

## **U.S. Aid and Foreign Policy towards Nepal during the Cold War: An Assessment**

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It is a well accepted theory that foreign aid is an instrument of foreign policy. No other donor government than the United States has so blatantly admitted that foreign aid is an instrument that serves its foreign policy interest. From President Truman to President Bill Clinton the same justifications are offered in defending the foreign aid policy. If U.S. President Truman initiated the "bold new" Point Four program in 1949 which marked the beginning of foreign aid essentially as an instrument of U.S. foreign policy, President Bill Clinton advocated U.S. aid for "sustainable development" in recipient countries. On the surface both these and all the aid programs of other U.S. Presidents preached altruism and humanitarian motives. But U.S. foreign aid has also had ulterior motives in that aid was deployed as an economic tool to achieve foreign policy objectives such as strategic, political and economic security.

In March 1947 the U.S. President Harry S. Truman sent a letter to King Tribhuvan in which he said that "the United States had recognized the independence of Nepal". The two countries signed an Agreement of Commerce and Friendship on 25 April 1947. The "agreement provided for the establishment of diplomatic and commercial relations, established a standard for treatment of American nationals, and established a rule of non-discrimination in future commercial relations."<sup>1</sup> It was also agreed "to further mutually advantageous commercial relations between their peoples, and to maintain the most-favored nation principle in its unconditional and unlimited forms as the basis of their commercial relations."<sup>2</sup>

The United States was the first country to offer aid to Nepal. The United States and Nepal signed the first aid agreement (General Agreement for Technical Cooperation) in 1951 at a time when Cold War hostility between

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<sup>1</sup> According to another exchange of notes signed the same day (April 25, 1947), "the U.S. Ambassador to India would be accredited also as Minister to Nepal, with personnel stationed in New Delhi and Calcutta being similarly accredited. Nepal would in turn establish a Legation under a Charge d'Affaires ad interim in Washington, and a consulate in New York." *Department of State Bulletin*, Washington D.C., March 30, 1947, p. 598.

<sup>2</sup> *Department of State Bulletin*, Washington D.C., May 11, 1947, p. 949.

the two super powers had reached its peak. The United States was also the major donor until the mid-1960s and has remained one of the major donors ever since. The U.S. used aid to serve its vital foreign policy objectives in Nepal. The main thrust of this paper is to study how aid was used as a foreign policy tool in Nepal and how successful it was in accomplishing this aim. The paper aims at (a) examining U.S. aid in the context of its broader foreign policy towards Nepal during the Cold War period (1951-1990), (b) evaluating the successes and failures of U.S. aid and (c) assessing the prospect of U.S. aid to Nepal for the post-Cold War period. The paper begins with an analysis of U.S. foreign policy objectives in Nepal during the Cold War, followed by a major section on U.S. aid to Nepal and its accomplishments. The final section offers conclusions and the direction U.S. aid is taking in Nepal in the post-Cold War period.

### **U.S. Foreign Policy Objectives**

During the Cold War, U.S. foreign policy objectives in Nepal remained essentially the same. What was changed from time to time was the aid priority depending on the situation prevailing in Nepal and the region. In the period immediately following the communist victory in China in 1949, the U.S. government's "fundamental objectives with respect to Nepal" were "the maintenance in power of a non-Communist government ... and the increasing participation of Nepal in world affairs"<sup>3</sup>. In the 1950s two other vital objectives were also added, namely U.S. support for a "representative government" and improvement of Nepal's economic and financial institutions. In the 1960s through the 1980s a number of important factors, both regional and global, that had a direct bearing on Nepal's geostrategic importance, determined U.S. foreign policy objectives in Nepal. These objectives can be grouped under four major aspects: (a) to support Nepal's independence and territorial integrity, i.e. to stave off any possible attack on Nepal; (b) to contain communism, i.e. to prevent the Chinese communists from penetrating into Nepal and through Nepal into the Indian sub-continent, as well as to counter Soviet penetration; (c) to help develop its economy and enable its political institutions to evolve in the long run into a stable, developing and possibly anti-Communist system; and (d) to influence Nepal to adopt a liberal, "pro-Western" and America-friendly foreign and economic policy.

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<sup>3</sup> Department of State, *The Foreign Relations of the United States, 1950*, Vol. 5, Washington D.C.: Government Printing Office, 1978, p.1484.

The objective of supporting Nepal to maintain its independence and territorial integrity was important to U.S. policy of global stability for two reasons: to prevent Nepal from becoming a war zone between its two neighbors and to maintain U.S. diplomatic presence in Nepal from where it could watch developments in China and India. The United States considered that countries like Nepal were evidently unable to withstand possible threats from outside. Mao Tze-tung's announcement in 1950 of China's intentions of taking over Tibet was perceived as a threat to the security of the whole of South Asia. In an article published in *The New York Times* under the heading, "Events Force U.S. to Widen Interests in Asia" with a sub-title "Nepal is Example of Area where We now Take Active Role" C.L. Sulzberger warned that if Mao's "maneuver is accomplished, Nepal will have to decide whether to recognize the new master of its neighbor"<sup>4</sup>. Nepal's demographic and territorial size, its weak military strength, its underdeveloped economy and vulnerable domestic situation and the volatile state of affairs in India and China made it easier for the United States to establish diplomatic links with Nepal. The objective of such a link was to prevent any communist aggression internally or externally. This is clear from the statement made by the U.S. Ambassador designate who "declared Nepal as being within the U.S. defense perimeter, requiring protection against communist imperialism"<sup>5</sup>.

The United States considered Nepal as a "buffer" between India and China. China's military strength in the early 1950s was considered greater than India's. After the Chinese invasion of Tibet it was beyond India's capacity to stall Chinese aggression against any of its neighboring countries. Hence, it was the objective of U.S. policy to prevent any threat against the southern Himalayas that could endanger India's security. It was this theory that prompted the United States to even consider limited military aid to Nepal in 1964 after India's defeat in the war with China in 1962 and "as an outgrowth of (the U.S.) defensive aid to India". In the later half of the 1960s, military assistance totalled \$ 1.8 million for the supply of equipment, all of it in the non-lethal category and limited to cargo and utility vehicles, communication equipment (tactical radios) and a military hospital. The military equipment the United States supplied was not available in India.<sup>6</sup>

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<sup>4</sup> *The New York Times*, February 5, 1950.

