, but Japan continues to be one of Nepal’s largest sources of foreign aid. The Japanese government has maintained their objectives to develop Nepal’s infrastructure and largely donates towards building hydropower plants and other infrastructure-related projects.

If Japan’s objective *was* to try and prevent Chinese influence from reaching Nepal, it has largely been a failure. Chinese aid has had a significantly transformative impact on Nepali politics and society as a whole. With the increase in Chinese foreign

aid to Nepal, overall interactions have also increased in other sectors like trade, cultural exchanges, and diplomatic visits have all increased.<sup>238</sup> Sino-Nepalese relations today are at an all time high and as a result, China's sphere of influence in South Asia has strengthened remarkably. China "has emerged as a top exporter of goods to the region, including India, breaking into South Asian markets with its export-led growth strategy" narrowing the gap between Indian and Chinese imports.<sup>239</sup>

In order to understand Japan's case study in the context of McKinley and Little's donor interest and recipient need model, it is again important to modify the latter model to include recipient political conditions. In terms of donor interests, we have already established Japan's regional leadership goals and their determination to suppress terrorism at its root by developing Nepal's infrastructure. However, the increase in aid was also in part due to the regime change and the resulting political conditions in Nepal. The flawed and chaotic system of the interim government under the new regime was viewed as a perfect hotbed for extremism and terrorism to brew, for which a good solution for the Japanese government to increase foreign aid and develop infrastructure. Additionally, the recently empowered pro-Chinese regime of Nepal allowed for Chinese influence to extend deeper into South Asia, which threatened Japan's regional leadership goals of the time. In order to combat this threat, the Japanese government increased its aid to Nepal and sought its own influence in South Asia.

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<sup>238</sup> BBC News,. "Why China's Influence On Nepal Worries India - BBC News". N. p., 2015. Web. 14 Dec. 2015.

<sup>239</sup> Council on Foreign Relations,. "Economics Of Influence: China And India In South Asia". N. p., 2015. Web. 15 Dec. 2015.

## **CHAPTER 5: THE U.S. AND AID AS PROXY FOR INFLUENCE**

Similar to trends in Japanese and Chinese foreign aid to Nepal, USAID's foreign aid disbursements to Nepal also increased in the year 2008. This example is particularly complicated, since the Maoists were on the United States' terrorism watch list and Washington faced the bulk of significant economic constraints from the 2008 global recession. In fact, Ben Bernanke, head of the Federal Reserve at the time, claimed that the recession of 2008 was even worse than the Great Depression in the 1930s.<sup>240</sup> While the United States tackled extreme economic pressure at home, a U.S. identified terrorist organization, the Maoist Party, was in power in the recipient country. Mysteriously enough and despite Washington's strong antiterrorism policies, the United States also increased its aid to Nepal following the Maoist victory in 2008.

Similar to the previous two chapters, this chapter will analyze how regime change in Nepal influenced the U.S.'s aid disbursements at this time. While the increase in aid was partly influenced by U.S. foreign policy goals, the political conditions in Nepal were its main contributing factor. The United States, impressed with Maoist efforts to make Nepal a more democratic regime, increased aid to support this transition to a more inclusive state. Additionally, aid was used to improve relations with Nepal as a way to increase U.S. influence in Asia with an ultimate goal to match China's foreign policy.

### **U.S. Foreign Policy Goals: Peace and Democracy**

Promoting democracy has been a key aspect of United States' foreign policy for decades. The United States played a significant role in the post-WWII

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<sup>240</sup> Egan, Matt. "2008 Crisis: Worse Than The Great Depression?" *CNNMoney*. N. p., 2016. Web. 28 Feb. 2016.

democratization of Western Europe, and continued to support liberal democracies during the Cold War.<sup>241</sup> Continuing this trend through 9/11, “President George W. Bush elevated democratization in the Middle East as a strategic policy.”<sup>242</sup> The United States government’s unrelenting efforts to democratize the developing world have clearly extended to Nepal as well. In fact, a Congressional Research Service report, published in 2008, clearly states that U.S. foreign policy goals have included the strengthening of democracy to prevent the collapse of Nepal.<sup>243</sup>

Several characteristics of the new regime contributed to the democratization of Nepal, thereby encouraging USAID to increase aid in 2008. The mere transition of Nepal from a constitutional monarchy to a federal republic was a step towards a more democratic nation. Instead of a hierarchical system of ruling, the latter system would ensure that the *citizens* would vote for the head of the nation. Prime Minister Prachanda “declared that the [Maoist] Party had made a choice in favor of ‘democracy’ and ‘progressive nationalism,’” and as a result, voting laws changed, quotas for women in government were introduced into the parliament, and there were efforts to include marginalized groups into the political sphere.<sup>244</sup> The three specific ways in which the Maoist Party would accomplish this transition to democracy was by establishing a free and fair election, focusing on economic prosperity and development, and adopting “Progressive Nationalism”.<sup>245</sup>

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<sup>241</sup> Lagon, Mark. “Promoting Democracy: The Whys And Hows For The United States And The International Community”. *Council on Foreign Relations*. Feb. 2016. Web. 6 Apr. 2016.

