

China's Foreign Aid to Nepal: A Study of China's Aid Objectives and Achievements

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Nepal has been one of the regular and first recipients of Chinese aid. Ever since the resumption of diplomatic relations in 1955, China's relations with Nepal have been generally friendly. Due to the connections between Nepal and Tibet in the past and the former's geographic location, China considers Nepal a country of strategic importance. This was particularly so during the Cold War years. China has had three major foreign policy interests in Nepal over the years—strategic, political, and economic. This article examines these major policy motivations for China's aid to Nepal and postulates certain implications for China's aid policy in the post-Cold War period. The article concludes that China's aid has generally been successful in maintaining its strategic interests and countering the influence of India and other powers in Nepal, and that although superpower interests in Nepal may have been diminished in the post-Cold War years, China's interest in Nepal will remain vital so long as its position in Tibet remains unchanged. This implies that China will continue its politics of aid to Nepal in order to maintain the latter's commitment to supporting the former's position in Tibet.

Keywords: China; Nepal; aid; strategic, political, and economic interests; post-Cold War

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China-Nepal relations are ancient, with their origins going back to as early as the seventh century. The long peregrination of their relationship from that time to the present has been marked by many twists and turns. Relations were close and friendly in the seventh century, faded from the eighth to the fourteenth century, and then were active until 1908, with flareups of hostility that culminated in wars. After the collapse of the Manchu dynasty and subsequently

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birth of the Republic of China (ROC) in 1912, Sino-Nepal relations became dormant until the two countries agreed to establish diplomatic relations in 1955. Even since then, Sino-Nepal relations have been very active and yet complex.

A number of important external and internal factors have shaped the nature of China's relations with Nepal, particularly since 1956. These factors include historical ties and geographic proximity, China's transition through different stages of communism, its perceptions of possible threats to Tibet from Nepal, its quest for identity and a strong image in the world stage, and the patterns of Nepal's relations with India. Placed in a foreign policy framework, China's foreign policy objectives in Nepal are strategic, political, and economic. Strategically, China has been prepared to counter any threats to its position in Tibet from Nepal, and politically, it has adopted measures to counter any hostile influence of other major powers, such as supporting Nepal in its efforts to maintain the absolute rule of its monarch, safeguarding its independence and sovereignty, lending indirect support to the communist movement in Nepal, etc. China's economic interests are both short-term and long-term. The short-term objectives are to procure basic commodities that are in short supply in Tibet and which have a cost advantage over similar items from China, and supporting Nepal in its efforts to become economically self-sufficient or less dependent on India for basic goods. China's long-term economic objective is to make Nepal a steady market for Chinese goods.

Like other donors, China has used foreign aid as an instrument of its foreign policy, and has been providing substantial aid to Nepal since the two countries resumed diplomatic ties in 1955. The major aim of this article is to examine how far China has deployed aid in the pursuit of its strategic, political, and economic objectives and how successful it has been in achieving them. The main focus of this article is on the period 1960-89, when Nepal was ruled by an absolute monarch with a partyless political system called "panchayat." This article is based mainly on secondary sources of information, but also uses primary sources, especially for aid data, which is mainly culled from the Ministry of Finance, His Majesty's Government (HMG) of Nepal, and other published sources.

Introduction: China as a Donor

Within four years of taking power, the People's Republic of China

(PRC) initiated an economic aid program.¹ Following the Korean War in 1953, China offered aid to North Korea, which consisted of debt cancellation and guaranteed grants. In 1954, on the occasion of Albania's tenth anniversary, China offered a gift of 10 million rubles and credit of 50 million rubles. In 1955, North Vietnam became the third recipient of Chinese aid (which totalled US\$205 million, mainly through grants of goods and services), and by 1956, China's aid program was expanded to cover a few countries in Asia and Africa.

What motivated China to dispense aid despite its general poverty and low living standards was its desire for high international status, and a role as a leader of Third World countries. In other words, its quest for power has been the main driving force behind its aid. Former U.S. President Richard Nixon predicted that if post-Mao China continues to follow Deng Xiaoping's "path," the twenty-first century would see three "superpowers": the United States, Russia, and the PRC.² China's national resources at its disposal have enabled it to be a donor country despite its own domestic needs, the latter of which can be best gauged by the fact that in 1985, China had 80 million "extremely poor" people and some 210 million people who were "poor, including the extremely poor."³

Although some estimates show that China's per capita income was US\$84 in 1965, it was ranked 7th among 130 countries that year in terms of total gross domestic product (GDP). Its total GDP was estimated to be US\$58 billion, or higher than Italy's (US\$56.74 billion). In 1989, it ranked 8th out of 144 countries in gross national product (GNP) with a total of US\$603.5 billion, although on a per capita basis it was ranked 100th. China's economic power has also been strengthened in recent years by its high growth rates and the remarkable rise in its international trade. In world trade, it has risen from 31st in world trade rankings in 1980 to 11th in 1993.⁴ It has the largest military force in the world (estimated to be 3.9 million in 1989), and ranked 7th and 5th in military expenditures and arms exports that year. In economic terms, it boasts of being able to feed 22 percent

¹See Colin Garatt, "China as a Foreign Aid Donor," *Far Eastern Economic Review*, January 19, 1961, 84-85.

²Richard Nixon, *1999 Victory Without War* (New York: Simon & Schuster, 1988), 243.

³The World Bank, *World Development Report 1990* (Washington, D.C.: The World Bank, 1990), 29, table 2.1.

⁴*The Economist* (London), May 14, 1993, 35.

of the world population with only 7 percent of the world's arable land; Foreign Minister Qian Qichen claims this is "China's greatest contribution to protecting the right of survival."⁵

China's view of its historical place in Asia, combined with its self-proclaimed cultural superiority, was further reinforced by Mao's successful communist revolution. Mao believed that his revolutionary enthusiasm could be channeled into a world communist revolution through both diplomacy, including secret military and tactical support, and politics of aid. The Soviet Union's attempt to isolate China in the late 1950s in fact led it to think that it could assume the leadership of both noncommitted and pro-communist Third World countries. It eventually acquired nuclear power capability in 1964 and has since developed and tested hydrogen bombs and intercontinental missiles. It has also been one of the five permanent members of the United Nations after it gained a seat in 1971.

China's aid activities and coverage of countries have made it a global donor. In its early phase (1953-64), China's aid was focused mainly on Asia, especially its immediate Southeast Asian neighbors. The pattern of its aid disbursement between 1953 and 1961 shows that over 60 percent of aid was committed to North Korea and North Vietnam.⁶ But as China's aid gained wider distribution and its objectives became more pronounced, Africa came to be its main focus. Of the total US\$7,712 million China offered in aid between 1956 and 1987,⁷ Africa received 62 percent, followed by Asia, whose share was about 23 percent. Of the other global regions, the Middle East received 10 percent; Latin America, 3.7 percent; Oceania, 0.8 percent; and Eastern Europe, 0.5 percent. China's aid was extended to forty-seven African countries, ten Asian countries, nine Middle Eastern countries, ten Latin American countries, four Oceanic countries; and one East European country. In South Asia, Nepal and Sri Lanka (formerly Ceylon) were immediately supplied with aid when China launched its economic aid program. Pakistan and Afghanistan began receiving

⁵PRC Foreign Minister Qian Qichen's Address to the United Nations on September 26, 1991, reproduced in *China Report* 27, no. 4 (1991).

⁶Including Mongolia, the total aid commitment between 1953 and 1961 was US\$860 million; probably US\$675 million was spent. This meant China was helping the Asian communist countries "to an extent of 3 1/2 times greater than the uncommitted neutrals." See Garatt, "China as a Foreign Aid Donor," 84.

⁷Wolfgang Bartke, *The Economic Aid of the PR China to Developing and Socialist Countries* (München: K. G. Saur, 1989), 7.

aid in 1965, followed by Bangladesh in 1977, six years after its independence from Pakistan.

As with all donors, China's aid has also been an integral element of its major foreign policy objectives, which vary from country to country depending on their geographic location, economic importance, security perceptions, historical and cultural ties, etc. On the other hand, a Chinese official from the Ministry of Foreign Economic Relations and Trade once claimed that the Chinese government "by strictly respecting the sovereign rights of recipient countries" offers aid without attaching any strings or asking for any privileges. It was also stated that "China is firmly opposed to the use of foreign 'aid' as a means to control and plunder recipient countries."⁸ Undoubtedly, the terms and conditions of China's aid have been favorable to the recipients; grace periods on Chinese loans extend between twenty and thirty years and are generally interest-free. Nonetheless, aid has been an instrument of its foreign policy.

China's Aid to Nepal: An Overview

Nepal's interest in obtaining Chinese assistance was first indicated by prime minister T. P. Acharya. During a press conference held in New Delhi on September 2, 1956, he stated that Nepal would certainly "accept all genuine help from neighbors and distant friends alike" if acceptance did not "involve [Nepal's] dignity."⁹

China promptly responded to Nepal's desire for "help" through a speech by Premier Zhou Enlai at the banquet welcoming Acharya to China on September 27, 1956. Zhou made it clear that as China and Nepal were engaged in building their respective countries, they could "learn and help each other" in their efforts. He also saw a clear "prospect for further development of friendly Sino-Nepalese relations" because of the opportunities in helping and learning from each other.¹⁰ It was during Acharya's visit that China agreed to give 60 million

⁸Wei Jing, "China's Aid in Development Projects to Other Countries," in *Almanac of China's Economy, 1981*, ed. Xue Muqiao (Hong Kong: Modern Cultural Company, 1982), 631.

