



Millennium Challenge Corporation (MCC) in Nepal

Facts, Disputes and the US-China Contest

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Millennium Challenge Corporation (MCC) in Nepal: Facts, Disputes and the US-China Contest

Introduction

In the past two months, Nepal's political space had been marred by upheavals and doubts over the future of the ruling alliance between the Nepali Congress, Communist Party of Nepal (Maoist Center)/Maoist Party, and Communist Party of Nepal (Unified Socialist) [CPN-US], over ratification of the Millennium Challenge Corporation (MCC) which is USD 500 million grant offered by the United States (US) to Nepal for a period of five years. The MCC agreement had been awaiting its ratification by the Parliament of Nepal since 2017. Finally, it was ratified on February 27, 2022. However, before it was put through the parliamentary ratification, MCC had become a boiling matter due to several issues raised by the local people, political parties, and the stakeholders in the government. Besides local protests against MCC, Nepal's northern neighbour China had/has vehemently objected to MCC in Nepal, and tagged it as "looting in the name of democracy (by the US)"¹ and a

1 Global Times, "Looting in name of democracy: How US pulls the strings behind controversial MCC deal with Nepal?", February 25, 2022, at <https://www.globaltimes.cn/page/202202/1253166.shtml>, accessed on February 26, 2022.

“geopolitical pact targeting China.”² Other than the State Media, the Chinese Ministry of Foreign Affairs (CMOFA), in its several media briefings, has termed MCC as “coercive diplomacy”.³ Against these observations on MCC by China, the Government of Nepal (GoN) finds the MCC beneficial for the development of Nepal. The successive governments had failed to manage a political consensus among opposition and allies in ratifying the MCC, and the present ruling Nepali Congress Party led by Sher Bahadur Deuba has finally succeeded. To ensure that the MCC is ratified, the government has accommodated the concerns of all parties and stakeholders. Against this backdrop, the present brief explains the MCC and the controversies around it in detail. The brief also provides a detailed analysis of Chinese objections, unease, and geopolitical dynamics due to MCC project in Nepal.

What is MCC?

As per the official website of the MCC, it is an “innovative and independent” foreign aid agency of the United States aiming to eradicate global poverty. The US Congress founded the MCC agency in January 2004. The US intention in creating such a dedicated aid agency was aimed to make US foreign assistance more delivery-oriented, based on better policies in a time-bound manner. MCC has provided “time-limited grants promoting economic growth, reducing poverty, and strengthening institutions. These investments not only support stability and prosperity in partner countries but also enhance American interests.”⁴ In order to make it a special investment from the people of the US, MCC follows a “competitive selection process where the agency has 20 independent and transparent policy indicators and picks a country based on their performance.”⁵ Broadly, the MCC grants have been categorised into three-Compact, Concurrent, and Threshold Programmes. Under the

2 Global Times, “US manipulating Nepal and MCC a geopolitical pact targeting China”, February 15, 2022, at <https://www.globaltimes.cn/page/202202/1252306.shtml>, accessed on March 09, 2022.

3 Global Times, “China opposes ‘coercive diplomacy’ of US in pushing MCC compact in Nepal,” February 18, 2022, at <https://www.globaltimes.cn/page/202202/1252597.shtml>, accessed on February 18, 2022.

4 Official Website of the MCC “About MCC”, at <https://www.mcc.gov/about>, accessed on December 20, 2021.

5 Ibid.

“Compact” the US provides the largest grant to the selected country for five years. The Concurrent Compacts for Regional Investments and Threshold Programmes are given on a short-term basis. Other than its main motto to eradicate poverty, the MCC aims to improve agriculture and irrigation, and education. It also advocates anti-corruption, and develop the energy, power and connectivity sector by building transportation infrastructure in the host countries.

As of March 2022, MCC has partnered with 51 countries, and the largest focus has been on the African Continent.⁶ In South Asia, Nepal and Sri Lanka are the only countries which qualified for the grant. Nepal has finally ratified it, but Sri Lanka was a sour experience for the United States. In 2016, the MCC board had notified Sri Lanka that it had qualified for the grant, which Sri Lanka had readily accepted and approved in April 2019 for five years. However, the new Rajapaksa Government showed no interest in utilising the grant due to alleged Chinese pressure. Therefore, the United States discontinued USD 480 million MCC grant to Sri Lanka “due to lack of partner country engagement.”⁷ As of December 2020, MCC has successfully provided a total grant of USD 13.5 billion to 30 countries worldwide.⁸

MCC in Nepal

In 2013-2014, the MCC “conducted a diagnostic study in Nepal”⁹ to identify the areas where foreign assistance could benefit Nepal and its people. Nepal was identified as a hydropower-rich country, and it was believed that assisting this sector would bring economic growth to the country. Also, poor transportation infrastructure in Nepal was identified as another area, in dire need of improvement and assistance. Meanwhile, the fundamental criteria in Nepal’s selection for the MCC was based on Nepal’s continuous quest

6 MCC, “Where We Work”, March 16, 2020, at <https://www.mcc.gov/where-we-work>, accessed on March 16, 2022.

7 US Embassy in Sri Lanka, “Statement on Decision of millennium Challenge Cooperation Board” December 17, 2020, <https://lk.usembassy.gov/statement-on-decision-of-millennium-challenge-corporation-board/>, accessed on February 28, 2022.

