

## INSTITUTE OF CURRENT WORLD AFFAIRS

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Nepal and Foreign Aid

Kathmandu and Hong Kong.

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Mr. R.H. Nolte,  
Institute of Current World Affairs,  
366 Madison Avenue,  
New York 17, N.Y.,  
U.S.A.

Dear Mr. Nolte,

The Royal Nepal Airlines' DC3 churned its way through the thick dust laden air of the vast Ganges Plain, slipped through a narrow pass in the Himalayan foothills, and landed at Gaucher Airport, Kathmandu. Sitting next to me in the plane was one of those ubiquitous Peace Corps Volunteers, and as we taxied to the terminal building he peered out of the window and said, "See those two helicopters -- they were a present from the Russians to the King of Nepal; that Beechcraft plane is making an aerial forest survey, an American A.I.D. project; that biplane is from China; the runway was built by the Indians; the plane we are in was given by America, and the pilot is an Australian."

Such was my introduction to one of the most unpublicised and yet crucial battles that is being waged in the world today. The contestants are Nepal, thirteen foreign countries, and the United Nations Organization. On the surface the battle is waged to convert what one person called a "Fourteenth Century, operetta country" into a modern Twentieth Century state. But it doesn't take much probing to reveal that the motivations of the major donor countries in this war are far from altruistic. True, Nepal, with 120 doctors to serve 10 million people, a 90% illiteracy rate, and an annual per capita income of U.S.\$55, is one of the worlds least developed countries. But also true is the fact that this mountainous kingdom is of key strategic importance in the Indo-Chinese and East-West struggles.

Nepal has never been a colony, although at one time the country was conquered by China, and for many years paid tribute to Lhasa. It was also defeated in a war with England in 1816, but unlike India, never came under British rule. The form of government during the Nineteenth Century and first half of the Twentieth Century was a titular monarchy with all power vested in the hands of hereditary prime ministers called Ranas. There was 150 years of complete feudalism with the Ranas building huge palaces and leading dissolute lives, neglecting education and economic development. One prime minister had a palace with 1,000 rooms and was reputed to have 500 concubines.

In 1950 the Ranocracy was overthrown and the King regained power, a manoeuvre which had the active support of India. Then followed a decade of upheavals and turmoil during which time

parliamentary democracy was tried, found to be wanting, and discarded. It was replaced by a system of village, district, zonal, and national councils called Panchayats. The decade of the 50's also saw the opening of the country for foreign residents, and in 1954 Thomas Cook Limited brought in the first load of tourists. The first foreigner to be allowed in after the overthrow of the Ranas was an American Jesuit, Father Moran. He told me that at that time (1951) more Americans had visited the North Pole than had been to Nepal, so great was the country's isolation.

Both America and India began to give foreign aid in 1952, but at first it was rather haphazard and relatively ineffective. In 1956 India established a foreign aid mission to co-ordinate and administer her assistance. A year later, 1957, Russia established an embassy in Kathmandu, to be followed closely by America.