⁹A. S. Bhasin, ed., *Documents on Nepal's Relations with India and China, 1949-66* (Bombay: Academic Books, 1970), 193.

¹⁰*Ibid.*, 195.

Indian rupees (IRs) of aid in the next three years to help Nepal with its first five-year plan. Acharya announced in his press conference in Beijing that the Chinese aid had no conditions attached and China would not "send any technical personnel to Nepal." The aid was in the form of money and materials and was completely "at the disposal of the Nepalese Government . . . the Chinese [would] not interfere."¹¹ With the announcement of this package, China's aid began to evolve, adjusting and readjusting to Nepal's domestic and external milieu. Not only did it offer aid on comparatively more appealing terms to Nepal but also avoided any ideological biases in allocation. This was evident both in the amount and the terms and conditions of aid. For instance, China offered US\$21 million to the Nepal government for establishing consumer goods industries. The aid was extended for three years and further if the aid was not utilized. This aid did not include the IRs 40 million given in 1956 and had no political conditions attached. It was also agreed that the living standards of Chinese technicians in Kathmandu would not exceed those of the employees of HMG.

Trends in China's assistance show that its aid, though it has fluctuated rapidly, was comparatively higher in the 1970s. Nepal's Ministry of Finance estimates that its aid disbursement "showed an average annual disbursement of Rs 131 million in the period 1976-85. After that period, it started to decline and has remained around Rs 55 million in recent years."¹² This decline has been attributed to China's own preoccupation with the modernization of its economy. However, China has accorded special consideration to Nepal because Nepal is the only country to whom China gives grant assistance; it has retained this policy¹³ even after the democratic changes in Nepal during the spring of 1990.

Nevertheless, unlike aid from India and the United States, the volume of China's aid has not been increasing from year to year. For

¹¹*Survey of China Mainland Press*, October 10, 1956, in *ibid.*, 197. The exact aid figure is difficult to ascertain. The cash aid was promptly and easily absorbed, but the commodity aid was not. The Nepal source puts the total aid from China from 1956 to 1961 at NRs 32.1 million. The Nepalese rupee equivalent of 60 million in Indian rupee comes out to about NRs 93 million, based on the average exchange rate of the years 1957-60 between the two currencies.

¹²According to an unofficial note of Nepal's Ministry of Finance, the Chinese usually commit in terms of projects and not in terms of aid amounts.

¹³Chinese ambassador to Nepal Shao Jiongchu's remarks in an interview in the *Spotlight* (news magazine) (Kathmandu), September 3-9, 1993, 22.

Table 1
China's Aid Disbursements to Nepal (1960-90)

Unit: Million NRs

Year	1 Total Foreign Aid	2 China's Aid	% of 2 to 1
1960	93.2	0	0
1961	137.1	0	0
1962	186.4	14.8	7.9
1963	97.5	3.2	3.3
1964	180.0	14.7	8.2
1965	198.5	27.1	13.6
1966	181.0	16.2	9.0
1967	151.9	24.6	16.2
1968	162.5	26.1	16.1
1969	221.1	37.6	17.0
1970	251.2	48.5	19.3
1971	287.2	47.2	16.4
1972	256.2	53.2	20.7
1973	192.6	24.3	12.6
1974	247.4	33.6	13.6
1975	276.5	52.2	18.9
1976	330.7	49.4	14.9
1977	370.9	105.9	28.5
1978	456.7	76.2	16.7
1979	538.8	40.3	7.5
1980	846.4	35.9	4.2
1981	858.1	50.5	5.9
1982	909.5	25.4	2.8
1983	947.2	18.1	16.7
1984	983.2	124.8	12.7
1985	1,156.3	96.7	8.3
1986	1,481.1	42.4	2.8
1987	1,078.4	118.0	10.9
1988	2,261.6	72.0	3.2
1989	1,707.7	0	0
1990	2,553.9	0	0

Sources: Aid figures are from HMG/N, *Economic Survey*, various issues, Ministry of Finance, source book on aid; and Nepal Rastra Bank documents.

example, the volume of China's aid was Rs 14.8 million in 1962 and decreased to only Rs 3.2 million in the following year (see table 1).

As China's aid commitment is not made annually and disbursement of committed aid depends on the type of projects, its share in total aid under various periodic plans has fluctuated wildly (see table 2). For example, its share in total aid during Nepal's second three-year plan (1962-65) was 94.5 percent, compared to just 1 percent in the

Table 2
Share of China's Aid Disbursed to Nepal

Unit: Million NRs

Periodic Plans	Total Aid	China's Aid	% of China's Aid to Total
First Five-Year Plan (1956-61)	382.9	32.1	8.4
No Plan (1961-62)	186.4	14.8	7.9
Second Three-Year Plan (1962-65)	47.6	45.0	94.5
Third Five-Year Plan (1965-70)	967.8	153.0	15.8
Fourth Five-Year Plan (1970-75)	1,508.9	210.5	13.9
Fifth Five-Year Plan (1975-80)	4,240.8	307.7	7.2
Sixth Five-Year Plan (1980-85)	10,920	455.5	4.2
Seventh Five-Year Plan (1985-90)	24,000.7	232.4 ^a	1.0
Total Aid	42,255.1	1,451.0	3.4

Sources: Computed by the author from the aid data published by His Majesty's Government of Nepal's *Economic Survey, Budget Document* (various issues), and other reports.

^aIt is difficult to estimate the disbursement of Chinese aid by sector because of the lack of actual money spent on various projects and programs. Chinese aid officials in Kathmandu told the author that the Chinese do not believe in aid figures and are more interested in seeing projects/programs completed. Wolfgang Bartke states that the Chinese published expenditures on economic aid only for one year in the period 1956-87. The aid figures that are available from other sources should also be viewed with "reservation" as they are very much underestimated. Bartke's estimates are that the figures "must be multiplied by at least ten in any comparison with Western aid." See Wolfgang Bartke, *The Economic Aid of the PR China to Developing and Socialist Countries* (Muenchen: K. G. Saur, 1989), section on "China's Global Aid."

seventh five-year plan (1985-90). Table 2 shows that China's aid contribution remained high in absolute terms in the 1960s and 1970s. However, its contribution to the total aid utilized by the panchayat government (1961-90) was little more than 3 percent.

China's Aid in Its Foreign Policy Context

As discussed earlier, China has pursued three major objectives in its foreign policy with Nepal, and the purpose of aid has been to

realize these objectives as much as possible. In the following section, we discuss China's aid to Nepal in terms of its strategic, political and economic objectives.

Aid and China's Strategic Objectives

China's relations with the United States, the former Soviet Union, and India, and its perceptions of how these countries have conducted their foreign policy in Nepal have determined its strategic interests in Nepal. The high priority assigned to road-building projects in the early 1960s at the height of Sino-Indian tensions, coupled with the improvement in Indo-Soviet ties, was a manifestation of this policy. A donor's assistance in road building by itself does not necessarily imply strategic motivation. For example, up to 1987, China built about 6,000 kilometers of road in some 15 Asian, African, and Latin American countries.¹⁴ However, from the geopolitical point of view, roads built to link surrounding countries to the territory of the donor could be described as having strategic value. The Halleh Kush-Khunerab Pass Karokorum highway linking China's Xinjiang with north Pakistan and the Kathmandu-Kodari highway linking Kathmandu with Lhasa are examples of strategic considerations in China's aid allocation (China's aid in Nepal's transportation sector is presented in table 3). Another strategic element in Chinese aid allocation has been the large proportion given to transportation (road building) compared to total aid. Up to 1980, about 67 percent of Chinese aid was in the transportation sector,¹⁵ followed by industry and power sectors.

China's strategic interest in Nepal was a result of simmering discord with India in the mid-1950s which was further intensified by the revolt in Tibet and the fleeing of the Dalai Lama to India. China also perceived a possible Indo-U.S. alliance posing a threat to its interests in Tibet and offsetting the power balance at a time when its relations with the Soviet Union had gone sour. In its view, India's strategic position in Nepal was strengthened by the Kathmandu-Raxual road and the airfields in Nepal's Terai town. In order to counter India and deepen trade links with its Tibet region, China decided to aid Nepal in building the proposed road. The strategic motivation of

¹⁴Bartke, *The Economic Aid*, 22.

¹⁵Narayan Khadka, *Foreign Aid, Poverty, and Stagnation in Nepal* (New Delhi: Vikas Publishing House, 1991), 252.

Table 3
China's Aid in Nepal's Transportation Sector^a

Unit: Million NRs

Name of the Project	Length (km)	Year Constructed	Estimated Costs
Arniko Highway	104	1963-67	8.0
Arniko Highway Maintenance	13		
Kathmandu-Bhaktapur Road	13	1969-71	20.5
Prithivi Highway (Kathmandu-Pokhara Road)	174	1965-67	117.0
Gorkha-Narayanghat ^b	60	1976-82	344.0
Kathmandu-Bhaktapur Trolley Bus	14	1973-75	30.0
Kathmandu Ring Road	27	1974-77	90.0
Pokhara-Mustang Road	407	1975- ^c	n.a.
Pokhara-Baglung Road	73	1987-90	n.a.

Source: Ministry of Finance, HMG/N, "Projects Under Chinese Assistance" (Mimeo, Kathmandu, n.d.).