<sup>242</sup> Ibid.

<sup>243</sup> Vaughn, Bruce. “Nepal: Political Developments and Bilateral Relations with the United States.” *Foreign Affairs, Defense, and Trade Division*. October 23, 2008. 10.

<sup>244</sup> Jha, Prashant. “How Nepali Maoists Chose Democracy”. *The Hindu*. N. p., 2013. Web. 25 Feb. 2016.

<sup>245</sup> Ibid.

Beginning with attempts to abolish royal privileges and consequently demanding true voting rights for Nepalese citizens, the Maoist Party's objectives changed throughout the civil war and became more inclusive of additional democratic principles.<sup>246</sup> They wanted to "redistribute land and extend power centers in rural areas; eliminate the caste system; and give equal rights to women," all of which would ensure a more inclusive state.<sup>247</sup> Additionally, their main slogan consisted of a clear objective to "establish the people's rule," and grant Nepalese citizens the true voting rights they deserve.<sup>248</sup>

Much of the focus on economic prosperity arose from Maoist demands for a more equal society, i.e. elimination of the caste system, which also produced equally positive results for economic prosperity. By publically opposing the discriminatory caste system, by forbidding public shunning of the lowest "untouchables" caste, and by preserving the rights of the underprivileged castes, the Maoists hoped to create an environment in which an equal economic cooperation would be possible regardless of background.<sup>249</sup> Additionally, the Maoist Party's demonstrated willingness to invest in cooperative and profitable hydropower projects with China and their efforts to attract foreign investment showed an inclination towards a true prioritization of economic development.

Shortly after he won the April 10, 2008 elections, Prachanda met with the Federation of Nepal Chamber of Commerce and Industries and told business leaders that the government plans to "work magic for economic revolution and mesmerize the

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<sup>246</sup> Mtholyoke.edu. "The Objectives ". N. p., 2016. Web. 25 Feb. 2016.

<sup>247</sup> Ibid.

<sup>248</sup> Ibid.

<sup>249</sup> Ibid.



whole world.”<sup>250</sup> Prachanda, along with Baburam Bhattarai, a senior member of the Maoist Party at the time, presented an idea for restructuring the state to involve the private sector, which they believed would foster economic growth immensely.<sup>251</sup> This economic revolution would assure that private and foreign investment would be a greater part of the economy to allow for further economic prosperity.<sup>252</sup>

Lastly, the Maoists promoted the idea of ‘Progressive Nationalism’, in which good relations with Nepal’s neighbors would be established while maintaining patriotism at home. While the support of progressive nationalism was partly an effort to counterbalance India’s strong influence on Nepalese politics and society with Chinese influence, it also helped maintain nationalism at home. The Maoists sought to assert a distinctive sense of nationalism, moving more towards a collective Nepalese identity rather than a Hindu one.

Aside from Prachanda’s threefold objectives, the mere inclusion of so many marginalized groups in the Maoist Party’s path to power was a clear indication of a democratizing state. When the Maoists were still strengthening the party, they heavily recruited Dalits, who are members of one of the lowest castes in Nepal.<sup>253</sup> First acting as political cadres, the Dalits were given opportunity and support to run for public office, which was a first for any political party not specifically affiliated with marginalized groups in Nepal.<sup>254</sup> As a result, the Maoists became known as the party

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<sup>250</sup> Ratnayake, K., and Peter Symonds. "After Election Landslide, Nepalese Maoists Reassure Investors And Major Powers - World Socialist Web Site". *Wsws.org*. N. p., 2016. Web. 27 Feb. 2016.

<sup>251</sup> *Ibid.*

<sup>252</sup> *Ibid.*

<sup>253</sup> "Former Rebels Favoured By Marginalised Communities". *IRIN*. N. p., 2008. Web. 5 Mar. 2016.

<sup>254</sup> *Ibid.*

of the poor and neglected.<sup>255</sup> They represented “other excluded groups, such as indigenous communities known as ‘Janjati’ and the ethnic Madhesi group also voted for the Maoists in large numbers.”<sup>256</sup> The long-term results of these efforts to make the government more inclusive have increased participation and opportunities for many of the previously marginalized groups and gave the Maoist Party a previously unexplored form of constituent support.<sup>257</sup>

In addition to promoting progressive nationalism, the advancement of secularism has also been a key aspect in the democratization of Nepal. The new federal republic government was to be “based on the premise that it will treat all religions equally,” and religious freedom became a pillar of the new constitution.<sup>258</sup> Nepal was previously a Hindu state and while most of the religious practitioners generally coexisted peacefully, there were often “reports of societal abuses and discrimination based on religious belief or practice.”<sup>259</sup> It was the hope of the Maoists that a constitution that elimination of the terms “Hindu Kingdom” from the constitution in 2008 would alleviate some religious and caste-based discrimination, therefore increasing inclusivity.