8 Ibid.

9 Ibid

to strengthen democracy and safeguard its rich socio-political and economic potential. Nepal qualified to receive the MCC grant under the “compact” category in December 2014.¹⁰ Further, from 2016 to 2017, MCC had “conducted feasibility studies to identify the projects and it submitted the report in November 2016.”¹¹ After a series of discussions between the MCC Board and GoN, the US approved a USD 500 million grant to Nepal, and the agreement was finally signed in September 2017.

With its country office located in Kathmandu, MCC decided to support the construction of the power transmission lines. As per the Embassy of Nepal in the US, the “MCC support goes to construct about 300km 400KV transmission lines from Lapsiphedi–Galchhi–Damauli–Sunawal corridor along with three substations and maintenance of about 300 km Roads in the various alignment of Mechi, Koshi, Sagarmatha, Tribhuvan Rajpath, and East-West highway.”¹² Further, the “MCC will provide a grant of USD 500 million and Nepal bears USD 130 million for this \$630 million project where USD 500 million goes to the Energy sector, and \$130 million goes to the road sector.”¹³ At the same time, the major focus of the USD 500 million grant from MCC will be to develop Nepal’s energy sector by constructing new cross-border transmission lines and tapping the hydropower potential of Nepal.

In addition to improving the energy sector, the grant also aims to “maintain road quality, increase the availability and reliability of electricity, and facilitate cross-border electricity trade between Nepal and India—helping to spur investments, accelerate economic growth, and reduce poverty.”¹⁴ In addition to the USD 500 million, the Government of Nepal (GoN) is also contributing USD 130 million to the MCC fund, which will be the largest contribution by any recipient country to the grant.

10 Ibid.

11 Ibid.

12 Embassy of Nepal, Washington DC, “Millennium Challenge Corporation (MCC),” at <https://us.nepalembassy.gov.np/mmc/>, accessed on January 09, 2022.

13 Ibid.

14 MCC, “Where We Work”, at <https://www.mcc.gov/where-we-work/program/nepal-compact>, accessed on March 01, 2022.

Political Opposition

After it was signed in 2017, KP Oli-led government was seen striking a balance with his coalition partners to get it ratified in the parliament. However, considering his close bonhomie with China, he continued making half-hearted efforts. Meanwhile, with the formation of a new government led by Sher Bahadur Deuba in July 2021, the US hoped for early ratification of the MCC Agreement. Yet again, MCC further witnessed uncertainty as the ruling coalition stood largely divided on it. PM Deuba had a strong opposition line from his coalition partners in the Government- Maoists led by Pushpa Kamal Dahal Prachanda and Communist Party of Nepal CPN-US led by Madhav Kumar Nepal. Despite the efforts of Prime Minister Deuba, no headway was made till the eleventh hour. Prachanda and Madhav Nepal had even threatened to break the alliance if Nepali Congress went ahead with ratifying the MCC by getting outside support from KP Oli. After all the political theatrics, Maoists, along with other coalition partners in the government, voted in favour of the MCC on the eve of February 27— just a day before the scheduled deadline.

What's the Controversy?

MCC has run into controversy from the day GoN signed it in September 2017. The political parties, especially the Maoists, expressed their opposition to the grant, accusing it of being part of the US-led Indo-Pacific Strategy. Besides concern raised about the Indo-Pacific Strategy, domestic laws issues, intellectual property rights matters, and auditing of the expenditure incurred from the MCC grant were also some of the major concerns. In addition to domestic concerns, China strongly element opposed the MCC in Nepal. Despite these concerns, the Maoists and other coalition partners in the government finally voted in favour of the MCC by attaching a *12-Point Interpretive Declaration*.¹⁵ The declaration¹⁶ was approved by the Nepalese

15 Nepal Live Today, *What is in the "interpretive declaration" endorsed by Nepal's parliament?*, February 27, 2022, accessed at <https://www.nepallivetoday.com/2022/02/27/mcc-nepal-compact-what-is-in-the-interpretive-declaration-adopted-by-nepals-parliament/>, accessed on February 17, 2022.