<sup>5</sup> Vinod Kumar, "Great Powers and Nepal", in: S.D. Muni (ed.), *Nepal: An Assertive Monarchy*, New Delhi: Chetana Publications, 1977, p. 152.

<sup>6</sup> "United States Interest in and Policies toward South Asia", Statement of James H. Noyes, Deputy Assistant Secretary of Defense for Near Eastern, African and South Asian Affairs, Department of Defense, House of Representatives, 93<sup>rd</sup> Congress, 1<sup>st</sup> Session, 12, 15, 20, and 27 March 1973, Washington D.C.: Government Printing Office, 1973, p. 89.

The U.S. priority in its foreign policy objectives of preventing a direct threat to Nepal's sovereignty and maintaining its independence from China was altered significantly in the late 1960s when Sino-U.S. relations began to thaw. Indeed, with the enunciation of the so-called "Nixon Doctrine", the U.S. believed that China had abandoned its revolutionary character in favour of responsible partnership in global politics. The impact on U.S. policy towards Nepal was evident. In the 1970s and 1980s the focus of U.S. policy towards Nepal shifted from supporting Nepal to maintain its independence and territorial integrity to counteracting any undue interference from North or South in Nepal's politics. As President Nixon formulated it in a general policy statement toward the smaller nations of South Asia: "The USA does not view the smaller nations of South Asia as part of any country's sphere of influence. These nations have a right to independence and non-alignment, as well as to remain neutral with respect to the problems of their larger neighbors. Moreover, each has its own character, aspiration and problems, and we seek relations with each other on the basis of mutual respect."<sup>7</sup>

The U.S. also believed that to guarantee the security and independence of geopolitically vulnerable countries like Nepal would involve support of their policy of neutrality and peace. The U.S. endorsed the Zone of Peace proposal of King Birendra initiated in the mid-1970s. Such an endorsement was necessitated in the American view by the invasion of Afghanistan in 1979 by the Soviet Union with the consequent complexity and new configuration of powers it created for the security of South Asia. Nepal strongly criticized the invasion, which was appreciated by the United States. President Reagan expressed the view that through the Zone of Peace concept the King was "seeking to ensure that (Nepal's) future will not be held back by using scarce resources for military purposes. We Americans support the objectives of Your Majesty's Zone of Peace proposal and we endorse it"<sup>8</sup>, thereby testifying that the United States had abandoned the policy of seeing Nepal through Indian eyes.

The second foreign policy objective of the United States in Nepal was to counteract growing Sino-Soviet influence in South Asia in general and Nepal in particular. After the Soviet Union also established diplomatic ties with Nepal in the late 1950s, the United States' objective of containing communist ideological influence received serious attention. Three years preceding the royal take-over, the United States stated that "in recent years both the USSR and Communist China have waged an intensive campaign to roll back the free world position in South Asia. No longer depending pri-

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<sup>7</sup> *The Rising Nepal* (Official English Daily, Kathmandu), June 5, 1973.

<sup>8</sup> *The Rising Nepal*, December 8, 1983.

marily on small or illegal Communist parties, the USSR is engaged in vigorous and open diplomatic propaganda, and economic campaigns to increase its influence in the area."<sup>9</sup>

One of the major dangers of growing communist ideological influence arose from internal subversion and uprisings by local communists. The Communist Party of Nepal was founded in 1949 and was believed to be establishing direct contacts with China. By early 1950s the communists were organizing anti-American demonstrations in Nepal, "complaining against American imperialist activities in Nepal"<sup>10</sup>. The communists also attacked King Mahendra for "importing four American-made wireless transmitters with the inscription 'Single Corps, U.S. Army' and accused the United States of seeking to establish a pro-western government in Nepal".<sup>11</sup> The United States saw the growing popularity of the Indian communists, evident in their gains in India's general elections in the early 1950s. The Secretary of State, Dean Acheson, told the Committee on Foreign Affairs that "communist gains in India had created a very dangerous situation making it necessary to compress into four years a technical assistance program that normally would require at least ten ... If the communists get control in India there would be a very dangerous situation in Asia for all of us."<sup>12</sup> The U.S. government increased food assistance by 7 million tons annually through the Mutual Security program. The United States believed that the growth of communism in India could have direct influence on the communist movement in Nepal.

The third objective of U.S. foreign policy in Nepal was to support any regime that is totally opposed to communism. However, in the early 1950s its policy was still vague and unstable. The 1950 policy document stated that the United States would not favor too rapid progress in democratization because this would only "provide conditions suitable for seditious activities by those who do not have Nepal's welfare at heart" and it "would most probably result in internal chaos, and might jeopardize the independence of the country".<sup>13</sup>

<sup>9</sup> Department of State, *Foreign Relations of the United States, 1955-57*, Vol. 8, Washington D.C.: Government Printing Office, 1987, p. 30.

<sup>10</sup> Rishikesh Shaha, *Modern Nepal*, Vol. II, New Delhi: Manohar, 1990, p. 312. The communists also burnt the effigies of Eisenhower and Dulles as "protest against American designs". *Ibid.*

<sup>11</sup> *Ibid.* King Mahendra's explanation was that these were "purchased from army surplus stores" but the Government of Nepal failed to show them to the U.S. Ambassador, George Allen, who, after getting news about the protest in Indian and Nepalese news media, wanted to see the wireless equipment and give explanations. See *ibid.*

<sup>12</sup> *The New York Times*, March 21, 1952.

<sup>13</sup> Department of State, *Foreign Relations of the United States, 1950*, Vol. 5, *op. cit.*, p.1485.

The U.S. also believed that monarchy in Nepal was a stable and strongly anti-communist institution. Since in 1949-50 the United States believed that the autocratic Rana regime could provide a "strong and stable government capable of successfully resisting the communist encroachment from Chinese controlled Tibet"<sup>14</sup>, they supported the royal regime in the post-Rana period, in essence from 1951 to 1990. And just as the U.S. government supported constitutional monarchy established after the overthrow of the Rana regime in 1951, the U.S. government appreciated Nepal's first democratically held elections and provided relatively large sums of aid. However, the United States did not criticize King Mahendra's dissolution of the Nepali Congress government in December 1960. There was hardly any press coverage in the United States about the dismissal of an elected government.