Notes:

^aIn the early 1960s, China agreed to build the Ithari-Dhalkebar section of the East-West highway (170 km) at an estimated cost of Rs 18 million, and the Janakpur-Biratnagar portion of that highway (170 km), but under Indian pressure, Nepal asked China to withdraw from these projects. An agreement was also signed in 1975 for the construction of the 407 km Pokhara-Surkhet road in west Nepal for an estimated cost of Rs 800-900 million, but it has not been executed.

^bThis road includes two sections, the Narayanghat Mugling road (36 km) and the Majuwa-Gorkha road (24 km), both built with Chinese assistance.

^cThe survey was conducted in 1973 by the Chinese team, and China agreed to provide financial and technical assistance in 1975 for the road. In March 1984, China agreed to construct the Pokhara-Baglung sector, and a contract was finally awarded in March 1987 for this road.

the Kathmandu-Kodari highway is also evident in the Chinese interest to connect with eastern Nepal, thus giving the Chinese direct access to the surplus food grain production in that area,¹⁶ although this proposal was rejected by Nepal. China also expressed its strong willingness to help Nepal build the 170-km Biratnagar-Janakpur road in eastern Terai, which Nepal had to cancel in the face of India's protests. China's enthusiasm for this particular road project demonstrated its strong strategic interest because of (1) the close proximity of this area to

¹⁶Leo E. Rose, "Nepal in 1965: Focus on Land Reform," *Asian Survey* 6, no. 2 (February 1966): 89.

the Nepal-India border and (2) the unwillingness of India, the United States, and the Soviet Union to support King Mahendra's plan for connecting Nepal's east and west with a highway. By showing support, China could thus display its genuine interest to help Nepal and also obtain an advantage in exercising influence over Nepal's foreign policy.

The case of the Kathmandu-Kodari road (the Arniko highway): China's proposal for building a road network linking Kathmandu with Tibet originated as early as the mid-1950s. According to the *Survey of China Mainland Press*:

Originally the proposal for such a road came from the Nepalese business circles. In 1956, when negotiations between Nepal and China were proposed to be held on the revision of the Nepal-Tibet Treaty of 1856, the Nepalese Businessmen's Association of Tibet submitted a ten-point memorandum to the Nepalese government for the promotion of trade between Nepal and Tibet for consideration during the treaty negotiations.¹⁷

According to the memorandum, 'Kathmandu and Lhasa should be linked by a proper road to facilitate and improve trade between the two cities.'¹⁸ The Chinese view is that China was not really enthusiastic about the road proposal, and it was Nepal which insisted on the project. Nepalese traders discussed the proposal with Zhou Enlai during his official visit to Kathmandu in January 1957; Zhou reportedly said that the proposal was a good idea, but it would take time, and technical difficulties would have to be overcome. Nepal prime minister Acharya went ahead with the idea of building the road, calling it the Mahendra Rajpath. The project was executed by K. I. Singh, who succeeded Acharya as prime minister, but "without any proper survey or alignment."¹⁹ However, in 1960, Zhou expressed his desire to go ahead with the road proposal, stating that "high mountains lie between the two countries, particularly between Nepal and the Tibet region of China . . . [but] there are still possibilities to establish direct traffic contact."²⁰

Interestingly, Zhou's proposal was received coolly by the Nepalese. The proposal was also discussed with Nepal prime minister B. P. Koirala, who did not see any economic justification for the project. Koirala stated his position by saying that Nepal did not want "to build

¹⁷*Survey of China Mainland Press*, May 3, 1960, 47.

¹⁸*Ibid.*

¹⁹*Ibid.*

²⁰Speech by Zhou Enlai at a reception hosted by the Nepalese Chamber of Commerce, Kathmandu, April 26, 1960 (Excerpts).

roads for strategic reasons.” Finally, a joint communiqué was issued on October 15, 1961, almost a year after the dissolution of the Nepali Congress government, which stated that “road building and communications” would be other areas in which economic cooperation could be extended. The road proposal was not discussed at length during King Mahendra’s stay in China, but the submission of the proposal one day prior to his departure for home did not take him by complete surprise.²¹ Such a submission without any previous deliberations and discussions implied a certain tactical maneuverability on the part of the Chinese leaders. During discussion on border demarcations between the two countries, China’s friendly gestures and its willingness to provide more economic assistance probably influenced King Mahendra’s response to the road proposal. The proposal also took place at the right moment as far as Nepal’s relations with India were concerned, as they had deteriorated to a crisis point following an armed raid by Nepali Congress rebels living in India.

The strategic importance of the road needs no elaboration. As a Chinese engineer who was engaged in the construction of the road but later defected to Taiwan relates, the enhanced capacity of the road “to carry vehicles [tanks?] weighing up to 60 tons rather than the 15-17 ton limit stipulated in the building stipulations”²² proves its strategic value. Nepal, however, has tried to downplay China’s strategic interests in building this road. In 1962, King Mahendra emphasized the road’s importance to Nepal by saying that it would not only provide Nepal “with an optional outlet to her expanding trade and commerce commensurate with her national energy and necessity and detrimental to none, and bring China and Nepal closer together,” but it would also “open up that interior part of the country”²³ which was least accessible and least developed. Rishikesh Shah, who went to Beijing as King Mahendra’s special representative in November

²¹Rose states that King Mahendra asked his accompanying minister Tulsi Giri to sign the agreement, for it would be a controversial document in Nepal’s relations with India. Furthermore, Rose also notes that it may also have been an expression of dissatisfaction with Chinese pressure tactics. But in the end, King Mahendra “was in no position to resist the pressure” because the boundary treaty “depended upon a favorable response on the road question.” See Leo E. Rose, *Nepal Strategy for Survival* (Bombay: Oxford University Press, 1970), 239.

²²*Ibid.*, 264.

²³“Statement of Principles” (Major Foreign Policy Speeches by His Majesty King Mahendra) (Kathmandu: Department of Publicity, His Majesty’s Government, 1964), 32.

1962, reiterated the road's significance, pointing out that "the Chinese government had rendered us most generous assistance in building a road that would eventually connect Kathmandu and Lhasa. This road, as far as we are concerned, had a good deal of significance." He regretted that the "road [had been] misunderstood by some people" and argued that it was for greater contact with beyond the Himalayas and nothing more than that.²⁴ The trade impact of the road for Tibet alone would be sizable, as it would initially ensure the delivery of supplies and gradually allow Tibet to become a link for Chinese penetration of markets in Nepal. As one observer who made a survey of the road in the mid-1960s noted, "The [small] road could definitely prove to be Tibet's lifeline, not Nepal's."²⁵

In addition to its road projects, China was also prepared to support Nepal in building airfields in the immediate aftermath of the Sino-Indian conflict. According to one Indian author, China's interest in this field "led India to agree quickly to undertake the same project and persuade the Nepalese government to reject the Chinese offer in this field of obvious strategic significance."²⁶ China also showed interest in helping Nepal with irrigation projects in Terai; Nepal also had to reject the proposal because of pressure from India. Generally speaking, not all of China's road construction or construction undertaken with its assistance can be said to have been motivated by strategic considerations. Nonetheless, two of the road projects (the Arniko highway and the Prithivi highway) have had a high strategic value.

Aid and China's Political Objectives

It has been stated in the above section that one of the primary objectives of China's foreign policy in Nepal has been to counter the Indian, American, and Soviet influence in the area. China perceived the influence of the two superpowers in Nepal, at least until the 1960s, as a potential threat to its security interests because of their possible alliance with India. It also regarded India as a main challenger to its

²⁴Survey of China Mainland Press, November 28, 1962, 37.

²⁵Rama Swarup, "Red China Builds a Bridge to Nepal," *Issues & Studies* 4, no. 1 (October 1967): 18.

²⁶See S. D. Muni, *Foreign Policy of Nepal* (New Delhi: National Publishing House, 1973), 194. In a footnote (194 n. 46), Muni states that India's then-minister of state for external affairs Laxmi Menon disclosed this and assured "the Lok Sabha that Nepal did not enter into similar agreements with any other country." India, *Parliamentary Debates* (Lok Sabha), series 2, vol. 28, no. 32 (March 23, 1964); Starred Q. No. 693, Cols., 6827-29.

vital interests; its view was that if India's influence in Nepal remained strong, China's position in Tibet would be less secure and its assumed roles in other South Asian countries would also be challenged by India. Hence, it employed aid not only to counter their influences but also to maintain a stronghold in Nepal.

It is not easy to correlate foreign policy and foreign aid because of the fluidity, opacity, and unquantifiable nature of political objectives. Moreover, aid is generally directly linked to a project/program where economic justifications are easy to prove. However, by analyzing aid by period and relating it to Nepal's external relations vis-à-vis the aforementioned countries and to the domestic political situation, we will attempt to determine if the employment of aid has served China's political objectives in Nepal. Specifically, we will analyze the content and messages of policy statements, link them to China's aid, and examine the nature, terms, and conditions of the aid.