16 "The twelve-point declaration has clarified some major controversial provisions. Associating

Parliament days before the voting on MCC for its ratification. Meanwhile, these concerns have been discussed in detail below:

1. *Indo-Pacific Strategy*

In the ongoing global discussions on Indo-Pacific Strategy- which is a commitment “to an Indo-Pacific that is free and open, connected, prosperous, secure, and resilient”¹⁷- largely discussions revolve around presenting a strong counter to China by the Quad members that are the US, Japan, India, and Australia. However, the United States is also seeking support from other non-coastal countries like Nepal to join the grouping. Meanwhile, Nepal continues to maintain its neutral and “independent foreign policy. It aims to achieve these objectives based on the UN Charter, non-alignment, the principle of Panchsheel, international law and universal norms, and by remaining active to defend the sovereignty, indivisibility, national independence, and national interest”¹⁸ as per Article 51 (k) of the new constitution.

Meanwhile, the contention arises in Section 2.7 of the MCC Agreement between the United States and Nepal. Titled *Limitations on the Use of MCC Funding*, Section 2.7 reads, “(Nepal) government will ensure that MCC Funding is not used for any purpose that would violate United States law or policy, as specified in this Compact or further notified to the Government in writing.”¹⁹ This section does not specify any policies that Nepal will be obliged to respect. Instead, it makes a general condition which includes the US-led Indo-Pacific Strategy²⁰ aimed to counter China. Since Nepal wishes to maintain friendly ties with China, agreeing to Section 2.7 of the MCC

the MCC compact with the Indo-Pacific Strategy was perhaps the biggest apprehension harboured by the people. Under the interpretative declarations, it has been made clear that Nepal shall not be associated with any US strategic, military or security alliance, including the much-touted Indo-Pacific Strategy”; Cited from “MCC And Interpretative Declaration” *The Rising Nepal*, March 08, 2022, at <https://risingnepaldaily.com/opinion/mcc-and-interpretative-declaration>, accessed on March 08, 2022.

- 17 White House, *Indo-Pacific Strategy*, September 24, 2021, at <https://www.whitehouse.gov/wp-content/uploads/2022/02/U.S.-Indo-Pacific-Strategy.pdf>, accessed on March 17, 2022.
- 18 Nepal Law Commission, *Constitution of Nepal*, 2015, accessed at <https://bit.ly/36taDrb>.
- 19 Parliament of Nepal, *MCC Agreement*, September 14, 2017, accessed at <https://hr.parliament.gov.np/uploads/attachments/ns1zpd2uw3x2odp.pdf>.
- 20 White House, *Indo-Pacific Strategy*, September 24, 2021, at <https://www.whitehouse.gov/wp-content/uploads/2022/02/U.S.-Indo-Pacific-Strategy.pdf>, accessed on March 17, 2022.

might annoy China. Therefore, when Nepal agrees “not to violate US laws and policy in using the MCC fund” vide Section 2.7 of the MCC Agreement, it is interpreted as an unofficial recognition and endorsement of the Indo-Pacific Strategy by Nepal. Hence, the first point in the 12-Point Interpretive Declaration attached to the ratification of the MCC in the Parliament states that “Nepal declares that by being a party to the Compact, Nepal shall not be a part of any United States’ strategic, military or security alliance including the Indo-Pacific Strategy.”²¹

It is noteworthy that the Indo-Pacific Strategy was not interpreted in the context of MCC until the visit of US Assistant Secretary David J Ranz to Nepal on May 15, 2019. On his visit, Ranz had reportedly said that “MCC was one of the most important initiatives being implemented in Nepal under the US Indo-Pacific Strategy.”²² The alleged remarks by David J Ranz had added fuel to an ongoing debate on the viability of the MCC in Nepal in early 2019. Such a statement from a high ranking official from the US was taken with all seriousness in Nepal.

2. The Constitution of Nepal and Domestic laws will prevail over the Compact

The second major objection has been raised regarding laws governing MCC funding. Article 7 (1) of the MCC agreement reads that the “government will proceed in a timely manner to complete all of its domestic requirements for this Compact to enter into force. The Parties understand that this Compact, upon entry into force, will prevail over the domestic laws of Nepal.”²³ The political parties have attached a great caution against this section of the agreement as it allows the Compact to succeed the domestic laws upon its entry into force.

21 Nepal Live Today, *What is in the “interpretative declaration” endorsed by Nepal’s parliament?*, February 27, 2022, at <https://www.nepallivetoday.com/2022/02/27/mcc-nepal-compact-what-is-in-the-interpretative-declaration-adopted-by-nepals-parliament/>, accessed on February 17, 2022.