Throughout the panchayat periods (1961-1990), the United States believed that monarchy was the best shield against communism and also subscribed to the king's thesis that the country was not ready for multi-party democracy. The tension between India and China in the early 1960s was yet another factor for the U.S. support of the royal regime. As Nepal-India relations began to deteriorate following the royal take-over of the democratically elected government of the Nepali Congress in December 1960, the United States believed that lack of support for King Mahendra would only disturb the relations in favor of India. Christa Skerry et al. indicated that one of the considerations that weighed heavily in favor of the panchayat development was the "U.S. interest in supporting Nepal as a stable buffer state during a period of open Indian-Chinese conflict".<sup>15</sup>

One could also forward practical reasons why the United States adopted this sort of theory. The U.S. ambassador and high-level diplomatic officials met practically only with the palace and the panchayat officials. The ambassador maintained good relations with the king and the palace officials; U.S. diplomats thus relied more or less exclusively on information from the vested interest group as to why Nepal could not afford to have a multi-party democracy. Visiting U.S. dignitaries were well received by the king and the ministers and were given a one-sided opinion. For example, U.S. Congressman Mathew McHugh, who led a delegation of U.S. House of Representatives to Nepal in mid-January 1985, stated that they were "impressed with His Majesty King Birendra's determination to encourage people's participation through the Panchayat." They "very much appreciate(ed) this" and promised to "continue to work to provide assistance in helping Nepal develop

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

<sup>15</sup> Christa A Skerry, Kerry Moran, and Kay M. Calavan, *Four Decades of Development: The History of U.S. Assistance to Nepal (1951-1991)*, Kathmandu: USAID, 1991, p. 124.

economically".<sup>16</sup> Similarly, former U.S. President Jimmy Carter, who was the champion of human rights during his presidency, stated at a press conference in Nepal that the "human rights situation in Nepal is good and I hope it is maintained". He further stated that he was "impressed" by King Birendra's visit to different parts of the country, including some remote parts, maintaining that "this is a sign of enlightened leadership who is genuinely concerned about his people".<sup>17</sup>

The fourth objective of U.S. foreign policy in Nepal was to enhance Nepal's "Western orientation", to make it a dependable supporter of U.S. regional and global policies and to influence it to pursue free enterprise and pro-market economic policies. The objective of promoting free enterprise and market economy was not guided by immediate economic gains as American private foreign investment was almost non-existent and the flow of trade between the two countries was insignificant. As early as 1956 the United States stated in a policy document that "Nepal and Afghanistan are threatened by communist neighbors", therefore the "objective of development assistance and technical cooperation in the former" and a technical cooperation program in the latter was "destined to vitalize their economies and expand their western orientation".<sup>18</sup> However, it was in the U.S. global interest to see Nepal continue implementing liberal economic policies that would eventually lead to a democratic order and thus minimise the chance of turning into a communist state. Not insignificantly, the success of such a policy would also create some economic benefits for the United States in the long run.

## U.S. Aid to Nepal: An Overview

U.S. aid to Nepal began in January 1951 when the two countries signed a General Agreement for Technical Cooperation (IAS 2198) in New Delhi. Between 1951 and 1961 the total amount of U.S. economic assistance was U.S. \$45.5 million, about \$4.5 million was disbursed annually. In the first half of the 1960s, the United States was the major donor to Nepal. But its

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<sup>16</sup> *The Rising Nepal*, January 16, 1984.

<sup>17</sup> Jimmy Carter spoke about expanding human rights to remote areas of Nepal and assured U.S. support for Nepal's independence and sovereignty. See *The Rising Nepal*, November 1, 1985.

<sup>18</sup> U.S. House of Representatives, 2<sup>nd</sup> Session, Committee on Foreign Affairs Hearings, Mutual Security Act of 1956 (Statement by Stephen P. Dorsey, Acting Regional Director of the ICA Office of the NEA Operations), Washington D.C.: Government Printing Office, 1959, p. 54-55.

relative share declined toward the late 1960s. The U.S. aid averaged \$ 13 million per year between 1962 and 1982 and \$ 19 million between 1983 and 1990. The flow of U.S. aid to Nepal up to 1990 is presented in Table 1. A large percentage of the U.S. bilateral aid was in the form of technical assistance. In 1969 technical assistance amounted to 80 percent of total aid, though this changed in subsequent years. For example, from 1970 until 1977 technical assistance averaged 32 percent but it amounted to 85 percent between 1978-1990. Evidently, a high percentage component of technical assistance is also associated with higher tying of aid.

**Table 1:** U.S. Overseas Loans and Grants Obligations and Loan Authorizations to Nepal, 1949-1990 (in million \$)

	1949 -52	1953 -61	1962 -86	1987	1988	1989	1990
Economic Aid	0.2	45.3	347.5	19.3	16.2	19.6	21.0
Loans	-	1.4	15.2	-	-	-	-
Grants	0.2	43.9	332.3	19.3	16.2	19.6	21.0
USAID	6.2	24.4	181.8	16.2	11.7	15.3	16.9
Food for Peace	-	19.5	115.8	0.8	1.8	1.6	2.2
Peace Corps	-	-	34.7	2.3	2.7	2.7	1.9
Military Grants	-	-	2.7	0.1	0.1	0.6	0.1
Total	0.2	45.3	350.2	19.4	16.3	20.2	21.1

Source: U.S. Overseas Loans and Grants and Assistance from International Organizations. Obligations and Loan Authorizations, July 1, 1945 - September 30, 1990

Table 1 indicates that the allocation of U.S. aid<sup>19</sup> to Nepal consisted mainly of economic assistance and most of it was in the form of grants. The economic grants fall under (a) U.S. support for the multilateral development banks, (b) the non-governmental organizations and other international development organizations, (c) Food for Peace under PL 480 (Title I repayable in foreign currency), (d) the Peace Corps, and (e) U.S. bilateral development assistance administered by the USAID. Of the total economic