China's emergence as a major donor in the 1960s and 1970s was largely due to its aid rivalry with India and the two superpowers. Another major motivational factor has been Nepal's unswerving support for China's admission to the United Nations, and its rejection of the theory of "two Chinas." Another equally important factor is Nepal's firm action in not allowing Tibetan rebels to use Nepal's soil for anti-Chinese activities. Additionally, Nepal's neutrality in the Sino-Indian war and during Sino-American and Sino-Soviet disputes has been viewed very positively by China. As reciprocation for Nepal's firm support, Chinese vice-premier Chen Yi stated:

... in our view, aid is always something mutual. China helps Nepal, and Nepal in turn helps China. In international affairs, Nepal upholds justice, firmly stands for the restoration of China's legitimate rights in the United Nations, and opposes the scheme of "two Chinas." Nepal firmly maintains her friendship toward China; she informs the world of the truth about China and opposes distortions and slanders against China. This constitutes great support to us.²⁷

Nepal's stand on certain international issues has been in harmony with China's; for example, Nepal has persistently demanded the withdrawal of American forces from Vietnam. In the joint communiqué signed on Chen Yi's visit in April 1965, both China and Nepal "reaffirmed their respect for the unity, integrity, and sovereignty of Vietnam

²⁷See A. S. Bhasin, *Nepal's Relations with India and China: Documents 1947-92* (Delhi: Siba Exim, 1994), 594.

and the inviolable right of the Vietnamese people to settle their own problems and chart their own future in accordance with their own will and aspirations and without foreign interference.’²⁸

China began to woo King Mahendra at a time when Nepal's relations with India and China's relations with India had fallen to their lowest ebb. China showed a great degree of accommodation in resolving border disputes in a friendly manner (in particular, the Mount Everest question), and its growing interest in improving Sino-Nepal relations did not come as a surprise for the Nepalese who took part in the December 1960 royal coup, as China was indifferent to King Mahendra's takeover of the Nepali Congress government. When India-Nepal relations began to deteriorate following the takeover, China sent an economic delegation to Kathmandu in May 1961 to discuss Chinese aid projects. Accordingly, Nepal and China agreed to sign a protocol to the 1960 aid agreement on September 5, 1961. Under the protocol, China agreed to provide Nepal with IRs 140 million for a cement factory; a power, pulp, and paper factory; a power plant for a paper factory; and a small-scale leather and shoe factory.²⁹ The exchange of supportive gestures on the part of both China and Nepal had a profound impact on the volume of Chinese aid to Nepal. At a time when India's aid regarding the Gandak project was subject to criticism, China took it as an opportune moment to make friendly gestures toward Nepal. It was agreed to extend economic cooperation, particularly in the fields of industry, road building, and communications.³⁰

Trends in Sino-Nepal relations have tended to contrast heavily with trends in Nepal-India relations. For example, at the time of the Sino-Indian dispute in October 1962, Nepal-India relations were at their worst. The retaliatory movement organized by the Nepali Congress rebels was gaining momentum and intensification, and as a consequence of the deterioration in Nepal-India relations, India had imposed border trade sanctions. The then-home minister of Nepal stated that “Nepal cannot have peace so long as the rebels continue to assemble

²⁸*Survey of China Mainland Press*, April 7, 1965, 37. Also see the joint communiqué issued on the occasion of K. N. Bista's visit to China in early September 1965, *ibid.*, September 14, 1965, 39-40.

²⁹On October 19, 1966, notes were exchanged on the economic aid China provided under the 1956 and 1960 agreements to change the Indian Rs 160 million aid into 12 million pound sterling.

³⁰“Joint Communiqué Issued at the End of the Visit of King Mahendra to China, Peking, October 15, 1961,” in Bhasin, *Nepal's Relations with India and China*, 631.

and organize themselves in India. If the rebels receive no encouragement in India, Nepal will remain a friend of India at all times.”³¹ With Nepal’s neutral stand and Sino-Indian disputes, the suspension of the Nepali Congress’ revolutionary movement gave the Nepalese government a chance to revitalize its relations with China. China’s assurance that it “is firmly opposed to great-nation chauvinism and interfering with other countries’ internal affairs”³² and its appreciation of King Mahendra’s support indicates that it has wanted to keep Nepal at a distance from India. Chen Yi’s remarks that “. . . the Chinese government and people sincerely admire and energetically support the unremitting struggles waged by King Mahendra and His Majesty’s government in adhering to the policy of independence, peace, and neutrality, and in leading the Nepalese people to safeguard their state sovereignty and independence, and develop their national economy, as well as their great successes”³³ hinted at the growing tensions in India-Nepal relations. The phrases “independence and sovereignty” and “noninterference in internal affairs” would later become the catchwords in Chinese diplomacy toward Nepal. Chen Yi’s emphasis on “peaceful boundaries,” a highway of friendship, and a treaty of peace and friendship as the bond between the two countries was further evidence of the Chinese interest in Nepal. Chen further stated, “We have always respected each other and treated each other as equals: at no time has any of us imposed his will on the other or regarded himself as superior to the other.”

Improved China-Nepal relations thus attracted a great deal of Chinese economic assistance to Nepal, which was used as a counterweight against India’s indirect pressure for democratic reforms in Nepal. Nepal and China concluded an economic agreement in March 1965 in which China agreed to provide assistance for a number of projects discussed earlier. This encouraged the Chinese government to provide aid to other sectors which would not be opposed by India. Under these circumstances, and choosing a project which contained political goodwill, China offered assistance for the Kathmandu-Pokhara road construction.

China offered another aid package to Nepal during Prince Bi-

³¹*Asian Recorder* (New Delhi) 9, no. 7 (February 12-18, 1963): 5045.

³²Bhasin, *Documents on Nepal's Relations with India and China*, 216.

³³*Ibid.*

rendra's visit to China in July 1966 which amounted to Rs 50 million for building a 10,000 KW hydropower project on the Sunkosi river. This aid package was announced at a time when the geographic power balance was gradually shifting; India was softening its attitude toward Nepal in view of Nepal's growing friendship with China. The Indo-Pakistan war of 1965, the Chinese ultimatum to India, and its concentration of troops at the Sikkim border had caused anxiety for the Nepalese government. An exchange of visits by King Mahendra and the Nepal prime minister to India initiated an atmosphere of mutual understanding, and the granting of Rs 150 million worth of aid during Prince Birendra's visit to China was motivated by the Chinese desire to maintain Sino-Nepal relations as well as its wish for Nepal to maintain its status quo relations with India.

The Agreement on Economic Cooperation between Nepal and China putting the offer into effect was signed in Kathmandu in December 1966. In Article II of the agreement, it was stated that free grants of aid without any conditions attached would be provided in "installments in the form of complete sets of equipment according to the capability of the government of the People's Republic of China and the requirements of His Majesty's Government of Nepal."³⁴ The commodities were also to be sent in installments in accordance with the amount of local expenses required in the progress of items under aid from China, and would be sold by the Nepalese side, who would arrange payment for the above-mentioned local expenses.

To attain its objective of exercising influence in Nepal, China applied both persuasion and threats in 1967 at the height of the Cultural Revolution, when its relations with Nepal became strained. One of the factors was King Mahendra's recalculation of the costs and benefits of developing too close a relationship with China and its possible repercussions on Nepal-India relations. China's military superiority was proven by the 1962 Sino-Indian war, and its dissatisfaction with Nepal's decision to cancel a few aid projects under Indian pressure, coupled with unfriendly and undiplomatic gestures, worried King Mahendra, who again began to bend his foreign policy toward India, which on its part had softened its stand on the king's panchayat system.

The existing discord between China and India; China's percep-

³⁴See Agreement on Economic Cooperation (Kathmandu, December 21, 1966).

tion of threat from a possible alliance³⁵ among India, the United States, and Great Britain in early 1963; and Nepal's tilt toward India in the mid-1960s led China to recast its Nepal policy. It was in this context that China objected to the British-American arms aid program in Nepal in the mid-1960s. Nepal's growing courtship with India led China to become hostile in early 1967. The completion of the Kathmandu-Kodari road coincided with the Cultural Revolution in China, as the link to Tibet would be vital for exporting revolutionary ideas to Nepal. Chinese objectives were further exposed when Beijing radio announced false propaganda stating that the communist influence was growing in Nepal. The *Peking Review* of February 24, 1967 published a picture in which a Nepalese worker acclaimed Mao Zedong as "the red sun in the hearts of the world's people." This created, according to a published account, "considerable consternation in official and nonofficial circles in Kathmandu."³⁶

The most undiplomatic and surprising move by the Chinese government was the holding of demonstrations at Kathmandu airport by Chinese people (embassy staff and technicians and experts working in various aid-funded projects), which was led by the Chinese ambassador to Nepal. During the demonstrations, slogans like "Indian Reactionaries," "U.S. Imperialists," and "Soviet Revisionists" were shouted. Further undiplomatic behavior took place on June 25, 1967, when a large number of Chinese working in Nepal gathered at the airport to receive Chinese diplomats deported from India. The Chinese in Nepal also became politically active during this period, distributing "red books" and propaganda-oriented literature to people in Nepal, encouraging young students to embrace the communist ideology. Nepal's panchayat system, which had developed into a one-party system, also provided a chance for people with a communist background to infiltrate. Tensions reached a boiling point on July 1, 1967, the occasion of King Mahendra's 48th birthday. That day, the Chinese organized a photo exhibition in Kathmandu in which they placed a large portrait

³⁵ According to a statement by the spokesman of the PRC Foreign Ministry, India signed an "Air Defense Agreement" with the United States and United Kingdom on July 22, 1963. See *Peking Review*, August 23, 1963, 7. According to the *People's Daily* of July 28, 1963, "Under the agreement, the American and British forces would join with the Indian air force in periodic joint exercises in India" which would be directed not only against China but also against Pakistan. Reproduced in R. K. Jain, ed., *China and South Asia, 1947-1980*, vol. 2 (New Delhi: Radiant, 1981), 290-92.