22 Himalayan Times, “MCC important initiative under Indo-Pacific Strategy”, May 15, 2019, at <https://thehimalayantimes.com/nepal/millennium-challenge-corporation-compact-programme-important-initiative-under-indo-pacific-strategy>, accessed on March 17, 2022.

23 Parliament of Nepal, “MCC Agreement”, September 14, 2017, at <https://hr.parliament.gov.np/uploads/attachments/ns1zpda2uw3x2odp.pdf>, accessed on June 20, 2020.

Therefore, Article 2 of the *12-Point Interpretive Declaration* makes it amply clear that “the Constitution of Nepal, being the fundamental law of the land, shall prevail over the Compact and other associated agreements.”²⁴

3. Intellectual Property Rights

MCC will be carrying out development projects in Nepal, and it will involve certain Intellectual Property Rights (IPR) while developing projects, manufacturing required goods, carrying out scientific research, and its outputs under the MCC funding. To ensure that these rights remain the IPR of the MCC, Section 3 of the agreement states that, “the Government (of Nepal) grants to MCC a perpetual, irrevocable, royalty-free, worldwide, fully-paid, assignable right and license to practice or have practised on its behalf (including the right to produce, reproduce, publish, repurpose, use, store, modify, or make available) any portion or portions of Intellectual Property as MCC sees fit in any medium, now known or hereafter developed, for any purpose whatsoever.”²⁵ The opposition forces against the MCC have argued that these rights must be the property of Nepal as MCC is an assistance grant provided to Nepal. It is agreed that since all the development activities will be taking on the sovereign lands of Nepal, IPRs must be exclusively granted to the host country. Hence, Article 5 of the *12-Point Interpretive Declaration* categorically refuses to make such concessions and permissions to MCC. The declaration adds that “MCC shall not have ownership over the Intellectual Property and that Nepal shall own and fully enjoy all the intellectual property created under the Compact programme.”²⁶

4. Auditing of the Expenditure

As per the MCC Agreement Article 3.8 (a), the GoN has been assigned the task of auditing on a six-monthly or annual basis. Meanwhile, upon the request of the MCC, GoN will “ensure that such audits are conducted by an independent auditor approved by MCC and named on the list of local

²⁴ Op Cit., No. 20.

²⁵ Ibid.

²⁶ Ibid.

auditors approved by the Inspector General or a United States-based certified public accounting firm.”²⁷ Further, Article 3.8 (d) adds that “MCC will have the rights to arrange for audits of the Government’s use of MCC Funding.”²⁸ The Maoists had objected to both the articles and demanded that the auditing of the expenditure must be done by the Nepali agencies. Therefore, the *12-Point Interpretive Declaration* vide Article 7 clarifies that “with reference to section 3.8 (a) of the compact, Nepal declares that, in addition, the audit of the activities and funds of MCC-Nepal shall be conducted by the Office of the Auditor-General in accordance with the prevailing laws of Nepal.”²⁹ The contention of auditing comes in the backdrop of past uses of foreign funding in Nepal and a lack of auditing on expenditure. In May 2015, a BBC report alleged that the United Kingdom-sponsored Earthquake Resilience Programme worth USD 30 million had gone vain due to ill and corrupt practices in spending the aid. The Earthquake Resilience Programme neither produced desired results considering the damage caused by the 2015 Earthquake in Nepal.³⁰ Therefore, insisting on an independent or MCC-approved auditor exhibits the concerns of the United States regarding fair uses of the grant.

Chinese Insecurities

In the past year, the Chinese State media has launched a scathing attack on the United States over the MCC issue in Nepal. In a chain of commentaries carried out by the Global Times between December 2021-February 2022, China has continuously tagged MCC as “a threat to peace and development in South Asia,”³¹ a “Poisoned Pact,”³² and “looting in the name of democracy.”³³

27 Op. Cit. No. 19.

28 Op. Cit. No. 24.

29 Ibid.

30 Simon Cox, “Where is Nepal aid money going?” *BBC London*, May 21, 2015, at <https://www.bbc.com/news/world-asia-32817748>, accessed on March 18, 2022.

31 Global Times, “The US’ MCC pact with Nepal threatens peace, development in South Asia” Feb 28, 2022, at <https://www.globaltimes.cn/page/202202/1253492.shtml>, accessed on February 28, 2022.

32 Global Times, “Looting in name of democracy: How US pulls the strings behind controversial MCC deal with Nepal?” February 25, 2022, at <https://www.globaltimes.cn/page/202202/1253166.shtml>, accessed on February 25, 2022.

33 Ibid.

Taking a cue from the issues raised by the forces opposing MCC within Nepal, China used local protests against MCC on the streets of Kathmandu in February 2022, as a tool to target the United States. China sees MCC as a threat to its interests, especially to its multi-billion ambitious Belt and Road Initiative (BRI) in Nepal. China had projected BRI as a symbolic victory over India's goodwill presence in Nepal and rose as an uncontested actor for some time.