<sup>19</sup> U.S. Foreign Aid Budget falls into two main categories, economic assistance and military assistance. Military assistance is offered through a military assistance program, military sales, economic support fund (which is administered jointly by USAID and the State Department), and other programs (unspecified).



assistance between 1962 and 1990 the share of grants was 96.3 percent and that of loans 3.7 percent. Of the total grants offered in the same period, the percentage distribution of the three main types was as follows: projects/programs administered directly by the USAID 59 percent; Food for Peace 30 percent, and the Peace Corps 11 percent. The U.S. government also offered a small amount of military grants totalling \$ 3.6 million between 1962 and 1990 for maps and military education and training. Of the total amount of aid of US\$ 472.7 million provided by the U.S. to Nepal between 1949 and 1990 loans amounted to only US\$ 16.6 million resp. 3.5 percent (Table 1). Loans were offered through two sources, the USAID (\$ 9.4 million resp. 57 percent) and Food for Peace (\$ 7.2 million resp. 43 percent).

The share of U.S. aid to total bilateral aid averaged 46 percent in the first half of the 1960s when the U.S. aid contribution surpassed that of India. By the second half of the 1960s, the U.S. share declined to 28 percent, to 14 percent in the 1970s and only 10 percent in the 1980s. The dollar value shown in the U.S. source is higher than shown by Nepal. On an average the dollar value of aid for the period 1960-66 was \$ 12 million per year, which increased slightly to \$ 13. 5 million during the period 1970-1990. However, over the years the relative share of U.S. aid declined quite visibly. Total bilateral aid grew by 10 percent annually between 1960 and 1970 whereas U.S. aid was reduced by 1.6 percent per year. Although the negative growth rate of U.S. aid could have been influenced by the small amount of aid in 1970, over the years the growth rate of U.S. aid has lagged far behind that of the total bilateral aid (in the case of the former it was 5 percent between 1960-1990, whereas in the case of the latter it was 12 percent).

### **Linking Aid with Foreign Policy Objectives**

Since foreign aid is a foreign policy instrument, it has to be linked with the objectives a donor country pursues in a recipient country. Aid is linked with foreign policy objectives by way of allocation. The United States has also allocated aid according to its foreign policy priorities. A study of the U.S. aid allocation for the period 1951-1990 shows that the gearing of aid to a strategic objective was limited whereas the other objectives were pursued in a logical and consistent manner. For example, the foreign policy objectives of containing communism and promoting modernization and development were interlinked. If economic assistance is systematically given to Nepal so that the general living conditions of the poorer sections of society are raised, their aversion to communism will also increase. And this would eventually open possibilities for the democratization of the political system. Therefore,

the United States made a consistent effort to address some of the major economic problems of Nepal and allocated a major portion of its aid to agriculture, rural development, and social services (health, education etc.).

In view of Indo-U.S. relations, the development in China, Tibet, and the Far East, the United States found Nepal an ideal candidate for providing its economic aid package. The United States expedited its assistance program for Nepal by setting up the United States Operation Mission (USOM) in January 1952. U.S. concern about the Chinese pressure was clear from President Eisenhower's remarks that the Nepalese "were under their (Chinese) guns".<sup>20</sup> Therefore, the United States linked aid allocation with the foreign policy objective of containing any possible threat from communist China, a strategic objective. Here there were two fundamental elements, namely United States' perception of China's foreign policy behaviour and its own relations. Also, because of the geopolitical location of Nepal and the fact that India's interest was more vital than its own, the United States could only pursue its strategic objectives either in line with India or without annoying her.

The United States pursued strategic objectives strongly in the 1950s but slightly less in the 1960s. This was because in the aftermath of the Chinese invasion of Tibet in the fall of 1950 China's behaviour was unpredictable. Sino-Indian relations began to deteriorate by the mid-1950s, culminating in the Sino-Indian war of 1962. The aggressive Chinese behaviour toward Nepal also induced the United States to pursue such a policy. Indeed, China had published maps showing Nepal's territory on its side, claimed Mount Everest as its mountain, and mobilized its troops in Nepal's Mustang area in the summer of 1960, which led the U.S. government to believe that China could pose a threat to Nepal and via Nepal to the Indian sub-continent. The remoteness of Nepal and its geopolitical location, however, limited U.S. options in pursuing the strategic objectives. The only viable option was then to see how far its aid could be used to pursue this objective. And this was done by way of offering aid in the form of a mineral survey that could both meet the interest of Nepal and also help achieve the strategic objective, albeit in a limited manner.

The United States considered that India's strategic interests were more vital than its own. Hence, at least until the 1960s, the United States tried to achieve minimum strategic interests by aligning with Indian interests. One such example of a U.S. funded project which had a limited strategic objective was the "mineral survey project" – a project, according to the *Depart-*

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<sup>20</sup> "Memorandum of a Conversation" (between U.S. President and Nepal's Prime Minister B.P. Koirala) in: Department of State, *Foreign Relations of the United States, 1958-60*, Vol. 15, Washington D.C.: Government Printing Office, 1992, p. 609.

ment of State Bulletin<sup>21</sup>, that was requested by the government of Nepal. According to Mihaly, the Director of the U.S. Technical Cooperation Mission, Paul W. Rose, had developed a program for Nepal's development based on his experience and belief which "had strategic and political goals", although "his own outlook and concern were of a humanitarian nature".<sup>22</sup>

It is not, however, clear why the then government of Nepal, a country with a high incidence of relative poverty and deprivation, had requested such a project. Obviously, the survey required the U.S. technical experts to visit several parts of the country where mineral deposits were assumed to be found. India had objected to the U.S. experts' exploratory visit to Nepal under Para. 5 of the letter annexed to the 1950 treaty. Nepal's then Prime Minister M.P. Koirala had told one Indian author that "the Government of India's objection was raised under that provision of the Peace and Friendship Treaty of 1950 which obliged each government not to employ any foreigner whose activities may be prejudicial to the security of the other (Para. 5, letter). This means that India apprehended strategic motives behind the exploratory visits of these US experts."<sup>23</sup>

That the United States aligned its Nepal policy with India's is evident from its policy of the early 1950s. As stated earlier, one of the goals of U.S. foreign policy was to encourage Nepal to strengthen its security with Indian assistance. In the late 1950s<sup>24</sup> the United States also wanted Nepal to seek Indian assistance in certain matters, for example, "budgetary assistance" or for building East-West highways. Although the United States did not provide major direct military aid to Nepal, which would have escalated tension, it provided civil aviation aid, especially for the expansion of the airports in 1959, and entered into a tripartite agreement with Nepal and India for the construction of roads. Roads of strategic value were not in the direct U.S. interest, and would also have disturbed relations with India. India's defeat in the 1962 war with China weighed U.S. policy in favor of military assistance.