Given the fact that the U.S. had previously labeled the Maoist Party as a terrorist group, one would have expected this particular regime change to negatively affect aid given to Nepal, but the Maoist-led Constituent Assembly elections of 2008 was seen as “a key step toward consolidating peace in Nepal and enhancing Nepal’s

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<sup>255</sup> Ibid.

<sup>256</sup> Ibid.

<sup>257</sup> East Asia Forum,. "The Rise Of Maoists In Nepali Politics: From ‘People’s War’ To Democratic Politics". N. p., 2013. Web. 27 Feb. 2016.

<sup>258</sup> Nepalitimes.com. " Secularism In A Diverse State - Nepali Times". N. p., 2016. Web. 27 Feb. 2016.

<sup>259</sup> U.S. Department of State,. "Nepal". N. p., 2016. Web. 27 Feb. 2016.

democratic process.”<sup>260</sup> In addition to the transition to a new regime, the U.S.’s attempts to support a secular, *democratically elected* Party allowed them to relax travel restrictions to Nepal and to applaud the “participation of the Maoists in the democratic process.”<sup>261</sup>

### **U.S. Foreign Policy with China and a Newfound Interest in Nepal**

Along with an interest in promoting a secular democracy in Asia, U.S. policy toward Nepal was partly a function of its concern about China’s growing regional and global interests. As a result of China’s growing influence in Nepal and in the world, “many people, perhaps most vocally in the United States, [feared] China’s growing power and influence.”<sup>262</sup> In fact, in August 2008, just after the Maoist electoral victory, Professor John Thornton, Director of Global Leadership at Tsinghua University, stated, “the rise of China is the single most important geopolitical event of the 21<sup>st</sup> century and the implications of that rise are enormous.”<sup>263</sup> Along with the fear of a rising China, the rhetoric of “what China is doing, America is not,” also became popular.<sup>264</sup>

The U.S. and China have had a very complicated history, which has greatly affected their current diplomatic relations. Official relations began in 1784 when the first international voyage of the United States visited Guangdong, China.<sup>265</sup> While the U.S.’s initial interest in China was purely economic, religious exchanges began in the

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<sup>260</sup> Ibid.

<sup>261</sup> Ibid.

<sup>262</sup> Woodruff, Bob et al. "Is A Powerful China Good For The U.S.?". *ABC News*. N. p., 2016. Web. 28 Feb. 2016.

<sup>263</sup> Ibid.

<sup>264</sup> Ibid.

<sup>265</sup> Cheng, Dean. "The Complicated History Of U.S. Relations With China". *The Heritage Foundation*. N. p., 2016. Web. 5 Mar. 2016.

1830s when American missionaries began preaching in China.<sup>266</sup> Cultural exchange furthered as these missionaries became “among the first Americans to study the Chinese culture and language, and helped to shape American perceptions of imperial China.”<sup>267</sup>

Aside from economic and cultural exchanges, American political ideas also began to flow into China. For example, Abraham Lincoln’s principles to create a government “of the people, by the people, for the people,” was replicated by Sun Yat-sen in his attempt to overthrow the Qing dynasty in 1911.<sup>268</sup> Washington continued to support China’s unity and its “open door” policy in order to limit foreign exploitation of resources and ensure that the United States would be the sole beneficiary of Chinese exports.<sup>269</sup>

After World War II, however, tension fueled Sino-American relations as the rise of its communist regime forced Chinese nationalists to flee to Taiwan.<sup>270</sup> Forcing the nationalists out of China was not only violation of their sovereignty, but a communist stronghold in China would make communism more likely to spread. However, President Richard Nixon in 1972 hoped to “better relations with China to balance the rising power of the Soviet Union,” and reestablished relations with the People’s Republic of China in order to maintain at least one strong ally in the region.<sup>271</sup>

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<sup>266</sup> Ibid.

<sup>267</sup> Ibid.

<sup>268</sup> Ibid.

<sup>269</sup> Ibid.

<sup>270</sup> Ibid.

<sup>271</sup> Ibid.