Meanwhile, Chinese promises to Nepal have been hollow and have not resulted in any tangible progress. The much-hyped Trans-Himalayan Corridor connecting Tibet to Kathmandu continues to exist on paper only due to the unviability of several projects signed under BRI in Nepal. The Trans-Himalayan Connectivity is challenged by natural barriers including high mountainous terrain which makes it impossible to build bridges and install railway lines. At the same time, the Communist forces in Nepal continue to serve the Chinese interests despite the fall of their government in July 2021. The Communist forces had been more critical of India in recent years, especially after India had merely noted their new Constitution rather than welcoming it in 2015. Meanwhile, the new government led by Sher Bahadur Deuba has made efforts to improve ties with India and attempted to bring more actors into Nepal to balance Nepal's external outlook and Chinese influence.

China has been suspicious of the US activities in Nepal. The alleged Central Intelligence Agency's (CIA) support of Tibetans in the past has largely contributed to the geo-strategic policies of China in the Himalayan region. Events like the 1959 revolt in Tibet were a challenge to China. Therefore, China continues to make the One China Policy a focal point in its interactions with Nepal to send a strong message to the international community including the US. Sensing the rise of the US influence, a Chinese spokesperson in a media briefing added that "no country should interfere in other country's internal affairs, attach political strings, or engage in coercive diplomacy, still less undermine other country's sovereignty and interests out of one's self-

interests.”³⁴ Meanwhile, the mounting Chinese pressure on Nepal needs to be looked at through the prism of recent loss of Chinese leverages with the fall of the KP Oli-led government. The recent bonhomie between Nepal and India and a rising vibrancy between democratic countries and Nepal, including the United States provide a firm footing to Kathmandu to withstand the Chinese bullying tactics.

Before the Nepalese Parliament ratified the MCC, large-scale protests were held by civil society members and political organisations in Nepal for more than a week. The Maoists Party-affiliated student wing had held demonstrations against MCC in the capital city Kathmandu. These protests in Nepal were used as propaganda by China. Among many Chinese critics of MCC, some see it as a form of neo-colonialist and imperialist way of US dominance in Nepal. The international media took a thread from an unknown source stating that the US Embassy in Nepal had threatened Nepal to ratify MCC or else Nepal would face the consequences.³⁵ Against this, the US Embassy in Nepal clarified that the “\$500 million MCC grant is a gift from the American people and a partnership between our nations that will bring jobs and infrastructure to Nepal and improve the lives of Nepalis.”³⁶ However, despite the clarification from the US Embassy, the Chinese Foreign Ministry said that “How could a ‘gift’ be sent by an ultimatum? How could people accept such a ‘gift’? Is it a ‘gift’ or Pandora’s box?”³⁷

China had left no stone unturned in keeping friendly Communist and Maoist forces in Nepal by its side. At a time, ex-Prime Minister KP Oli was holding talks with the Prime Minister Sher Bahadur Deuba promising the UML Party’s support in the parliamentary ratification of the MCC, Communist Party of China (CPC)’s Minister of the International Liaison Department –

34 “Foreign Ministry Spokesperson Wang Wenbin’s Regular Press Conference on February 28, 2022”, *Ministry of Foreign Affairs, People’s Republic of China*, at https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/202202/t20220228_10646378.html.

35 Wion News, “US dismisses reports of threatening Nepal over MCC”, February 15, 2022, at <https://www.wionews.com/south-asia/us-dismisses-reports-of-threatening-nepal-over-mcc-453416>.

36 Embassy of United States in Nepal, “MCC Ratification is Nepal’s Sovereign Decision”, February 19, 2022, at <https://np.usembassy.gov/mcc-ratification-is-nepals-sovereign-decision/>.

37 Global Times, “How can US ‘gift’ to Nepal be delivered by ultimatum, asks Chinese FM”, February 23, 2022.

Song Tao, held virtual talks with KP Oli.³⁸ These eleventh-hour virtual talks were said to have revolved around strengthening party-level relations between UML and CPC. Yet, the timing of the discussion was extremely critical. The virtual discussion took place on February 24, just three days before the crucial voting in Parliament on MCC ratification. In the past three years, Chinese Minister Song Tao has been seen involved in micro-managing the political affairs of Nepal. Besides his recent talks with KP Oli, Song Tao was a leading hand in mediating between the erstwhile Nepal Communist Party (NCP)'s two Chairmen- KP Oli, and Prachanda who were fighting for the top post. Song Tao had sent a four-member delegation led by his Deputy Guo Yezhou on December 27, 2020, to make peace between Oli and Prachanda. However, against these efforts of China, the eventual fallout between KP Oli and Prachanda had led to the split of the NCP, and the two restored their former parties- UML and Maoist.