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<sup>21</sup> "Four Point Agreement with Nepal Signed", in: *Department of State Bulletin*, February 5, 1951, Vol. XXIV, No. 605, p. 212.

<sup>22</sup> E.B. Mihaly, *Foreign Aid and Politics in Nepal*, London: Oxford University Press, 1965, p. 30.

<sup>23</sup> S.D. Muni, *Foreign Policy of Nepal*, New Delhi: National Publishing House, 1973, see footnote 30, p. 190.

<sup>24</sup> The Under-Secretary of State, C. Douglas Dillion, told Nepal's Foreign Minister in 1958 that it "could be helpful wherever appropriate and within its resources" but suggested that Nepal seek Indian assistance for meeting "budgetary" requirement. See Department of State, *Foreign Relations of the United States, 1958-60, op. cit.*, p. 584. In 1960 President Dwight D. Eisenhower suggested to B.P. Koirala, the then Prime Minister of Nepal, that "India should take interest in East-West road". *Ibid.*, p. 607.

With the improvement in Sino-Nepal relations in the 1960s and with the rapprochement between the U.S. and China in the mid-1960s, the strategic element in American foreign policy in Nepal was de-emphasized. This also meant a relative reduction in U.S. aid to Nepal. For example, the U.S. share of Nepal's total aid for 1962-65 (during the latter's three-year development plan) was 46 percent, which was reduced to 23 percent during 1965-70. With the implementation of the "Nixon Doctrine", the U.S. share of Nepal's total aid was reduced to just 14 percent in 1970-75. The allocational priority was also shifted with the reduction in aid. The U.S. devoted more aid to agriculture, health and education than to strategic sectors such as transport and communications.

The United States, however, continued to pursue the objective of containing the ideological influence from both China and the Soviet Union, and the latter's aid and diplomatic presence became more visible in the late 1950s. United States' aid was primarily meant to prevent both external and internal ideological threats. The USA had used all available options to counteract the offer of Soviet aid during King Mahendra's visit to the Soviet Union in June 1958. The Soviet aid for consumer goods industries offered in the late 1950s was considered by Hamilton F. Armstrong as a "leverage for better aid from USA". The better impression generated in Nepal by the Soviet aid had in fact "stimulated a prompt American response". Within two months of the signing of the Soviet-Nepal aid agreement the United States "agreed to make \$ 600,000 available to provide Nepal with several airplanes, as well as navigation and communication equipment for Nepalese airports."<sup>25</sup> In a move to counter the Soviet aid, the United States also expressed its commitment to provide an increased amount of aid to the Nepali Congress government in the late 1950s. In support of the democratic change in Nepal, the United States increased its aid commitments from \$ 1.8 million (NRs. 14 million) in 1958-59 to \$ 15 million (NRs. 117 million) during King Mahendra's visit to the United States in the spring of 1960. As the Soviet Union was the first world power to invite King Mahendra, the U.S. tried not only to increase its aid but also to invite the king to the U.S. The U.S. Embassy in India also recommended that King Mahendra should be invited to visit the United States "to strengthen his personal inclination toward the West and stiffen his resistance to Soviet aid".<sup>26</sup>

U.S. aid also had the objective of containing the internal growth of communism in Nepal. The strategy was two-pronged: to target aid so as to

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<sup>25</sup> Hamilton F. Armstrong, "Where India Faces China", *Foreign Affairs*, July 1959, Vol. 37, No. 4, p. 622.

<sup>26</sup> "Telegram from the Embassy in India to the Department of State". Reproduced in: Department of State, *Foreign Relations of the United States, 1958-60, op. cit.*, p. 589.

serve its foreign policy objectives and to make Nepal less dependent on aid from communist countries. By appropriately targeting aid distribution in areas and sectors where the possibilities of communist infiltration were higher, the objective of preventing communist uprisings was pursued, which was the first major openly admitted goal of U.S. aid. The U.S. Ambassador to Nepal in the early 1950s, Chester Bowles, proposed land reform in Nepal not only as a condition for U.S. aid, but also as an effective means to tackle the problem of communism. Describing the inequality of land distribution in Nepal as a fertile ground for the growth of communism, Ambassador Bowles believed that the United States "should insist on some basic essential reforms as a condition of American assistance".<sup>27</sup>

U.S. aid to Nepal aimed at helping economic development in the country in order to bring political stability to the regime that was opposed to communism and to promote gradual democratization. For example, of the total aid disbursed up to 1980, about 20 percent was allocated for agriculture and about 39 percent to social services. In the period 1980-90 the share of agriculture was increased to 60 percent and population and family planning was accorded as much as 16 percent. The U.S. targeted its aid program to address agriculture and population growth which were affecting the lives of the majority of the poor.

## Achievements

Assessing the achievements of aid is complex, because of the interplay of a number of interrelated factors. First of all, aid is used to serve a multiplicity of objectives the priority of which keep changing with the change in the perception of the donor countries. Second, in a country like Nepal where not just one but several other donors try to achieve the same objectives, it is difficult to ascertain the impact of an aid program of one particular donor. Thirdly, aid generates primary and secondary benefits, some of which are reaped in the short run and others in the long run. And finally, the politico-economic environment in which aid works in recipient countries also keeps changing. However, given the parameters of the U.S. foreign policy objectives to which its aid was linked, an attempt is made to assess the achievements in the following section.

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<sup>27</sup> Ambassador Bowles stated that "if such a requirement had been part of our policy in dealing with Europe under the Marshall Plan I believe that the injustices which go far to explain why 32 percent of the Italian people in desperation voted for the Communist Party in 1953 would long since have been wiped out." See Chester Bowles, *Ambassador's Report*, New York: Harper and Brothers, 1954, p. 293.