Sino-American economic interests began to converge even further when Deng Xiaoping replaced Mao Zedong in China and sought to open the economy and “bring China closer to the West.”<sup>272</sup> It seemed at this time, to the international community, that America would assume the role of a Western power while China would assume the role of an Eastern power and economic cooperation would make both nations prosperous. However, the Tiananmen Square massacres in 1989, “China’s lack of respect for human rights, its efforts to steal American technology, and its growing military power,” distanced the two countries politically.<sup>273</sup> Regardless, the Chinese government since has been rapidly catching up to the United States. Their economy since 1978 has experienced an average annual growth rate of 10% and their infrastructure has developed at a rapid pace.<sup>274</sup>

Sino-American relations today reflect the same dynamic, where economic relations are strongly supported by “a financial and trading relationship that shapes the global economy,” but they continue to have opposing political views.<sup>275</sup> They both differ on how to handle rogue states, on the fundamentals of human rights issues, and on maintaining relations with dictators throughout the world.<sup>276</sup> A 2014 Human Rights Watch report criticized the Chinese government for having “unleashed an extraordinary assault on basic human rights and their defenders with a ferocity unseen in recent years.”<sup>277</sup>

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<sup>272</sup> Ibid.

<sup>273</sup> Ibid.

<sup>274</sup> Yew, Lee Kuan. "Once China Catches Up—What Then?". *Forbes*. N. p., 2016. Web. 5 Mar. 2016.

<sup>275</sup> Ibid.

<sup>276</sup> Ibid.

<sup>277</sup> "World Report 2015: China". *Human Rights Watch*. N. p., 2015. Web. 6 Apr. 2016.

Despite political misunderstandings, the Chinese economy has proved to be a strong contender with that of the United States. It has become the world's largest exporter, second largest importer, and has closed "its economic gap with the world's top developed nations," including the United States.<sup>278</sup> It is partly because of this rapid economic growth that Beijing has been able to expand its soft power potential and overall influence in Asia. In an attempt to catch up to this influence, the United States in 2008, increased influence in as much of Asia as possible through aid, particularly in developing countries. As conveyed by data in the previous chapters, Nepal has obviously been a prime target for American aid and influence. With a strong stake in Nepal's foreign aid programs, the United States would be able to influence a government with important connections to China in a country that acts as a buffer between two great powers of Asia.

### **Conclusion**

In 2008, the Maoist 'terrorists' had just won a majority of the seats in the Constituent Assembly and the global recession, rooted in the housing market crash had severely affected the U.S. economy. Despite these economic and political circumstances, the United States increased aid to Nepal when the Maoist Party took over. USAID's disbursements can be attributed to this regime change, when the new Maoist government aimed to democratize by establishing voting equality, prioritizing economic prosperity, and adopting progressive nationalism. The United States, whose views on democracy aligned with the Maoist Party's democratic efforts, increased aid and allowed Kathmandu enough capital to catalyze the process. Secularization, or

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<sup>278</sup> Ibid.

acceptance of religious freedom, furthered the inclusive values of the new Maoist regime and became influential in the increasing USAID's disbursements to Nepal in 2008. As a byproduct of U.S. interest in Asia, Washington's aid policies towards Nepal became stronger as a way of solidifying their influence in Asia.

In terms of explaining this case study by employing the models introduced earlier in this thesis, recipient need and donor interest, the case of U.S. aid to Nepal also requires a more specified recipient political conditions model. Nepal's new, more democratic regime, which was attractive to the U.S. foreign policy goals at the time, helped the aid increase. By financially supporting a regime whose political agenda aligned exactly with a decades long U.S. foreign policy tactic, Washington would not only be supporting its own traditional agenda, but could perhaps be encouraging other developing countries in the region to follow suit and democratize. Additionally, Nepal's stance towards a more nuanced relationship with China compelled the U.S. to increase their own influence in Asia were the political conditions responsible for this particular fluctuation in foreign aid towards Nepal. As a western power always politically opposing and competing against China, the U.S. saw a strengthened relationship with Nepal and other developing countries in the region as an alarming indication of China's rise and quickly sought to catch up.

The previous two chapters have established the effects of regime change on China and Japan's relationship with Nepal in terms of foreign aid. The next chapter will conclude this thesis by reiterating my main argument on regime change and its effects on Chinese, Japanese, and American foreign aid. It will also connect the theory of donor interest and recipient need to regime change in Nepal, establish some

new theories regarding recipient political conditions and secularism, and cover foreign and domestic political developments of Nepal after 2008.



## CONCLUSION: THE IMPORTANCE OF RECIPIENT POLITICAL CONDITIONS

As the objective of economic development continues to exist as a priority for the domestic policy of third world countries, a source of funding to reach these development goals seems to come from foreign aid. Aid disbursement and management platforms continue to grow, so much so that development studies has become a popular choice for many college and university students and “third world development has become a profession.”<sup>279</sup> Despite the expansive nature of the literature surrounding foreign aid, “the implications of [its] far-reaching changes should be a central issue in the current debate...but so far they are not.”<sup>280</sup>

This thesis addressed the very far-reaching implications of foreign aid missing from literature and the current debate. It also unraveled the reasons for aid increase, and the multifarious affects of this aid increase, in the midst of a political and economically tumultuous time for both the donor and the recipient countries. The fact that the Maoists were viewed as a terrorist organization and there existed a severe economic downturn that so severely affected the donors, compelled the question: Why did aid to Nepal increase at this particular time? Furthermore, do McKinley and Little’s donor interest and recipient need models help explain this particular case study? Employing these very models, I conclude that while donor interest has been a factor in this aid increase, *recipient political conditions*, rather than recipient need is a more explicit factor contributing to this increased aid.