³⁶ *The Motherland* (Kathmandu), March 30, 1967.

of Mao higher on a stall than the portrait of King Mahendra. Some student activists demanded the withdrawal of the Mao portrait and demanded that Nepal's national flag be placed higher than the flag of China. On refusal by the Chinese staff, the Nepalese students became angered, broke the windows of a Chinese car inside the stall, and removed the portrait. The police eventually intervened and the mobs were dispersed, but undeterred, the students started a demonstration, shouting anti-Chinese slogans, marching to a local bookshop specializing in Chinese propaganda-oriented literature, and destroying its books and magazines.

The events that followed afterwards constituted a sort of cold war between China and Nepal. On July 5, 1967, the Chinese ambassador lodged a serious protest with the government of Nepal, stating that the "incident was a great insult to the Chinese people."³⁷ The ambassador stressed that 'socialist China is not to be trifled with. In conducting anti-China activities, imperialists, revisionists, and reactionaries will break their skulls.'³⁸ On July 9, 1967, the New China News Agency (Xinhua) issued a statement regretting the July 1 incident. However, it alleged that the "U.S. imperialists, Soviet revisionists, and Indian reactionaries have colluded with reactionary forces in Nepal in an attempt to disrupt the friendly relations between the peoples of Nepal and China."³⁹

The reaction of the Nepalese government to this undiplomatic and harmful propaganda was rather cool. A Nepal Foreign Ministry spokesman said that the government had sent a strong protest to China against the Chinese embassy's publication of "false and baseless reports."⁴⁰ In addition, the foreign minister of Nepal issued a statement at the National Panchayat on July 3, 1967 playing down the incident, saying that 'some slogans were shouted and there was excitement, but thanks to the vigilance of HMG, it was possible to control the situation.'⁴¹ It was the deliberate thinking of the Nepalese government that it could cool down China by behaving normally, and it continued reiterating that the two countries had very good and friendly relations,

³⁷Earlier on July 2, 1967, the Chinese ambassador met with Nepal's foreign secretary, as the prime minister and deputy prime minister had refused to see him, and lodged a strong protest. See *The Nepal Times*, July 2, 1967; and *Samaya*, July 3, 1967.

³⁸*The Commoner* (Kathmandu), July 11, 1967.

³⁹Xinhua, July 9, 1967.

⁴⁰*Gorkhapatra* (Kathmandu), July 11, 1967.

⁴¹*Ibid.*, July 14, 1967.

while countering the Chinese by distributing badges of the king and the queen, playing Nepal's national anthem on the radio, broadcasting the king's speeches and quotations and displaying them in several places in Kathmandu and other cities, etc.

Nepal's placating attitudes and its vigorous support of China's entry into the United Nations in 1967-68 eventually softened relations, although China did attempt to exploit the situation for certain gains. This is obvious from the list of demands presented by the Chinese charge d'affaires in Kathmandu in November 1967 to the Nepal foreign minister wherein China requested the same facilities in Nepal as had been given to India. Other demands included: (1) facilities for the recruitment of Gorkha, (2) the right to post Chinese technicians at the Nepal-India border, (3) facilities for the movement of Chinese citizens in Nepal without any restrictions, and (4) unrestricted circulation of Chinese periodicals.⁴² China's readjustments in its policies toward Nepal led to the conclusion of a China-Nepal trade agreement on May 28, 1968. Furthermore, China also invited Nepal's deputy prime minister to China in May 1968 and expressed its continued interest in providing 'continued and increased assistance, both material and technical, in the economic development of Nepal.'⁴³

China's relations with Nepal regained their pre-1967 status after Nepal prime minister K. N. Bista's statement of June 1969 demanding the withdrawal of symbols of Indian influence, which was welcomed by Xinhua.⁴⁴ In May 1969, Bista visited Beijing to sign the Protocol to the China-Nepal Trade Agreement, and in his June statement, he also announced that India's vision of a special relationship between India and Nepal "was out of step with modern developments in our relations." The *Peking Review* reported the speech as "Nepalese condemnation of Indian expansionist policy" and praised Bista for his statement.⁴⁵ A few days later, Chinese ambassador Tsao Chih [Cao Zhi] made it clear that the Chinese people and government "highly commended the desire of Nepal not to succumb to the high-handedness of the big powers."⁴⁶

⁴²See *The Hindu* (weekly, Kathmandu) November 29, 1967, as quoted by Ramakant, *Nepal-China and India* (New Delhi: Abhinabh Publications, 1976), 223.

⁴³*Peking Review*, June 7, 1968, 23.

⁴⁴*1970 Year Book* (Hong Kong: Far Eastern Economic Review, 1970), 210.

⁴⁵*Peking Review*, July 11, 1969, 29.

⁴⁶In the course of his speech, Tsao Chih also reiterated that "the Chinese people and government will always extend support to the people and government of Nepal in

China continued to extend moral and economic support throughout the 1970s as Nepal's relations with India were plagued by a number of issues, particularly the trade and transit dispute from October 1970 to July 1971, India's decision to annex Sikkim in the summer of 1974, and the Janata Party's pressure to release leaders of the Nepali Congress in the late 1970s. China consistently attempted to win over Nepal by criticizing India and supporting Nepal through its aid program, emphasizing how Nepal had defended its national independence and dignity and praising Nepal for following a policy of independence, peace, neutrality, and nonalignment. Nepal's support for China on the Kampuchea and Afghanistan issues was also taken by the Chinese as an important gesture. China also pledged to extend support to Nepal and preserve its national independence and sovereignty in its struggle against foreign interference.

In pursuance of its foreign policy objectives in Nepal, China continued to extend aid on a frequent and regular basis until the 1980s. As Nepal's relations with India deteriorated sharply from the late 1960s until the mid-1970s, China signed seven protocols, four exchanged letters, and an agreement. Most of the aid projects signed during this period fell into the category of roads (including repairs and maintenance), water, irrigation and dams, and industries and minerals. Of the various projects, the Kathmandu-Bhaktapur road; the trolley bus; the long-distance transmission line from the Sunkosi power station to Chautara and Barabise; the dam on the Seti river; the Pokhara-Surkhet highway; the Pokhara water conservation and irrigation project; and the Bhrikuti paper mill were the important ones. However, not all the aid projects for which protocols or changed letters were signed were executed. In comparison to Indian aid projects, the number of projects covered under Chinese aid were fewer and the amount of aid commitment less, but most of these aid projects were signed at a time when Nepal-India relations were disturbed.

China's political objectives in Nepal have been de-emphasized since the beginning of the 1980s; its changing internal political situation, its policy of economic modernization, and the normalization of relations first with the United States and later with India have contributed to the change. Beginning in the 1980s, China reexamined its

their just struggle to defend their national independence, sovereignty, and territorial integrity." *The Rising Nepal* (Kathmandu), October 6, 1972.

South Asia policy and began to urge South Asian countries to forge regional unity and cooperate for peace and development, hinting to India's neighbors that they should try to resolve their differences by themselves. Chinese foreign policy statements on Nepal simply reiterated the Pancha Sila and Nepal's policy of independence and neutrality without referring directly or indirectly to India or the two superpowers. The shift in policy was also reflected in the decreasing trend in Chinese aid commitments to Nepal (about Rs 55 million per year 1986-89, down from Rs 131 million during 1975-85). The major aid projects signed in the 1980s⁴⁷ included a paper mill (the Bhrikuti paper mill in the Nawal Parasi district); a sugar mill in the same district; construction of the Pokhara-Baglung sector of the Pokhara-Mustang road; and an international conference hall in Kathmandu (with a grant assistance of US\$13.5 million). Other projects were related mainly to repairs and maintenance of the Kathmandu-Kodari and Kathmandu-Pokhara roads, and an industrial plant extension for Nepal's leather industry. Another change in tune with China's domestic economic policy during this time was its increasing participation in global tender in Nepal.⁴⁸

The de-emphasis of China's political interests in Nepal was also obvious during the Nepal-India dispute over trade and transit in 1989. China abstained from making any noticeable comment on the dispute, even though Chinese Premier Li Peng visited Nepal in November 1989, the time when the trade dispute had reached a crisis level. China placed high diplomatic importance on this visit as Li was accompanied by Foreign Minister Qian Qichen and Minister of Foreign Economic Relations and Trade Zheng Tuobin. During the visit, Li promised that China "would offer moral and other support in the difficult situation Nepal was facing." Li also expressed sympathy with Nepal's situation

⁴⁷ At the second Nepal-China Intergovernmental Committee meeting in Kathmandu in March 1986, China agreed to complete the Bhrikuti paper mill, start construction of the Lumbini sugar mill, and complete surveys and designs for the Pokhara-Baglung highway. In 1994, China pledged US\$8.67 million to Nepal for the maintenance of the Pokhara-Baglung mountain highway and improvements to the Kathmandu-Bhaktapur trolley bus service. China also agreed to send experts to repair the Hetauda textile mill, extend the trolley bus service, undertake repairs of the Kathmandu-Barabise section of the Kathmandu-Kodari highway, and increase imports from Nepal. See *The Rising Nepal*, March 20, 1986.

⁴⁸ China signed work contracts for the Sunsari-Morang irrigation project, the Nepal's Employee Provident Fund building in Kathmandu, the Bijayapur Begnas subproject, the Marsyangdi hydropower project, the Naubise-Malekhu road rehabilitation, the fifth power project, seventeen bridges on Kohlapur-Surkhet road, Pokhara's city hall, and the Social Service National Coordination Council headquarters.

and stated that India's blockade was "unjustified," advising it should "be more magnanimous and more generous."⁴⁹ An aid agreement was signed for Rs 380 million (50 million *yuan*) during Li's visit, but Li refrained from making any commitment to help Nepal in the Nepal-Indian crisis nor undertook any substantial measures to ease Nepal's economic problems.