Overall, the recent high-handedness of the Chinese Embassy and delegations from China in the political affairs of Nepal stands against the sovereignty and independence of Nepal. The latter had asserted the same in its first-ever National Security Policy in 2016. The policy states that Nepal would not allow any foreign interference in its domestic affairs of Nepal. However, the level of leverage provided by the Communist and Maoist forces in Nepal to China weakens the state policies and the constitution. From 2019 onwards, Song Tao has visited Nepal multiple times. In September 2019, Tao arrived in Kathmandu with a 50-member delegation and held closed-door talks with Prime Minister KP Oli and other leaders of the NCP. During the visit, Tao successfully signed a Memorandum of Understanding with NCP to establish high-level exchanges between erstwhile NCP and China's CPC. Song Tao is also seen in a number of virtual meetings with Nepalese politicians. While the interaction between political parties of two or more countries is a normal activity, the timing of these interactions and visits is questionable.

38 Kathmandu Post, "Amid MCC row in Nepal, Chinese officials speak to Oli and Nepal", February 24, 2022, at <https://tkpo.st/3LRmlMt>, accessed on February 24, 2022.

US-China Contest

The US established its formal diplomatic ties with Nepal in 1959. It was a time when China was witnessing upheaval in Tibet. Following the alleged material support by the CIA to the rebels in Tibet against China, the US significantly publicised its presence in Nepal. At the same time, the US strengthened its position as a development partner of Nepal. Meanwhile, on no occasion had China opposed the US presence in Nepal so fiercely as during the debate on the MCC. During the Maoist insurgency in Nepal (1996-2006), the US stood by the democratic demands of the Nepalese people, and it had supported their aspirations for democracy in Nepal. In 2005, the US had rejected several demands of the monarchy to provide material support to the Royal Nepal Army (RNA) in its fight against the Maoists. The US said that any military support to RNA would be against the very ethos of democratic norms and aspirations of the people. Therefore, the US has nurtured its friendship based on democratic norms and rules.

With the entry of the US into Nepal's geopolitical space, China faces a two-front challenge. Until now, China had exploited the political forces in Nepal against India and contributed to anti-India misgivings through its state media. The border disputes between India and Nepal provided an opportunity for Beijing to project itself as a well-wisher of Nepal and its people. In the past few years, China found itself in the most comfortable position during the premiership of KP Oli. Also, China shifted its approach toward the Maoists after they emerged as a strong political force in the first democratic elections in 2008. As a reward for Chinese recognition, Maoists fitted the bill of China's need for a reliable force in Nepal which was a monarchy earlier. While China wishes to see UML and the Maoists leading a coalition government in the future, it continues not to hold a unified foreign policy towards Nepal, instead, China has opportunistic and short-term approaches to balance its ties with all stakeholders in Nepal. Therefore, for China, MCC is not entirely about the USD 500 million grant to Nepal, it is a symbolic victory of a Quad country- the United States, which has successfully managed to secure and project its interests in Nepal.

Chinese FM Wang Yi's Visit in the Backdrop of MCC Ratification

In less than a month after the MCC ratification by the Nepalese Parliament on March 27, Chinese Foreign Minister Wang Yi paid a three-day visit to Nepal at the invitation of the Nepalese Foreign Minister Narayan Khadka from March 25-27, 2022. Before landing in Nepal, Wang Yi took one day halt in India amidst tensions with India. Wang's India visit was unannounced but Delhi conveyed a strong message to China to stop Chinese aggression at the Line of Control. Just before he arrived in New Delhi, India's Foreign Ministry had protested against Yi's remarks on Kashmir during the opening ceremony of the Organisation of Islamic Cooperation in Pakistan.³⁹ Meanwhile, after his India halt, Wang Yi reached Kathmandu with a 25-member delegation. It was the second-highest level visit by a Chinese delegation to Nepal after President Xi Jinping's 2019 visit.

Wang Yi's visit to Nepal exhibited Chinese panic regarding MCC. The panic began to appear in a slew of statements by the Chinese Foreign Ministry in February against the MCC. Meanwhile, the visit was an extreme step taken by China, knowing that the present government led by Prime Minister Sher Bahadur Deuba has not reciprocated similar gestures as ex-Prime Minister

KP Oli did during his previous controversial stint as the Prime Minister. Therefore, the high-level delegation from China focussed on spilling its insecurities behind the veil of development and cooperation. Besides meetings with his Nepalese counterpart, he met with Prime Minister Deuba and had a courtesy meeting with President Bidya Bhandari. Wang also held a one-to-one discussion with KP Oli and Maoist Chairman Prachanda. During the visit, a total of nine agreements were signed. These nine agreements include- the Agreement on Economic and Technical Cooperation, Technical Assistance Scheme for China-Aid Feasibility Study of China-Nepal Cross-Border Railway Project, Cooperation Agreement on the Feasibility Study of Nepal-China Power Grid Interconnection, Protocol on the Safety and Health