McKinley and Little’s study regarding recipient need establishes that the amount of aid disbursed to a country should be just enough to allow the recipient

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<sup>279</sup> Ryrie, William. *First World, Third World*. London: MacMillan Press, 1995. Print. xi.

<sup>280</sup> *Ibid.* x.

country to overcome obstacles preventing development, like poverty, lack of infrastructure, etc. In the case of a discrepancy between the recipients' need and actual amount of aid disbursed, another phenomenon, donor interest, contributes to the way in which aid-giving patterns fluctuate. While this thesis clearly depicts examples donor interest, which comes in forms of energy and regional influence, the importance of recipient political conditions is also strongly highlighted by this particular case study.

The regime change in Nepal was clearly an event that sparked a dramatic change in foreign policy, but more specifically in the way foreign aid is disbursed. While the donors' interests encouraged China, Japan, and the US to increase their aid, the political conditions of Nepal were most influential in the 2008 dramatic aid increase. Several characteristics of the new regime attracted a larger amount of foreign aid, but it seems as though the most impactful quality of the Maoist Party was its inclination towards a stronger relationship with China. This quality of the party obviously benefited China greatly, as Beijing was essentially handed an open opportunity to increase its presence in Nepal. This opportunity came at an ideal time for China, who at this time had a growing need to suppress Tibetan refugees abroad, to find alternative sources of energy, and to find a way to overcome border tensions with the India. The intensifying strength of the Sino-Nepalese relationship echoed internationally, as Japan and the United States took notice of China's status in South Asia and increased aid to Nepal in an attempt to curtail China's growing influence and to establish their own.

Aside from an agenda to build friendly relations with China, other characteristics of the Maoist Party and the new regime of Nepal also contributed to increase in aid from the donor countries. The Maoist Party's bullying tactics and use of violence attracted foreign aid as a way to inhibit terrorism. Japanese foreign aid was seen as a tool to develop Nepal's infrastructure as a way of making government services and a better quality of life more accessible to people in remote areas, which would ultimately help prevent terrorism. Since accessibility has always been an issue in Nepal, aid increased particularly after the regime change of 2008 because of the political disagreements and overall disorder in Nepal's government, which acted as a breeding ground for terrorism. Additionally, as a democratic and inclusive regime, the Maoist Party's efforts to eradicate the ideological effects of the long-standing caste system and to involve marginalized communities into the political sphere attracted American foreign aid in 2008.

A religiously unbiased regime as a result of secularization also affected this shift in foreign aid dynamic. Although scholars have previously established a connection between secularization and modernization, Elizabeth Shakman Hurd's (2009) *The Politics of Secularism in International Relations* establishes "the need to acknowledge secularism as a socially constructed form of political authority in order to better grasp critical, theoretical, and empirical problems in international relations."<sup>281</sup> Specifically, she argues that "secularism is a form of productive power

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<sup>281</sup> Kirby, Dianne. Review of Hurd, Elizabeth Shakman, *The Politics of Secularism in International Relations*. H-Diplo, H-Net Reviews. February, 2009.

that ‘inheres in structures and discourses that are not possessed or controlled by any single factor.’<sup>282</sup> Hurd essentially argues that religion is a public affair, and that:

“authoritative forms of secularism that dominate modern politics are themselves contingent social constructions influenced by both so-called secular and religious assumptions about ethnics, metaphysics, and politics. From this perspective, not only is religion on its way back into international relations – it never really departed.”<sup>283</sup>

Thus, the previous understanding of secularism as a private matter that is disconnected from politics should be disregarded, and instead, scholars should consider the effect of religion important towards international affairs.<sup>284</sup>

In this case, the cultural ties that bound Nepal and India had been a significant contributing factor in the establishment of friendly diplomatic relations. Though still not socially free of religious influence, the “authority figure” of religion was eradicated with the new regime’s secularization. Nepal’s transition into a monarchy rid the regime of a king “once revered as a god”, and the Maoist Party replaced both the literal and figurative missing ‘authority figure of religion’.<sup>285</sup> The new regime rid Nepal of the religious authority figure responsible for maintaining close relations with India, and instead replaced it with the regime of the Maoist Party, who sought to provide both India and China an equal opportunity for Nepal’s allegiance.

### **Nepal since 2008**

Japanese and American concerns about political instability in Nepal after the Maoist victory were not unfounded. Nepalese politics remained unstable, as is best exemplified by the seven prime ministers who took office in the course of the first

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<sup>282</sup> Hurd, Elizabeth Shakman. *The politics of secularism in international relations*. Princeton University Press, 2009.1

<sup>283</sup> Ibid. 3.