Chinese aid diplomacy was not indifferent to Nepal's controversial panchayat system. The Chinese understood that India and Western powers were not very supportive of the system, much to the chagrin of both King Mahendra and his son Birendra. Before India officially acknowledged every country's right to choose its own system in the mid-1960s, China assured King Mahendra through indirect and diplomatic means of its support for his system. In the years the system faced resistance and opposition from the Nepali Congress and other political parties, China's tacit support was able to counter them, with its oft-repeated statement praising the kings and their independent, neutral policies as an indirect acknowledgment of its support. In 1976, King Birendra stated that both Nepal and China "recognize that each country has the right to choose its own destiny,"⁵⁰ and Nepal's official daily newspaper noted in 1967 that the Chinese had not directly or indirectly created any difficulties in Nepal's panchayat system.⁵¹ China's tacit support was clarified in the pro-Chinese newspaper *Matribhumi*, which praised China for aiding Nepal's economic development and "extending full and resolute support to Nepal in defending its independence and sovereignty and resisting external interference." The paper further observed: "Any attempt to ridicule and underrate the importance of [the] support will prove futile in the same way as every attempt to cover up the foreign interference to which we have been frequently subjected, and the obstacles created by foreigners in developing our independent national economy, as well as the political propaganda against the political system adopted by Nepal, have failed."⁵²

⁴⁹ At a press conference in Kathmandu, Li Peng said that China's supply of military equipment to other countries was for defensive purposes only, and as such, it was "fully justified and not directed against any other country." Li also announced grant assistance of 50 million *yuan* (NRs 382.5 million) to Nepal. See *The Rising Nepal*, November 20 and 22, 1989.

⁵⁰ *The Rising Nepal*, June 3, 1976.

⁵¹ *Gorkhapatra*, September 8, 1967.

⁵² *Matribhumi* (Vernacular, weekly) (Kathmandu), April 11, 1972, as translated in *Nepal Press Digest* (Kathmandu), April 17, 1972.

Finally, China repeated its policy of noninterference in other countries' internal affairs by making hardly any reference to the demise of the panchayat system in the spring of 1990.

Aid and China's Economic Interests

Chinese aid has pursued two sets of economic objectives, the first linking aid with maintaining traditional trade ties with Tibet, especially in the 1950s and 1960s, and introducing its modern goods into the Nepalese market in its global endeavor to stimulate trade with aid and facilitate national development—an objective that has dominated Chinese economic policy since the 1970s. The second set of objectives has been to help Nepal lessen its economic dependence on India and at the same time fulfill China's political objective of countering Indian influence in Nepal as well as Western "imperialism" and Soviet "social imperialism." It should be noted that the first set of objectives does not imply that China's trade interests in Tibet have not been conducive for Nepal's trade, although the possibility for Nepal expanding its trade to mainland China through Tibet has been somewhat limited because the distance between Nepal's border and the nearest Chinese rail head is some 800 kilometers.

Trade between the Tibet region of China and Nepal has often been a subject for discussion between the two countries. Traditional trade ties were formalized in the 1956 China-Nepal agreement to maintain friendly relations and trade, and became effective from January 17, 1958. Interestingly, this agreement (specifically Paragraph V, subparagraph 1) imposed passport and visa regulations on nationals from either country for traveling across the border, but waived these regulations for "inhabitants of the border districts of the two countries who cross the border to carry on petty trade, to visit friends or relatives, or for seasonal changes of residence." The China-Nepal Peace and Friendship Treaty of April 28, 1960 and the China-Nepal Trade Agreement of March 9, 1964 further strengthened the economic and cultural relations between the two countries and "the Tibet region of China" on the basis of most-favored-nation (MFN) treatment. To pursue trade expansion as well as address some of the security concerns that could result from the flow of people and goods, China and Nepal signed an Agreement on Trade, Intercourse and Related Questions between the Tibet Autonomous Region of China and Nepal on May 2, 1966. Article III of this agreement stated that the two countries should "make full use on a reciprocal basis of the Lhasa-Kodari and Kathmandu-Kodari highways to develop friendly intercourse between

Table 4
Nepal's Trade with the Tibet Region of China

Unit: Million NRs

Year	1 Total Exports	2 Total Imports	3 Exports to Tibet	4 Imports from Tibet	% of 3 to 1	% of 4 to 1
1956-57	95.47	169.89	2.04	1.97	2.14	1.16
1957-58	73.31	158.36	2.82	0.30	3.84	0.19
1958-59	117.93	223.99	12.24	1.35	1.05	0.60
1959-60	131.74	287.53	0.04	2.83	0.03	0.98
1960-61	209.74	397.98	0.57	3.76	0.27	0.07
1961-62	265.22	444.41	1.33	4.75	0.50	1.07
1962-63	287.6	604.0	1.64	5.07	0.57	0.84
1963-64	291.1	604.5	6.21	7.11	2.13	1.17
1964-65	440.3	818.8	5.39	3.02	1.22	0.37
1965-66	375.2	782.2	4.60	7.30	1.22	0.93
1966-67	426.3	481.0	5.56	5.23	1.30	1.08
1967-68	393.0	499.0	2.64	5.92	0.67	1.18
1968-69	572.2	747.9	2.23	6.36	0.89	0.85
1969-70	489.5	864.6	4.08	2.73	0.83	0.31
1970-71	457	810	5.37	9.36	1.17	1.15

Sources: Nepal Rastra Bank, *Quarterly Economic Bulletin*, no. 1 (April 1974): 46, 57; and no. 4 (July 1976): 46, 57.

the two countries in respect of official and trade purposes.”⁵³ As an aside, it should be noted that the roads have had very little impact on trade expansion. Nepal's trade volume in the late 1950s and early 1960s (see table 4) was insignificant and fluctuated wildly. Similarly, the agreement also stated that the two countries “should promote traditional petty trade across the border between the Tibet Autonomous Region of China and Nepal.”⁵⁴ The China-Nepal Trade Agreement of May 19, 1964 was renewed on May 28, 1968.

As the volume of sea trade between mainland China and Nepal

⁵³“Agreement on Trade, Intercourse and Related Questions Between the Tibet Autonomous Region of China and Nepal” (May 2, 1966), as reproduced in Bhasin, *Nepal's Relations with India and China*, 1351.

⁵⁴*Ibid.*, 1352 (Article V).

began to grow, the two countries signed a protocol to the trade agreement of May 28, 1968 exactly a year later, including provisions for dealing with the cost of goods in transit for export to the other country and methods of payment. These agreements were revised and renewed in October 1971 and May 1974. The Agreement on Trade, Intercourse and Related Questions of May 2, 1966 was renewed again in April 1976 for another ten years. In 1987, Nepal and Tibet "agreed to set up a joint trade team for expansion of the bilateral trade and development of entrepôt trade while continuing bilateral border trade on a barter basis."⁵⁵

There is no doubt that Nepal has also been interested in using China as a surrogate for India. The mutuality is clearly evident in the May 1964 trade agreement, which stipulated that trade should be conducted on the basis of "equilibrium between the total values of imports and exports," and that the two countries would have periodic consultations for ensuring supplies of available goods, with "as favorable treatment as possible in respect of issuance of import and export licenses."⁵⁶

China's interest in facilitating supplies of basic commodities for its Tibet region can be examined through trade figures. Exports from Tibet to Nepal increased from Rs 1.97 million in 1957 to Rs 4.75 million in 1962.⁵⁷ In contrast, Nepal's exports to Tibet declined from Rs 2.04 million to Rs 1.33 million during the same period.⁵⁸ Nepal's trade with Tibet as a proportion of its total trade was insignificant: its exports to Tibet was 2.14 percent of its total exports in 1956-57 and increased to 3.84 percent in 1957-58. This increase was due to an absolute increase rather than a decline in total export trade that year (see table 4). Nepal's imports from Tibet averaged 1.16 percent of its total imports in 1956-57, with a continuous decreasing trend. However, Nepal remains a reliable supplier of basic commodities for Tibet.⁵⁹

⁵⁵*The Statesman* (New Delhi) as reproduced in *Asian Recorder* 33, no. 32 (January 8-14, 1987): 19263.

⁵⁶See Article V of the "Trade Agreement" signed in Kathmandu, May 19, 1964, reproduced in Bhasin, *Nepal's Relations with India and China*, 1348.

⁵⁷The export commodities consisted of salt, sheep, goats, horses, raw wool, furs, skin, blankets, yaks, and herbs.

⁵⁸Nepal's exports to Tibet consisted of hides, skins, indigenous herbs and drugs, manufactured articles such as cigarettes, matches, leather shoes, and sugar, and agricultural products such as rice, tea, wheat, and chilies.