One of the major achievements of U.S. aid is that it provided a leverage for maintaining the foreign policy that best suited its vital interest of safeguarding Nepal's independence. The early 1950s was a challenging time for Nepal due to communist China's presence in Tibet and the claims China made on Nepal's territory. India's interference in Nepal's administration and politics had increased. The strong aid presence maintained by the U.S. in Nepal in the 1950s not only indicated to the surrounding powers that it would support Nepal in the event of a risk to its security, it also provided the financial means necessary to avoid dependence on India. As Y. N. Khanal, Nepal's former Foreign Secretary maintained, in a subtle way "Nepal's relations with the USA have helped to maintain a balance in its friendly relations with India and China".<sup>28</sup>

The United States provided relatively high policy and financial inputs to Nepal before and during the panchayat period (1961–early 1990) for the purpose of checking a possible communist revolution. Economic aid prior to the panchayat period "fared badly in promoting gradual social revolution, a goal desired by all non-Communist donors and actively encouraged by the United States through its support for cadastral surveys as a first step to land reform, for revisions in the tax structure, and for administrative reform".<sup>29</sup> Communist revolution as such did not take place in Nepal due to various socio-political factors, although, over the years the communist movement grew stronger. The communists also infiltrated the panchayat system and some of them occupied key positions. The communists emerged as the second largest party in the country after the restoration of democracy in 1990, and the number of extremist communist parties is also on the rise. The Nepal Communist Party (United Marxist-Leninist), known as UML, secured 69 seats in the 205 member Lower House of Parliament and became the opposition party. In the November 1994 general elections this party secured 88 seats, the largest number gained by any party, and formed a minority government which was dissolved by King Birendra in June 1995. In coalition with the National Democratic Party, the members of which were supporters of the panchayat system, the Nepal Communist Party was in power again from March to September 1997.

The source of communism in Nepal is not the peasantry as the United States had believed, but the middle class and the educated elites who were not in any way influenced by U.S. aid and policy inputs. It is believed that peasants would have supported the communist movement even more had there been no foreign aid. The fact is that the benefits of aid have hardly

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<sup>28</sup> *The Rising Nepal*, September 6, 1973.

<sup>29</sup> E.B. Mihaly, *Foreign Aid and Politics in Nepal*, *op. cit.*, p. 179.

reached the peasants. With the functioning of democracy, this class has been made aware of its plight and has been the political force behind the electoral success of the UML. The United States not only had to recognize the growing popularity of communism, it has even been reconciliatory in terms of providing assistance to enable a few members of the communist parties to visit the United States each year since the restoration of democracy in Nepal.

The United States wished to see continuity in the absolute rule of the king and his partyless panchayat system so that democratic institutions evolve gradually. Nevertheless, when it became clear that the partyless panchayat system was going to be overthrown, it changed its earlier stand to favor the restoration of democracy in Nepal. As stated earlier, the United States believed in gradual evolution of democratic institutions and hence provided full support to the royal regime from the beginning. No doubt, the United States was not unhappy at the restoration of multi-party democracy in Nepal, yet its contribution to bring about democratic political reforms has been insignificant. The aid provided by the United States during the panchayat years helped only the ruling elites to reinforce their vested interests and, therefore, obstructed possible democratic reforms before the violent overthrow of the partyless system in spring 1990.

One of the motives of U.S. aid was to facilitate the process of modernization (this was the catchword in the 1950s) and help accelerate growth and development (in the 1960s throughout the 1980s). But the economic objectives of fostering development through community development projects and education did not bear fruit. A number of factors such as political instability during 1951-1958, the misunderstanding between U.S. aid administrators and government officials as to who should control the aid money, and lack of experience of the U.S. aid staff in a country which had just been opened up to the outside world led to a very marginal success of U.S. development aid. Circumstances mentioned above also forced the United States in 1958 to discontinue the cooperatives established in 1954 with a view to forming effective partnership with the government in implementing the various technical services. The ambitious multipurpose Rapti Valley project implemented in 1955 became a vehicle for channelling off U.S. assistance to government ministries and departments and was terminated in 1958. The tripartite body, the Regional Transport Organization, set up in 1958 to unite the efforts of the United States, India and Nepal in building roads became enmeshed in trouble from the start, especially between the two donors. The whole project was abandoned in 1962 with insignificant results and high costs. Despite some success in expanding health facilities, erecting schools and teacher training colleges, and opening up the Rapti Valley, most Americans considered that "they were too small a return from a program which

had spent \$ 12.2 million and was now spending at an annual rate of \$ 5 million".<sup>30</sup>

Direct U.S. aid to local development in the panchayat system in the 1960s and 1970s was the result of an odd mixture of American commitment to help develop democratic institutions through economic development and a heavily centralized, elite controlled system of local governance. According to remarks made in 1964 by John Cool, USAID Chief of Community Development, the U.S. involvement in the Panchayat Development Project "must be regarded, at best, as a calculated risk". A number of factors, basically the unwillingness and lack of commitment of the panchayat leaders to transfer real powers to the local panchayats, which ran against the fundamental belief of the USAID, as well as too much bureaucratic pressure exerted by His Majesty's Government in deciding both aid projects and programs, led the United States to discontinue its direct support to the panchayat system. In an USAID document published after the collapse of the latter it is stated: "USAID supported Nepal's experiment in 'one party democracy' for several years in the 1960s, but quickly became disenchanted when it became increasingly clear that the Government of Nepal's (GON) commitments to transfer significant power (notably taxing authorities) to rural areas were being ignored. The royal family, palace secretariat, bureaucracy and, ironically many members of the Rana lineage (who have intermarried with the royal Sahas for seven or eight generations) remained in firm control. By 1967, USAID virtually ended its support for "panchayat development".<sup>31</sup>

Since a "pro-Western orientation" in foreign and economic policies was considered by the ruling elites of the partyless panchayat system as a way of lessening Nepal's dependence on India there was some sort of a mutuality of interests. By supporting panchayat development in the 1960s and local development and development administration in the 1970s and 1980s, the United States influenced Nepal's economic policy decisions. Nepal followed the policy prescriptions recommended by the Nepal Aid Group of which the USA and the World Bank are the major players. This is clear from the commentary of one government official sent by the USAID/Nepal to the State Department for policy reviewing which said that Nepal had just a "passive role" in all aid matters. The commentary further pointed out that "all agreements have traditionally been written by the Mission, and brought to us to sign, which we have originally done whether we were in agreement or not". In reaction to the aid-influenced decisions, the official asserted that

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<sup>30</sup> USOM, Expenditures 1952-61, p. 5. quoted in: *ibid.*, p. 86.