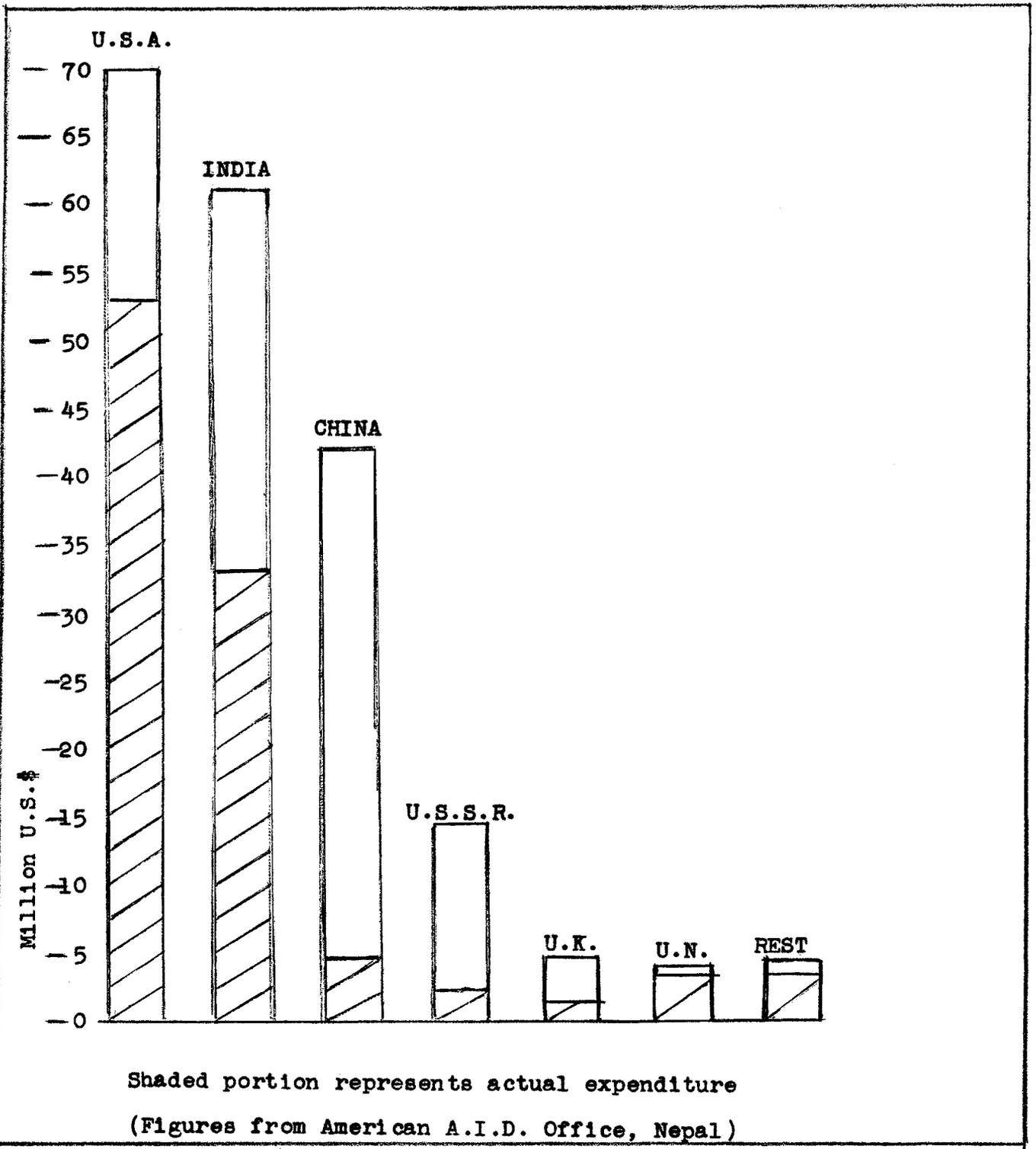
The 50's also saw Nepal's economic planners trying to get their country moving on the road to development, but also without much success. A five-year plan was formulated, but hardly implemented. In fact only about a third of the budgeted money could be spent during this first plan. There was a year's stock-taking in 1961, and in 1962 a second plan, this time for three years, came into effect. The principal objectives of this plan are to:-

1. Make basic data on the economy of the country available.
2. Modify the existing organizational structure of the country.
3. Lay down the infra-structure for economic growth.

Roughly 80% of the development budget must come from foreign aid. There are eighteen different agencies providing aid and the man responsible for co-ordinating it is a brilliant young (29 year old) Nepalese, Bhekh B. Thapa, Secretary of the Ministry of Economic Planning. He explained to me some of the problems that are involved. "Most aid is tied to a specific project which may or may not be a part of the Plan. Some countries are very good about fitting their assistance into our Plan, whereas others offer a project on a take-it-or-leave-it basis. Then there are the differences in time for which aid can be committed. America, for example, is restricted to annual appropriations from Congress, which makes it very difficult for us to count on American money for long term projects. The Indians are better in this regard, since their aid is geared to their Five Year Plan. The Russians and Chinese both work on a project basis which comes regardless of cost or time."

Up to the start of the Three Year Plan in 1962, America had provided more than half of all foreign aid to Nepal. Perhaps more surprising though, is the fact that India ranked second with 33%. The other ten donor nations and the U.N. contributed the remaining 14%. Commitments for the second Three Year Plan show greater contributions from Russia and China, and even longer range commitments reveal that China's interest in Nepal is rapidly increasing. These facts are illustrated in the accompanying figure which shows the commitments and expenditures of the principal donor countries at the end of 1963.