⁵⁹As late as May 1989, a trade delegation from Sigatse visited Nepal and showed its interest in importing rice, crushed rice, flour, ghee, fruits, and unrefined sugar, and

Nepal-China trade has been conducted mainly by sea through Calcutta; hence some from the Nepalese press have questioned the rationale of the Kathmandu-Kodari highway, arguing that "accounts of the amounts offered and provided to Nepal by China should be prepared and the achievements made from such assistance should be properly evaluated. The Nepalese people should be told how much Chinese aid they receive in cash, and how much in kind—only then can a comparison between Chinese aid and the aid provided to Nepal by India, America, and other countries be made."⁶⁰ But it has been frankly admitted by one of the secretaries of the Nepalese government that "strictly speaking from the economic point of view, trade relations on any substantial scale will not be feasible for years to come."⁶¹

Due to the existing economic conditions in Tibet and the Indian decision to ban strategic goods trade with Tibet, the potential value to Beijing of the Kathmandu-Lhasa road was greatly increased, as India's trade blockade was not extended to Nepal as it had been to Sikkim and Bhutan.⁶² China was also facing geographic and economic problems in maintaining its forces in Tibet, which prompted it to expedite the process of the road proposal. Leo Rose observes that "the roads into Tibet from the east [Sichuan] and northeast [Qinghai] traverse extremely difficult terrain, are expensive to maintain particularly during the rigorous winter season, and were subject to sabotage and blockade by Khampa rebels. The road from the northwest [Xinjiang] was easier and safer, but it crossed the Aksai chin plateau which was then in bitter dispute between India and China."⁶³ Before the project was started, Nepal also imposed a ban on certain items imported from India in order to protect deflation of trade. It was a double-edged policy, as it would guarantee the imports of basic commodities from India and please Indian leaders who were suspicious that the road would be used to smuggle essential goods needed for the occupation army in Tibet.⁶⁴ India also leveled the allegation that cement, steel, and kerosene were being smuggled into Tibet through Caravan routes.⁶⁵

industrial goods from Nepal in "ample quantities." See *The Rising Nepal*, May 5, 1989.

⁶⁰*The Swantrata Samachar*, May 27, 1968.

⁶¹Y. P. Pant, "Nepal's Recent Trade Policy," *Asian Survey* 4, no. 7 (July 1964): 951.

⁶²Rose, *Nepal Strategy for Survival*, 240.

⁶³*Ibid.*

⁶⁴See *The Times of India* reproduced in *Asian Recorder* 10, no. 49 (December 2-8, 1969): 6182.

⁶⁵*Ibid.*

As mentioned above, China's economic interest in supplying aid to Nepal has also involved deepening their trade ties in the long term. The available trade statistics indicate that China's exports increased from US\$10 million in 1975 to US\$35 million in 1991, whereas its imports from Nepal increased from US\$2 million in 1975 to US\$5 million in 1989 before declining to slightly over US\$1 million in 1991.⁶⁶ China's trade surplus with Nepal has increased considerably, from US\$8 million in 1975 to almost US\$34 million in 1991. Nepal's composition of exports has not altered in the past three decades from agricultural commodities such as goat skins, hides, raw jute, tobacco, etc., but China's exports have concentrated more heavily on textiles and heavy manufactured goods, i.e., spare parts, equipment, machinery, construction materials, etc. In addition, since the industries established with the technical and financial aid from China are now in constant need of repairs, maintenance, and expansion, Nepal has to rely on China for supplies and technical help.

In order to reduce Nepal's dependence on India and at the same time strengthen its economic links, China has helped Nepal establish various import-substituting types of industries in which it has developed expertise and technical know-how. For example, in the field of textiles, China had mass-production factories built back in the 1920s. Because of its large domestic needs, China has also developed a variety of other consumer goods industries, such as sugar, paper, and leather. These are the same industries which China has helped to establish in a number of developing countries: for example, up to 1989, it had helped establish sugar industries in eleven countries, including Nepal; paper industries in five countries; and leather industries in four countries.⁶⁷

With the launching of Nepal's third five-year plan, heavy emphasis was laid on a higher growth rate through speedy development of the industrial and agricultural sectors, as well as infrastructural development. Although China expressed its interest in helping Nepal attain industrial progress in 1960-61, it has only assisted Nepal in promoting raw material processing industries since the mid-1960s. The various import-substituting and domestic resource-based industries are presented in table 5.

⁶⁶*United Nations Statistical Year Book for Asia and the Pacific 1994* (Bangkok: ESCAP, 1995), 318-19.

⁶⁷See Bartke, *The Economic Aid*, 26-28.

Table 5
Nepal's Industries Established with Chinese Aid^a

Name of the Industry	Date Started	Date Completed	Estimated Cost (Rs million)
1. Bansbari Leather and Shoe Factory (30,000 pairs of shoes and 20,000 pieces of hides per year)	1963	1965	23
2. Harishiddi Brick and Tile Factory (20 million bricks and 0.5 million tiles per year)	1965	1968	14
3. Hetauda Cotton Textile Mills (15,000 spindles and 10 million meters per year)	1973	1978	160
4. Bhaktapur Brick and Tile Factory (10 million bricks per year)	1974	1979	30
5. Bhrikuti Paper Mill (10 Mt/day production)	1983	1987	350
6. Lumbini Sugar Factory ^b (1,000 Mt/day, alcohol 16,000 liters/day)	1987	1990	100
7. Leather Gloves and Apron Manufacturing Unit (200 pairs of gloves and 100 aprons per day)	1984	1986	0.65

Notes:

^aChina had also agreed to build a cement plant in Hetauda with a capacity of 50,000 tons of cement per year under the protocol of September 5, 1961, but the project was later dropped on technical grounds.

^bThis industry has one of the biggest plants in Nepal. The annual output is estimated to be 10,000 metric tons of sugar and 12,000 liters of industrial and medical spirits. A thermo power-generating station with an installed capacity of 3,000 KW was to be set up in the factory to produce electricity seasonally. See Wolfgang Bartke, *The Economic Aid of the PR China to Developing and Socialist Countries* (München: K. G. Saur, 1989), 98.

China has provided technical and financial assistance for a number of industries (see table 5) that have supported and diversified Nepal's economy. In addition to their economic significance, these industries are also sizable political gains for China. The shoe and leather factories have contributed significantly in lessening Nepal's dependence on India. The brick and tile factories have mainly served the urban rich, but their political value has been extremely high as bricks have become popular in building homes. The paper and sugar mills also have a similarly high economic value for Nepal; as these two items are in short supply, they have also been the worst-hit items whenever irritants in Nepal-India relations have led to restrictions on supplies by India.

China's usefulness for Nepal as a reliable economic counterweight to India has been very limited. Although the volume of Nepal's trade with China has risen over the years, it has not been a major trading partner. Moreover, with its improvements in relations with India and Western countries and its preoccupation with its own economic reforms in recent years, it is doubtful whether China will be a factor in modifying Nepal's economic relations with India, either in trade or transit.⁶⁸ Nevertheless, trade prospects between the two sides are still developing. King Birendra sent his minister for water resources and minister of finance to China in the spring of 1989, during which time China expressed its willingness to help Nepal in developing water resources and agreed to supply petroleum on a "trade basis."⁶⁹ The two countries have also expressed their desire to develop balanced bilateral trade both overland and overseas.

Achievements of Chinese Aid

Evaluating the success of aid in achieving foreign policy objectives is a complex task from the viewpoint of both the donor and the recipient. From the donor's viewpoint, foreign aid is one of several diplomatic means of foreign policy. Another constraint is that donors do not officially or formally spell out the noneconomic objectives that aid may set out to accomplish; therefore, it is rather difficult to structure foreign policy objectives for aid in order of priorities. For example, a road project may have strategic and economic objectives for donors, but ascertaining which one is given higher priority is sometimes difficult. From the recipient's viewpoint, aid is one source of finance, and poor absorptive capacity and other internal constraints may hinder the realization of donors' objectives, not to mention the possibility of aid fungibility. Another common problem in measuring the success or failures of aid from a particular donor is that usually there is more than one donor offering aid to a recipient and sometimes the same project/program may receive aid from several donors.

⁶⁸In the wake of the recent Nepal-India trade dispute, Nepal surveyed the feasibility of opening up five borders, including the Tinkar pass in Dhaulagiri and the Larke pass in Gorkha, and widening the Kathmandu-Kodari road. However, no definite steps could be taken because of these areas' geographic and economic limitations.

⁶⁹*The Rising Nepal*, May 12, 1989.

Keeping these constraints in view, an attempt has been made here to examine how far (even in broad and aggregate terms) China's aid has succeeded in achieving its foreign policy objectives. One advantage in examining China's aid is that trade between Nepal and China has been minimal: there has been hardly any foreign private investment from China in Nepal, and no trade in arms between the two countries. Therefore, aid has been the only major resource used by China in complementing its diplomacy.

The importance of China's aid to Nepal in the strategic sector has been reduced to a great extent by the existing conditions in Nepal as well as by developments in China's external relations. In terms of China's strategic interests in Nepal, the threat of India via Nepal was prevalent only in the 1950s, and even then it was not a major factor. Aid that has been used in the strategic sector has very much been guided by China's desire to assert its position in Nepal. Transportation projects such as the Kathmandu-Kodari road or the Prithivi highway have definitely given a message to countries like India that China's strategic interests are vital in Nepal. However, the strategic element has diminished greatly, particularly since China's victory in its 1962 confrontation with India. Clearly, India's major objective has been repossessing the territory that China claims rather than creating troubles in Tibet via Nepal. Indeed, the Tribhuvan highway India built in the mid-1950s connecting Kathmandu to the Indian border was for defense rather than offense. Another significant factor has been that China's concerns about an informal alliance between India and the United States died down after the late 1960s. In addition, Pakistan became more important than Nepal in China's strategic calculations, as not only was there détente in Sino-U.S. relations, but a potential triangular axis was forming among Pakistan, the United States, and China to counter any possible threat from an Indo-Soviet alliance. Similarly, relations between Nepal and China have remained very friendly and cooperative, and China now believes that Nepal under no circumstances would allow its territory to be used for anti-Chinese activities. The determination and perseverance with which Nepal has quelled rebellious Khampa activities on the Nepal-Tibet border has been praised by China as a testimony of Nepal's attempt to safeguard "independence, sovereignty, and security."⁷⁰ The visit by China's

⁷⁰See "Tibetan Rebels in Nepal Disarmed," *Hsinhua Weekly*, September 2, 1974, no. 35:39.