39 MEA, "Official Spokesperson's response to media queries on reference to Union Territory of Jammu & Kashmir made by Chinese Foreign Minister in his speech to Organisation of Islamic Cooperation in Pakistan", *Ministry of External Affairs*, Government of India, New Delhi, March 23, at <https://bit.ly/3Lm2WCg>, accessed on March 23, 2021.

Conditions for the Export of Haylage from Nepal to China, Exchange of letters on duty-free treatment to be provided by China to goods of Nepali origin covering 98% tariff lines, Handover Certificate of Araniko Highway Maintenance Project (Phase III), Protocol on Sending a Chinese Medical Team to Work in Nepal at BP Koirala Memorial Cancer Hospital, and Delivery And Acceptance Certificate of China Aid Covid-19 Vaccine to Nepal (Fifth and Sixth Batches) of four million Vero cell vaccines.

No agreements under the BRI Framework were signed despite the speculations in the Nepalese media. However, during his bilateral talks with the Nepalese Foreign Minister, Chairman KP Oli, and Chairman Prachanda, the Chinese Foreign Minister promised for early conclusion of the feasibility reports on potential BRI projects. The Chinese state media and the CMOFA projected BRI as central to Wang Yi's visit to Nepal and avoided mentioning MCC in any way. Interestingly, the Nepalese side made no reference to BRI in its press releases on the Chinese Foreign Minister's visit to Nepal.⁴⁰

Yi's Three Supports to Nepal

Even though the MCC was not mentioned in any official communique on Wang's visit. Wang Yi's talk about China's "Three Supports"⁴¹ to Nepal during discussions with his Nepalese counterpart is seen as an indirect comment on the MCC and the US. Among these three supports, the First and the Third Support, talk about the Chinese assistance to Nepal in "blazing a development path suited for national conditions" and "participating in Belt and Road cooperation to a greater extent."⁴² The third and most important support adds that "China supports Nepal in pursuing independent domestic and foreign

40 MoFA, "Press Release on Bilateral Talks between the Foreign Ministers of Nepal and China" *Ministry of Foreign Affairs*, Nepal, March 26, at <https://mofa.gov.np/press-release-on-bilateral-talks-between-the-foreign-ministers-of-nepal-and-china/>; "Wang Yi Holds Talks with Nepali Foreign Minister Narayan Khadka," *Ministry of Foreign Affairs*, Nepal, March 23, at https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/202203/t20220327_10656332.html.

41 CMOFA "Wang Yi Talks about China's "Three Supports" for Nepal" Ministry of Foreign Affairs, China, March 26, 2022, at https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/202203/t20220327_10656328.html.

42 Ibid.

policies.”⁴³ While reading about the controversies around the MCC in Nepal, the ‘Third Support’ hints at the Chinese unease with the recent rejuvenated presence of the United States in Nepal. Even though the Chinese delegation did not spell MCC, the Nepalese Foreign Minister clarified Nepal’s position on ratifying the MCC. Foreign Minister Khadka, in his interaction with the media, reportedly said, “since concerns had been raised [by China] in the past, I clarified that any development assistance coming from outside [to Nepal] is purely for developmental objectives.”⁴⁴ So far, China has not communicated its reservations or displeasure over the ratification of MCC to Nepal (other than noting it). Yet a clarification from the Nepalese Foreign Minister was indeed uncalled for since it was an independent decision of Nepal to sign the MCC. It shows the level of pressure that Nepal has/had received from China through unofficial channels against MCC.

Chinese Duality

In addition to his three supports, Yi has assured Nepal of a development partnership. However, he did not offer any word on the future of thousands of Nepalese students studying in Nepal.⁴⁵ Amidst the COVID-19, China had closed its borders in February 2019, and thousands of Nepalese students studying medicine in Chinese universities. China has not issued any fresh Visas to Nepali students in the last three years. These students were forced to complete their practical-based degrees in online mode and see no hope to return and complete their in-person training. Second, Nepal has two functional trade transit points with China namely Rasuwagadhi-Kerung and Tatopani-Khasa. However, they were closed after COVID-19 restrictions were imposed in China in 2019. Despite Nepal’s several requests, the cross-border trade through land routes remains closed. On the one hand, China commits to improving cross-border connectivity with Nepal, including allowing access to Chinese ports. At the same time, the traders from Nepal continue to accuse

43 Ibid.

44 Kathmandu Post, “Chinese minister wraps up Nepal visit with mixed signals and messages,” March 28, 2022, at <https://tkpo.st/3uuQ3z2>, accessed on March 28, 2022.