FOREIGN AID COMMITTED TO NEPAL  
AND ACTUAL EXPENDITURES TO END OF 1963



The breakdown of the expected foreign aid specifically for the Three Year Plan is also of interest:

<u>Country</u>	<u>U.S.\$ Equivalent (Grants &amp; Loans)</u>	<u>% of Total Aid</u>
U.S.A.	27,631,000	39
India	18,421,000	26
U.S.S.R.	13,289,000	19
China	5,263,000	7
U.K.	4,235,000	6
Others	1,974,000	3

One of the remarkable features about the aid giving has been the lack of duplication and discord between donors. Each country has concentrated on helping with certain activities and only rarely have these activities overlapped.

#### American Aid

America has concentrated on three groups of activity. First there are those projects geared to the improvement of communications. These include road building, provision of ferries, airplanes, suspension bridges, navigational aids for airplanes, and an expensive rope-way for bringing agricultural and forest produce from the Rapti Valley to Kathmandu. American aid has also helped to set up a 1,500 line dial telephone system in Kathmandu and arranged a radio telephone network over the country.

The second group of activities are those which help to expand government services such as health, education, and technical training, administration, agriculture, and village development projects. The third group is aimed at increasing production. These activities include assistance to natural resource surveys.

In addition there are more than a hundred Peace Corps Volunteers scattered over the country. I talked with several and their consensus opinion was that they felt they had helped to spread some understanding about America among the Nepalese, and had certainly learned a lot about Nepal, but felt a little disappointed with the impact they were having on the development of the country. Unlike some countries (such as Malaysia) Nepal has not given the Volunteers much opportunity to use their initiative. However, in the ancient Nepalese capital of Bhadgaun, about eight miles east of Kathmandu, I came across a minor illustration of their impact. I was wandering across the town square when a boy, I would guess he was about 14 years old, came up and started talking in almost perfect English. The conversation went like this:

CHGO: "You speak excellent English. For how long have you been studying?"

Boy: "Two years, Sir."

CHGO: "You must have a very good teacher, to have taught you so well in only two years."

Boy (proudly): "Yes Sir, we have four Peace Corps men in our school -- from Africa."

CHGO: "Africa? Are you sure you don't mean America?"

Boy (puzzled): "America? ... Or Africa. Mmm, one of the two Sir!"

I learned later that one of the Volunteers at this school is a Negro, which partly explains the boy's confusion.

### Indian Aid

Indian aid has covered a wide field, but has principally been concentrated on the improvement of transport and communications, rural development, irrigation, and power development. The major transport achievements have been the construction of the Gaucher Airfield, and the 72 mile highway to India, completed in 1955, which finally provided a road link between Kathmandu and the outside world. In education, India has concentrated her efforts on higher education, thus avoiding competition with American educational aid which is mainly in primary and secondary education.

I visited two of the Indian aid projects. One was the Engineering College, and the other an horticultural research station. The Engineering College was located in one of the old Rana palaces. The outhouses of this palace have been taken over by Tibetan refugees, but the main palace houses the 120 students who come from all over Nepal. The principal reception rooms have been converted into classrooms, laboratories, and a rather poorly equipped library. In fact the physics laboratory must rank as one of the most bizarre in the world. Standard high school physics experiments were arranged on benches in a room with an ornate pastel coloured roof from which were suspended huge elaborate glass chandeliers. On the walls were large oil paintings of many of the ex-Rana prime ministers. The artists had managed to give each of these gentlemen an aloof supercilious leer which somehow seemed appropriate to the whole anomalous situation. One could almost imagine them alive as they sneered at the efforts to bring Twentieth Century science to their previous feudalistic strongholds.

The horticultural station was more in keeping with modern scientific tradition. Here on a 32 acre site at the foot of the ancient city of Kitipur was a well run research station. About a third of the acreage was devoted to research on how to improve vegetable and fruit yields and the rest to horticultural extension work. It also had a food processing laboratory where an attractive sari-clad home economics graduate let me try some delicious samples of the experimental fruit squashes and jams which the laboratory produced.