<sup>31</sup> AID, Nepal Democracy Project (Document 367-0163), 7-10-1992, Washington D.C., pp. 1-2.



we Nepalese "have our own priorities and plans; we will not approve projects unless we have had a hand in designing them right from the beginning and unless they fit into our priorities and overall development plans. This does not mean that we do not want U.S. assistance, which we badly need and want, what it does mean is that the assistance must be in terms of what we believe we need and can use."<sup>32</sup>

Countries' voting practices in the United Nations are one way of analyzing their orientation towards the United States in particular and the West in general. The United States takes this into consideration in defining its relations as well as allocating aid funds to developing countries. As stated by Thomas R. Pickering, U.S. representative to the UN, "behavior in the UN is but one dimension of a country's relations with the United States. Economic, strategic and political issues can be and often are more important to U.S. interest. Even so, UN votes matter ... Decisions and policies reached in key UN bodies affect U.S. foreign policy."<sup>33</sup> Nepal's general assent to issues sponsored by or vital to the United States is less than that of U.S. allies, as Nepal's voting behaviour in the UN indicates. Nepal took this deviation as a confirmation of its independent stand. The official *The Rising Nepal* stated in March 1984 that "Nepal has voted independently and on the merits of each issue at the United Nations".<sup>34</sup> However, it has agreed to some of the issues that were considered vital by the United States.

## U.S. Aid: Some Conclusions

U.S. aid and its foreign policy toward Nepal went through two phases during the four decades of their relationship, the first covering the early 1950s and the 1960s, and the second the early 1970s and the 1980s. In the early phase the main motivation of U.S. aid was to contain communist aggression coming from the north, and to forestall uprisings of the peasantry by way of tangibly improving their economic conditions. During this period, the United States also believed that India's interests in Nepal were more vital than its own, but India was incapable on her own of combating possible Chinese aggression towards Nepal. To the dismay and discomfort of King Mahendra, U.S. policy toward Nepal throughout the 1960s was in harmony

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<sup>32</sup> Telegram entitled "The Changed Environment for AID in Nepal" sent by the USAID/N to the Department of State. Department of State, USAID/Nepal, Kathmandu, Development Assistance Program, Fiscal Year 1975, Nepal, June 1974, (annexed paper), p. 4.

<sup>33</sup> Department of State, Report to Congress on the United Nations 1990, Section I (Introduction), Washington D.C. : March 31, 1991, p. 1.

<sup>34</sup> *The Rising Nepal*, March 13, 1984.

with its India policy, although the United States remained the largest donor until the end of the 1960s. The United States actively upheld Nepal's independence and non-aligned position, but due to geopolitical factors it did not pursue its policy toward Nepal to the point of antagonizing India.

As stated earlier, the political objective of U.S. aid in Nepal was anti-communist and not pro-democracy. The United States was guided by its general theory that only through economic development can political democracy evolve. This is evident from its unpronounced "disapproval" of the dismissal by King Mahendra of the first democratically elected government in December 1960 and the continuation of its aid policy. Indeed the U.S. aid policy pursued an ambiguous and often double standard policy<sup>35</sup> with regard to its political objective of supporting democracy in Nepal. Generally, it supported any government of the day that was anti-communist though it also supported democracy whenever it was attained.

The United States supported the panchayat regime until the wave of democracy that swept across the world also affected Nepal. When the Nepali Congress, supported by the United Leftist forces, "launched its strongest efforts to reverse a 30 year ban on political parties", the United States issued a general policy statement expressing disagreement over the massive arrests of supporters of the movement for the restoration of democracy. In a statement by the U.S. Assistant Secretary of State for North Eastern and South Asian affairs issued on March 6, 1990, he declared that the U.S. officials "have discussed about the arrests and the ill-treatment of prisoners with Nepalese officials, and have clearly stated our support for freedom of expression and respect of human rights in Nepal". It was further stated that "as friends of Nepal, the United States believes that Nepal would enhance the international support it enjoys as a respected member of the world community, if it were to effectively address the concerns which have been raised about the current system of government."<sup>36</sup> The Committee on Foreign Affairs, House of Representatives, pointed out that "the United States which has friendly relations with Nepal and has provided more than \$ 300,000,000 in economic assistance to Nepal since 1951, has a strong

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<sup>35</sup> In fact, as two American authors on international relations maintain, "the nature of foreign policy is such that one can expect to find double standards and inconsistencies in the records of all countries". See Frederic S. Pearson and J. Martin-Rochester, *International Relations: The Global Condition in the Late Twentieth Century*, Reading, Mass: Addison-Wesley Publishing Company, 1984, p.108.

<sup>36</sup> See Department of State, *American Foreign Policy Current Document, 1990*, Washington D.C.: Government Printing Office, 1990, p. 638.

interest in the promotion of democracy and respect for human rights in Nepal".<sup>37</sup>

The U.S. foreign policy interests diminished toward the end of the 1960s. Besides, by the early 1970s, i.e. after the Sino-U.S. rapprochement, a shift in focus occurred in U.S. policy towards Nepal. Suspicion of communist aggression from the north was almost dissipated, which meant that this factor became less significant. The United States also believed that the Chinese strategic interest was limited to protecting its interests in Tibet and that China had no ambitions south of the Himalayas. The U.S. did not reduce its aid in absolute terms, but continued to support economic development efforts with a view to obviating internal communist uprisings. Another fundamental fall-out of the Nixon Doctrine for Nepal was the formulation of a "Nepal policy" independent of India. Coincidental with the Sino-U.S. and the Indo-Soviet axis of the early 1970s was the eruption of the trade and transit dispute between India and Nepal. U.S. policy was oriented toward enabling Nepal to pursue a foreign policy independent of its neighbors. This meant support for King Birendra.