President Jiang Zemin in November 1996 to India and the agreement made by the two countries to work on confidence-building measures in order to partially demilitarize their disputed borders could lead to a peaceful settlement of their outstanding problems.⁷¹ However, their individual quests for dominance in the region might lead them to continue using aid, albeit less vigorously, as a policy tool.

In terms of realizing political objectives, i.e., countering Indian and Western influences in Nepal, reducing Nepal's dependence on India, supporting Nepal in its efforts to safeguard independence and sovereignty, and widening the base of pro-Chinese communism, China's aid performance has been mixed. Relatively speaking, China's aid has been more successful in maintaining its vital interests than in countering Indian and Western influences in Nepal. As China's relations with the United States improved and as Soviet interest in Nepal became very tangential (if measured in terms of the volume of its aid) by the mid-1970s, China's objective of thwarting their influence in Nepal also became less significant. More importantly, the importance the United States attached to its relations with Nepal in the 1950s and 1960s has become less significant since the mid-1970s.

In terms of Nepal using the "China card," it can be said that China's aid has been successful to a certain extent in countering India's influence in Nepal. In fact, as Chinese leaders have continually emphasized, relations between Nepal and China have developed to their mutual advantage, and Nepal has positively looked toward China at times when it felt the need to counter India. According to Rose, between 1961 and 1972, King Mahendra's "primary objective . . . was to neutralize India as a factor in Nepal's political calculations."⁷² The King thus pursued a nonalignment policy that advocated a balanced relationship between Nepal's neighbors.

Where China has succeeded the most has been in supporting Nepal's independent status. This is evident from King Mahendra's policy statement that Nepal had "no intention of following any particular country or power bloc"; his own vision of revolutionary change in Nepal included social and political systems different from

⁷¹China and India have also agreed not to attack each another, limit or reduce troops "in the zone to be worked out on both sides of the 'line of actual control,' and ban combat aircraft within ten kilometers of the line of actual control except with prior notice." See *The Economist*, December 7, 1996, 34.

⁷²Leo E. Rose, "King Mahendra's China Policy," in *Nepal: An Assertive Monarchy*, ed. S. D. Muni (New Delhi: Chetana Publications, 1977), 229.

China's. Nevertheless, China's policy in Nepal paid good dividends because the kings of Nepal assured China that the Nepalese "did not believe in the theory of 'two Chinas'," a sentiment which was very much appreciated by Chinese leaders. Another result of the strengthened ties with Nepal and the increased flow of aid has been the positive impact on the communist movement in Nepal. Communists are a major political force in Nepal, and even during the communist rule of the former Soviet Union, about 90 percent of the communists in Nepal were pro-Chinese. The development projects financed by Chinese aid have also become a conduit for distributing propaganda pamphlets and influencing ordinary Nepalese workers.⁷³

China's aid has also succeeded to a great extent in strengthening economic ties between Tibet and Nepal and helping Nepal become economically self-sufficient. The trade between Tibet and Nepal has gained a clear advantage for Tibet, as Nepal mainly exports agricultural commodities for manufactured goods. China's long-term economic interests are also materializing, as Nepal's trade deficit with China has widened in recent years. China has also succeeded in reducing Nepal's economic dependence on India. The continuous decline in Nepal's total trade with India from 90 percent in the 1960s to about 40 percent in the 1980s cannot be attributed to the flow of aid from China. It is due to the fact that a large percentage of Chinese aid was in the form of commodity aid, and it is generally believed that more aid would lead to more trade with the donor country. However, the technical and financial assistance in establishing certain import-substituting industries in Nepal has helped reduce Nepal's huge trade deficit with India. The economic contributions of state-owned industries have also reduced Nepal's import needs in shoes and leather products, textiles, paper, sugar, etc.

The above discussion should not suggest that China's aid has only fulfilled its foreign policy interests. Nepal's geographic location between the two ambitious regional powers of Asia, India and China, and the vast political and social differences that have created a gulf

⁷³ At the height of the Cultural Revolution, China also used aid as propaganda. For example, in highlighting the importance of the Kathmandu-Kodari road, it was claimed that "many Nepalese people said it was Chairman Mao who had sent experts to help Nepal build the highway." According to the *Peking Review* of June 21, 1967, the Nepalese people said that "the great leader Chairman Mao is the red sun which shines most brightly in the hearts of the people of the world and we wish Chairman Mao a long life." See *Gorkhapatra*, May 3, 1967; and *The Nepal Times*, June 16, 1967.

between them have posed a problem for balancing its relations with both. It has therefore rather cautiously exploited their politico-social and economic differences, trying to gain maximum diplomatic leverage from the simmering discontent. Nepal has also played its diplomatic cards to appease China, and thus obtain more assistance, by strongly rejecting the "two-China" theory and supporting China's entry to the UN. China was definitely a major factor in the continuation of Nepal's absolute monarchy and the panchayat regime for almost thirty years.

Conclusion

As a donor, China has been no less baffling than other developing countries, i.e., India. When China first initiated its aid program in 1956, it was as poor as many of its recipients, and it was a major recipient of Soviet aid. Undoubtedly, China has been one of Nepal's major donors, although unlike India, it has not supplied aid on a regular basis. After its first aid agreement of October 1956, China provided another US\$21 million of aid in 1960 and intermittently thereafter. Over the years, total aid has fluctuated sharply, but in 1988 the total amount of aid was NRs 72 million, or about 3 percent of total foreign aid to Nepal.

China has offered aid in attempting to fulfill its fundamental foreign policy objectives. For example, aid to build the Kathmandu-Kodari and Prithivi highways were clear examples of strategic motives. In addition to the transportation sector, another major field of Chinese aid involvement has been in the industry sector, as China has assisted Nepal in building a number of consumer goods industries such as brick and tile, textiles, and shoe and leather factories which are owned by the Nepalese government. China's intentions have been two-pronged: reduce Nepal's economic dependence on India and the West, and create a market for Chinese technical and material exports. China has also provided aid for highly visible national needs such as Nepal's international convention hall, the national academy, and the national auditorium—all located in Kathmandu. Another way of countering the influence of India and the West has been offering aid with more favorable terms and conditions, and China has become an alternative source of aid whenever India has rejected a Nepal request for aid. In fact, as Chinese leaders have time and again emphasized, relations between Nepal and China have developed to both sides' mutual

advantage, and Nepal has certainly gained much from cultivating relations with China.

Post-Cold War international relations will have considerable impact on China's foreign policy toward Nepal, and consequently its aid policy. If, on the one hand, China is a potential global power and would like to play an even more assertive role in global politics, it must evolve as an Asian superpower. China may not intensify its relations with all South Asian countries as in the past, but it will probably continue to deepen its ties with countries like Pakistan and Nepal. Although China's own relations with India have improved and the India factor will no longer dominate its Nepal policy, its major interest will be to see that both Nepal and India fully accept China's position in Tibet and no anti-Chinese activities will be carried out from either country. For example, China's Foreign Minister Qian Qichen raised the Tibetan issue during a visit to Nepal in 1994, seeking the latter's cooperation in "controlling anti-Chinese activities by Tibetans living in Nepal."⁷⁴ China also promptly pledged US\$8.67 million for maintenance of road and trolley bus services. Similarly, another diplomatic dividend China would like to gain from its relations with Nepal is the latter's continuous support to the former's position with regard to Taiwan. This was clarified by K. N. Bista, Nepal's former prime minister, who after his visit to China observed: "The Chinese side is suspicious that some democratic countries like India and the USA, particularly some institutions and individuals of those countries, have been launching 'Operation Rim' from Nepal, aimed at sending back the Dalai Lama to Tibet and making Tibet fully independent through restoration of democracy and human rights by 1994."⁷⁵

The implications of the post-Cold War scenario for China's foreign policy are that Nepal will lose the foreign policy leverage of playing China off against India, and vice versa. China may continue giving

⁷⁴Far Eastern Economic Review, *Asia 1995 Year Book* (Hong Kong: 1995), 178. After the restoration of democracy in Nepal in the spring of 1990, China had "expressed its displeasure over the involvement of Taiwanese business groups in Nepal." It also had "complained about [Nepal's] policy of turning a blind eye toward local groups supporting the 'Free Tibet' movement." See Economic Intelligence Unit, *Country Profile: India, Nepal 1994-95* (London: Economic Intelligence Unit, 1995), 68.

⁷⁵*Arati* (Kathmandu), November 21, 1991. In the communiqué signed on the occasion of Nepal Prime Minister Sher Bahadur Deuba's visit to China in April 1996, Nepal "reaffirmed the firm stand of the Nepalese government that Tibet and Taiwan are inalienable parts of the People's Republic of China." See *The Kathmandu Post* (Kathmandu), April 23, 1996.

aid to Nepal; however, the amount and type of aid will not be contingent on India's policy toward Nepal. Nepal thus must try to effectively link China's aid with trade and investment to take advantage of the economic success China will achieve in the future. China and Nepal agreed to the establishment of a nongovernmental cooperation forum in April 1996; this could be very useful for promoting trade and other interests of mutual benefit.