<sup>284</sup> Ibid.

<sup>285</sup> "Mighty Fall In Nepal: God-King Is Reviled". *tribunedigital-chicagotribune*. N. p., 2005. Web. 7 Mar. 2016.

four years. The Maoists, who had fought for 10 years to gain parliamentary power in Nepal resigned by 2009 “after other parties oppose integration of former rebel fighters into national army.”<sup>286</sup> When two of their political allies left the government, the Maoist Party had been reduced to a minority in the constituent assembly only one year after their victory.<sup>287</sup> Soon after, Madhav Kumar Nepal became prime minister as politicians continued to disagree over the creation of a constitution. Prime Minister Madhav Nepal resigned in 2010 due to Maoist pressures.<sup>288</sup>

Uncooperative behavior and the inability to reach a consensus for the constitution continued to persist as the government’s main issues, when Jhahnath Khanal from the Unified Marxist-Leninist Party became Prime Minister.<sup>289</sup> Prime Minister Babu Ram Bhattarai, the founder of the Maoist Party, then replaced him in August 2011.<sup>290</sup> In May 2012, Prime Minister Bhattarai dissolved the parliament and called for the election of a new parliament by November, to agree on a new constitution.<sup>291</sup> Prime Minister Khil Raj Regmi replaced him in May 2012.<sup>292</sup>

Throughout the next couple of years, and despite several elections for a new Constituent Assembly, political deadlock prevented the production and ratification of a new constitution.<sup>293</sup> In February 2014, Sushil Koirala of the Nepali Congress Party became Prime Minister and acted as “an important force behind the adoption in September [2015] of the country’s first democratic Constitution drafted by an elected

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<sup>286</sup> "Nepal Profile - Timeline - BBC News".BBC News. N. p., 2016. Web. 8 Mar. 2016.

<sup>287</sup> Rahman, Maseeh. "Nepal's Maoist Prime Minister Resigns After Clash With President". the Guardian. N. p., 2009. Web. 8 Mar. 2016.

<sup>288</sup> Nepal Profile. BBC.

<sup>289</sup> Ibid.

<sup>290</sup> Ibid.

<sup>291</sup> Ibid.

<sup>292</sup> Ibid.

<sup>293</sup> Ibid.

assembly.”<sup>294</sup> This particular constitution, which divided the country into 7 provinces, angered the country’s minorities, “whose leaders [said] that a system of proportional representation in Parliament and the size and borders of the provinces have conspired to deny them a political voice.”<sup>295</sup>

Though Prime Minister Koirala sought re-election in 2014, he lost to the current Prime Minister, Khadga Prasad Sharma Oli of the Communist Party in October 2015.<sup>296</sup> Prime Minister Oli’s inauguration occurred when Nepal was undergoing a political mess. A massive 7.8-magnitude earthquake had just hit Nepal on April 25, 2015 and had devastated the nation, killing 4,800 people, injuring 92,000 people, and affecting 8 million people across Nepal.<sup>297</sup> It was followed by a large number of strong aftershocks, which led to the death of an additional 200 people. The earthquake also reverberated through northern parts of India and through Mount Everest, where deadly avalanches killed many climbers.<sup>298</sup>

One of the main impacts of the earthquake, aside from immediate devastation, has been economic stagnation. A country as poor as Nepal with a 40% unemployment rate experienced financial struggles associated with reconstruction, but the many UNESCO world heritage sights destroyed in the earthquake also severely decreased revenues from tourism.<sup>299</sup> An estimate from U.S. Geological Survey calculated a total economic loss of \$10 billion dollars, \$5 billion of which would account for the cost of

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<sup>294</sup> Sharma, Bhadra. "Sushil Koirala, Ex-Premier Of Nepal Who Fought For Democracy, Dies At 77". *Nytimes.com*. N. p., 2016. Web. 8 Mar. 2016.

<sup>295</sup> *Ibid.*

<sup>296</sup> *Ibid.*

<sup>297</sup> "Nepal Earthquakes: Devastation In Maps And Images - BBC News". *BBC News*. N. p., 2016. Web. 27 Mar. 2016.