45 Nepal Live Today, “Oli urges Chinese Foreign Minister to expedite projects under BRI,” March 27, 2022, <https://www.nepallivetoday.com/2022/03/27/oli-urges-chinese-foreign-minister-to-expedite-projects-under-bri/> accessed on March 27, 2022.

China of imposing an “undeclared blockade,”⁴⁶ resulting in long queues of container trucks from Nepal awaiting the opening of the gates by China.

It is noteworthy that the 2015 border trade between India and Nepal was disrupted by the Madhesi movement. Prime Minister KP Oli had accused India of siding with the Madhesis in blocking the border. While India refuted all the allegations, China exploited these events to its benefit by promising transit routes to Nepal for its third-country trade. China has been projecting itself as an alternative transit route for Nepal to allow access to the sea. It signed a treaty with Nepal in this regard. Now seven years into the Transit Transport Treaty between Nepal and China in 2016 and four years into the signing of the Protocol to the Agreement, allowing Nepal to use Chinese ports for third-country trade, no developments have been made so far. India continues to provide uninterrupted and reliable transit to Nepal for its third-country trade. Therefore, there is a stark difference in China’s commitments and actions on the ground, and BRI is one of the examples in this regard. Third, the BRI agreement with China remains under the wraps, and both the governments continue to keep it classified contrary to the MCC agreement which is available in the open domain to the public. Therefore, the Chinese decision to keep the details of BRI classified raises questions.

MCC and Implications for India

As a matured regional power with extremely strong international outreach and next-door neighbour of Nepal, India has not conveyed its official position on the ratification of the MCC. India had also not held any official position when MCC was signed in September 2017. However, in terms of implications for India, there are two ways to look at MCC. One, India is one of the largest contributors of development assistance to Nepal. At the same time, India has always supported and advocated developmental cooperation between Nepal and democratic countries worldwide. Therefore, the MCC grant must be seen as a welcome step by India. Under the MCC, Nepal’s rural road infrastructure will be improved, which will add to the betterment of the border trade between

46 Kathmandu Post, “Traders say China imposing ‘undeclared blockade,’” February 05, 2021, at <https://tkpo.st/3clvCHk>, accessed on December 09, 2021.

India and Nepal. The installation of the cross-border power lines under MCC is in India's favour as they will be useful in exporting power to India from Nepal. MCC is heavily invested in exploring Nepal's hydropower potential. Therefore, the surplus power can be exported to India through existing and forthcoming trans-national electricity transmission lines. MCC will also open the gateways for trilateral economic cooperation between Nepal, India, and the United States. Against these beneficial outcomes for India, MCC signals a drastic change in the geostrategic dynamics in Nepal. For more than seven decades, India has been the leading partner of Nepal in its development and hydropower generation. Also, India's political outreach in Nepal has been well received by international actors around the world including the United States. During a decade-long Maoist insurgency in Nepal, the US and UK had relied on and followed India's understanding of the situation. However, with MCC, the US has entered as another important actor in Nepal which India needs to follow closely in terms of its strategic outreach.

Conclusion

For long, the Communist/Maoist party-led governments in Nepal have focussed more on the political aspect of the development rather than the overall development of the country. The grand victory of the Maoists in the first democratic elections in 2008 followed by the 2017 merger of the Maoists and UML into one Nepal Communist Party have miserably failed to provide long-awaited political stability to the country. The Maoist insurgency in Nepal was central to the overall independence of Nepal. The same Maoists and their allies continue to welcome the high-handedness of China in the political and foreign affairs of Nepal. The recent visit of Chinese Foreign Minister Wang Yi exhibits no less than undermining of Nepal's sovereign choices in terms of the development of Nepal. However, it is commendable that Nepal has withstood Chinese pressure by ratifying MCC grant. Yet, an unwarranted clarification on ratification of MCC by the Nepalese Foreign Minister to his Chinese counterpart Wang Yi shows the existing flaws in Nepal's foreign policy and the Communist/Maoist governments have contributed hugely to weakening Nepal's diplomatic freedom by providing a free hand to China. However, democratic parties in Nepal are still attempting to strike a balance

with India and other developmental partners of Nepal including the United States. In this regard, MCC opens new avenues of development, progress and geostrategic balancing in Nepal where the US challenges China's expansionist activities in Nepal. On the other hand, India continues to be the most reliable development partner of Nepal. Meanwhile, New Delhi needs to assure that its presence in Nepal remains exclusive and not guided by any other actors even though they have a similar approach to Chinese expansionist activities in Nepal.

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