The United States consistently provided assistance for agricultural and social service sectors, although most of it was technical assistance and doubt was cast at times by Nepal about its effectiveness and real intentions. Undoubtedly, the United States alone can not be made responsible for the ineffectiveness since Nepal received aid from so many sources. However, despite the four decades of aid to agriculture, food productivity did not increase and population growth rate has become a major concern. Where United States' aid met with some success is in the field of education. However, the trade-off between the rise of communists among unemployed educated youth and primary school teachers and U.S. aid in education has remained enigmatic. Transport development, although not a priority sector for the United States, has, especially in the far western region, also been useful in enhancing social mobilization and maintaining economic links between Terai and the hill economy. On the whole, United States' aid during the panchayat years contributed to a certain extent to help Nepal reduce its economic dependence on India.

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<sup>37</sup> See the Resolution No. 323 "Concerning Human Rights and Democracy in Nepal", Consideration of Miscellaneous Bills and Resolutions, Vol. II, Markup before the Committee on Foreign Affairs, House of Representatives, 101<sup>st</sup> Congress, Second Session, Washington D.C.: Government Printing Office, 1990, p. 287. The U.S. Ambassador to Nepal during the democracy movement, Julia Chang Bloch, announced before returning home after completing her term that "the United States has expressed its support for Nepal's independence and sovereignty. It will also support economic progress in Nepal. The Clinton administration will continue such support in the cause of democracy." *The Rising Nepal*, May 6, 1993.

The collapse of communism in Eastern Europe and the disintegration of the Soviet Union refocused U.S. foreign policy objectives and aid priorities. Containment is no longer the main consideration in U.S. foreign policy. Support for "pro-democracy" movements, human rights, and good governance now play a greater role. The U.S. and other donors bear a moral obligation to support the poor countries that have transformed from autocratic or semi-democratic regimes to democracies. Hence the U.S. should not reduce its volume of aid.

With regard to South Asia in general and Nepal in particular the U.S. interests in the 1990s have gradually diminished. It has been rightly concluded that "despite domestic and market reforms in the subcontinent, U.S. government and business leaders still place a low priority on the region".<sup>38</sup> Besides, aid to poor countries like Nepal with neither geopolitical importance nor deep economic interests will be adversely affected by the recent imperatives of a balanced budget. It has been pointed out that "in today's post-Cold War environment Washington is largely neglecting the region even though it now better meets American democratic standards. U.S. policy makers do not fully appreciate the potential impact of South Asian trends on America's long term economic interests."<sup>39</sup>

The China factor is no longer a vital element in determining U.S. interests in South Asia because of (a) the possibility of political and economic modernization in China, and (b) the economic importance of China for the United States. The implication of such a trend for Nepal is that the United States will not remain the "neutralizing factor" in its relations with its neighbors. China and India will try to fill the vacuum created by the absence of the Soviets in South Asia. It is quite likely that Chinese interest in Nepal will also decline as China realizes that it is not going to substitute for Nepal's ties with India. With the gradual reduction in U.S. interest in Nepal, the latter may therefore have to form more stable and pragmatic relations with India.

As stated earlier, the United States now faces a dilemma with regard to its aid policy toward Nepal. Generally, "in the past the United States had supported autocratic regimes in South Asia, primarily for strategic reasons"<sup>40</sup>; it was certainly also the case with Nepal. After supporting the panchayat system for three decades, a system of government that was considered autocratic by the majority of the people, it will be undiplomatic, if not unethical, for the United States not to support democracy in Nepal. Using aid as a means

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<sup>38</sup> Charles H. Percy, "South Asia's Take-Off", *Foreign Affairs*, Winter 1992/93, p. 166.

<sup>39</sup> *Ibid.*, pp. 166-167.

<sup>40</sup> *Ibid.*, p. 166.

to exert some influence on Nepal's delicate internal affairs (e.g. religion) has created suspicion about U.S. motives. Although in the immediate aftermath of restoration of democracy to Nepal, the U.S. made a positive response by increasing its aid commitment, it is quite unlikely that the volume of aid will rise significantly in the future. Besides, the focus of the U.S. aid would also change, which raises the question of its effectiveness in solving the hard core economic problems. For example, in the 1993 USAID Congressional Presentation, it was stated that "U.S. commitment to furthering the development process has led A.I.D. to play a major role by encouraging adoption of economic policies that maximize private sector involvement; providing technical assistance, training, and funds to address present challenges; and clearly supporting democratic processes".<sup>41</sup> The focus of U.S. aid is more on economic reforms that attach greater importance to the private sector. In the Congressional Presentation for the fiscal year 1995 the USAID policy with respect to Nepal<sup>42</sup> streamlined broad-based economic growth, stabilization of population growth, and the building of democracy, but with a clear emphasis on supporting the role of the private sector, as it believed that its past support had "in due part" contributed to the increase of private sector investment which increased from 40 percent in 1990 to 63 percent in 1993 and to Nepal's "economic growth".

With its aid in the past the United States has exercised diplomatic leverage in areas that its politicians think are in the interest of their voters. Another dilemma is the sustainability of U.S. aided projects/programs. Certainly it is neither in the interest of Nepal nor of the United States to provide aid for ever. Firstly, the United States should offer aid for projects/programs that are compatible with Nepal's development priority. Secondly, aid should be provided for development activities that have the prospect of benefiting the poor and those who have the required skills and initiative. Finally, the activities should be such that they are managed by a transparent, accountable and responsible institution and have the prospect of sustainability after the withdrawal of aid.

The author is Principal Advisor to the Prime Minister of Nepal. The views expressed in this paper are solely those of the author and in no way do they represent the views of the office he is associated with.

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<sup>41</sup> See section on "Nepal" in: USAID, Congressional Presentation, Fiscal Year 1993, Washington D.C., p. 474.

<sup>42</sup> See section on "Nepal" in: USAID, Congressional Presentation, Fiscal Year 1995, Washington D.C., p. 143.