<sup>298</sup> *Ibid.*

<sup>299</sup> "The Economic Impact Of Nepal's Earthquake". *Aljazeera.com*. N. p., 2015. Web. 27 Mar. 2016.

rebuilding.<sup>300</sup> For a country with a GDP of \$19 billion, the economic losses due to the earthquake have been substantial.<sup>301</sup>

With regards to the political effects of the earthquake, Prime Minister Oli has been criticized for a delayed response to reconstruction. The much-delayed efforts of reconstructing Nepal's infrastructure were caused by "disagreements among political parties, drafting the country's new constitution, ethnic protests and severe fuel shortages," much of which has been attributed to the Prime Minister's poor leadership skills.<sup>302</sup>

Prime Minister Oli, upon inauguration, was also tasked with "soothing tensions with neighboring India."<sup>303</sup> A recently resolved political crisis occurred in which the marginalized Madhesi group, who are close descendants of Indians, protested along the border and prevented fuel and other supplies from entering Nepal. While New Delhi claimed, "its truckers cannot risk driving through Nepal's restive plains, where residents are protesting against a constitution they see as curbing their political influence," the Nepali government viewed this passive reaction as an unofficial blockade.<sup>304</sup> The blockade grew more and more intense and attracted international media, as the fuel situation in Nepal became dire. As a result, one of Prime Minister Oli's prioritized his agenda to rebuild the lost friendship with India in hopes of easing

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<sup>300</sup> Ibid.

<sup>301</sup> "Nepal | Data". Data.worldbank.org. N. p., 2016. Web. 9 Apr. 2016.

<sup>302</sup> "Nepal Formally Begins Much Delayed Earthquake Reconstruction". The Big Story. N. p., 2016. Web. 27 Mar. 2016.

<sup>303</sup> "KP Sharma Oli Becomes Nepal's New Prime Minister". Aljazeera.com. N. p., 2015. Web. 8 Mar. 2016.

<sup>304</sup> Kazmin, Amy. "Nepal Crisis Fuels Black Market For Petrol - FT.Com". Financial Times. N. p., 2016. Web. 9 Apr. 2016.

the tension of the oil crisis.<sup>305</sup> As a start, he took a 6-day trip to India in February, 2016, which marked his first foreign visit since he was elected and hoped to “rebuild the ruined foundation” of Indo-Nepalese relations.<sup>306</sup>

### **Foreign Aid Since 2008**

Aid-giving patterns have remained similar since the establishment of the new regime. The following figures convey aid disbursements after 2009 for which China donated \$182 million in aid, 27% of the total aid disbursed, Japan has donated \$283 million in aid, 31% of the total aid disbursed, and the United States has donated \$441 million in aid, which is 49% of the total aid disbursed since then and they continue to dominate the list of Nepal’s top donors. Sectors towards which aid is disbursed have also remained similar. As depicted by figure 8, infrastructure development continues to be a priority as China, Japan, and the United States disburse aid specifically designated towards the Health, Road Transportation, and the Energy sectors. Lastly, figure 9 depicts the humanitarian aid disbursed for the April 2015 earthquake relief efforts, which also mirror the patterns of foreign aid. Once again, the United States donates the bulk of the funds, Japan is second and China is third. Thus, the trends of foreign aid have generally continued throughout the past 7 years.

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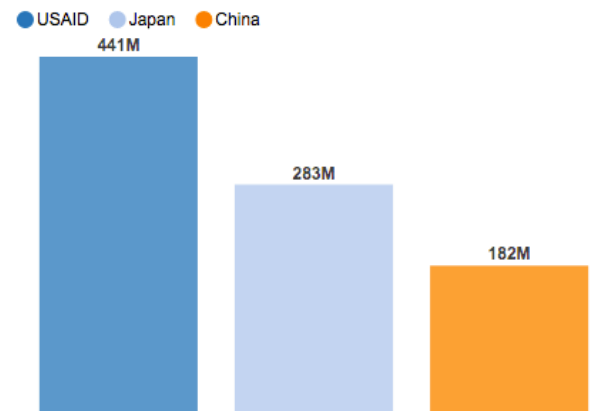
<sup>305</sup> Ghimire, Yubaraj. "Want To Rebuild Friendship With India: Nepal Prime Minister Oli". The Indian Express. N. p., 2016. Web. 8 Mar. 2016.

<sup>306</sup> Ibid.



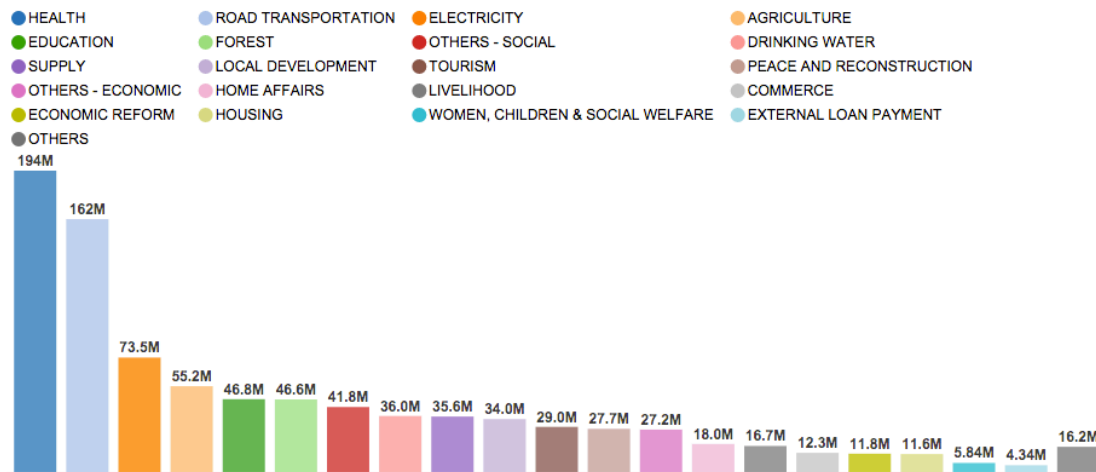
Figure 7 - Aid from the United States, Japan and China to Nepal

**TOP DONOR GROUPS 906.3M USD**



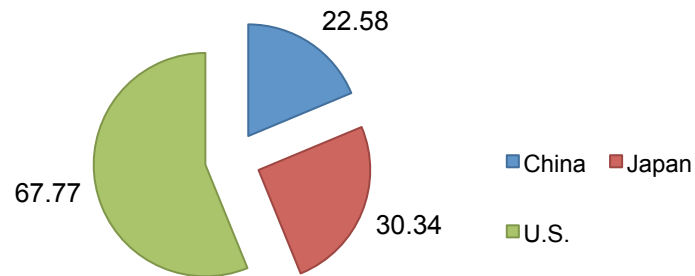
Source: Nepal Ministry of Finance/Aid Management Platform

Figure 8 - American, Chinese, and Japanese Foreign Aid Allocated to Sectors in Nepal



Source: Nepal Ministry of Finance/Aid Management Platform

Figure 9 - Humanitarian Aid Disbursed from U.S., China, and Japan in Response to the April 2015 Earthquake in Million USD



Source: UNOCHA Nepal 2015: List of all humanitarian pledges, commitments & contributions in 2015s

### Concluding Remarks

This particular research project contributes greatly to the current discourse on foreign aid in three main ways. First, this paper highlights the far-reaching effects of regime change and compels scholars to consider recipient political conditions as an important factor in aid fluctuations and international politics. Secondly, it highlights the need to consider the manifold effects of fluctuations in foreign aid. Lastly, it highlights the equally impactful effects of secularization.

Theories of foreign aid that McKinley and Little introduced need to be modified to include a more focused approach on the effects of recipient political conditions on foreign aid. While regime change can have a dramatic effect on domestic politics of the country, the political conditions of Nepal at this time shifted the geopolitical atmosphere of the entire continent. While China's rise in Asia cannot be entirely attributed to the effects of regime change in Nepal, a more China-friendly Maoist government gave Beijing the opportunity to expand its international sphere of influence and as a result of, the United States and Japan also sought a stronger allegiance with Nepal through aid. Additionally, while the politically chaotic nature

of the new and inexperienced regime in Nepal attracted Japanese foreign aid, the democratic and all-encompassing nature of the Maoist-led government attracted foreign aid from the U.S.

This case study of Japanese, American, and Chinese foreign aid to Nepal is also a clear indication of the potential broader consequences of bilateral aid disbursements. The implications of bilateral aid, in current scholarship, are simply considered in the context of just the donor and recipient countries. As depicted by the case study of this thesis, bilateral aid, despite its two-way nature, has multilateral consequences that are far-reaching and can affect countries other than the ones directly involved. In Nepal's case, regime change began a domino effect that impacted countries located as far as the United States. The Maoist regime contributed to a stronger Sino-Nepalese relationship, which allowed Beijing to expand and solidify their foothold in Asia. Beijing's expansion worried Japan and the United States, which then caused them to increase *their* aid to Nepal.

Lastly, this case study also depicts the multifaceted effects of secularism on aid. In the case of Nepal, official secularization interrupted ideological ties with India, and contributed greatly to the Maoists' agenda for a more secure relationship with China. It also became a testament to the extent to which the new regime was willing to democratize. Secularization became a clear indication that despite the majority Hindu demographic of Nepal, the Maoist regime was willing to promote religious inclusion officially. As a result of secularization, aid from both China and the United States increased.

Nepal often goes unnoticed in the general discourse of geopolitics in Asia. As a developing country tucked between the two Asian giants, scholars seldom understand the importance of its domestic policies on a global scale. However, the events of 2008, Nepal's new federal republic regime, and a Maoist-majority government created a combination of circumstances that shifted the political atmosphere internationally. Chinese impact on South Asia strengthened with an increase in influence, which came with a long list of perks for Beijing. As a result, Japan and the United States also sought to secure their place in Asia through aid and their overall impact on Asia solidified. As the root cause of these global geopolitical changes, Nepal has become the prime example of a small, poor, and vulnerable country, known for its ability to mold the foreign policy of three of the most powerful countries in the world.