Much of the goodwill generated by Indian aid over the previous ten years was dissipated in 1961 when the Indians, and particularly Mr. Nehru, strongly criticized King Mahendra's action

in suspending parliamentary democracy and instituting the Panchayat system. The Nepalese then accused the Indians of providing shelter for Nepalese rebels who made periodic raids into Nepal from Indian territory. The Indians claimed that they were trying to prevent the raids, but most Nepalese felt this was not true, and it was not until the Chinese invasion of India that the raids stopped. During this period Indian aid continued, but most Nepalese I talked with said that few of the Indian projects were finished on schedule. They felt the Indians had deliberately worked slowly. However, ever since the Indo-Chinese dispute flared into open warfare, both sides have patched up their differences and India is again vigorously courting Nepal. In fact the Indians are now taking their relations with Nepal so seriously that two weeks ago Mr. Nehru left Delhi for the first time since his illness, specifically to visit King Mahendra and to watch the King lay the foundation stone of a big new Indian dam on the Gandak River near Nepal. This project will help agriculture in both countries and the occasion was given much publicity in the Indian papers.

### Chinese Aid

Chinese aid began in 1956 following the establishment of diplomatic relations the previous year. At first the Chinese involvement was mainly in the form of general budgetary support to the tune of about U.S.\$4 million. Within the last two years the Chinese have shown a sudden interest in giving aid and are rapidly catching up with America and India in terms of total commitments.

By far and away the most important Chinese aid project so far has been the 105 kilometer road which is now being built from Kathmandu to Kodari on the Nepal-Tibet border. The link connecting Kodari to Lhasa is already constructed, so that by the end of the year it will be possible to drive from India, through Nepal into Tibet, Lhasa and China. By all accounts the Chinese accomplishment on the road has been most impressive. Twelve thousand Nepalese workers are employed by the Chinese, and the easiest stretches have been built first. The result is immediate and rapid progress which impresses and enthuses all who are concerned with the project. Although the road is expected to be open by the end of the year, it will take two more years to metal the surface and install permanent bridges. The number of Chinese involved is not known, but those who are working in Nepal live under the same conditions as the Nepalese, cook their own food and wash their own clothes.

Not all the Chinese projects have created such a favourable impression. In fact after promising to build a cement factory, a paper and pulp factory and a leather goods factory, the Chinese have recently withdrawn from the first two saying they would have been uneconomic.

Opinion was divided on the value that the road would have for Nepal. Some argued that since 99% of Nepalese trade was now with India, that it was about time this was diversified. They thought the new road would reopen what had once been a thriving trade route between Tibet and Nepal, a trade which had fallen off

after the British Younghusband expedition had opened a new route to Tibet via Bhutan. Others were more doubtful about its value, and thought it more advantageous to China than Nepal. They pointed out that the road would provide the easiest supply line to Tibet, and would be much cheaper than sending goods from Eastern China. Many Indians were afraid that Indian goods would find their way straight through Nepal to supply the Chinese armies in Tibet.

Since I left Nepal three weeks ago, a new aid agreement has been signed, whereby the Chinese have promised to build a brick and tile factory in Kathmandu and to construct 170 kilometers of the East West Highway. It was reported that these would cost about U.S.\$15 million.

One Nepalese scientist told me that the Chinese were also anxious to help scientific development in Nepal. They have requested the Nepalese to submit any scientific project for which they would like assistance and have offered to give it sympathetic consideration. This is a recent development and so far nothing has been formulated. However, Nepal has accepted an invitation to send a seven man delegation to the World Federation of Scientific Workers conference on Science and Economic Development in Peking in August.

### Russian Aid

The Russians are relative newcomers to the aid game. The first Nepal-Soviet aid agreement was not signed until 1959. The Russian aid, like the Chinese, is on a project basis, and involves mainly either the building of roads or industrial plants. The latter include an hydro-electric power plant, a sugar factory, and a cigarette factory. One interesting manifestation of Soviet-Sino rivalry is shown by the alacrity with which the Russians offered to take up the construction of a cement factory as soon as the Chinese dropped it. The Russian survey team is now in Nepal making a feasibility study.

During my stay in Kathmandu I attended the official banquet to celebrate the signing of a new Soviet-Nepalese aid agreement. The Russians are to construct an agricultural implements factory and 120 kilometers of the East West Highway. (Note the Chinese agreed three weeks later to build 170 kilometers of the same highway.) The dinner and signing ceremony was an interesting function held in the State Reception Room of the thousand-room Government Secretariat, called the Singha Durbar. It was difficult to realize that only 15 years ago this was the home of the Rana prime minister. We passed through his trophy room adorned with assorted tiger and leopard heads, and through the chamber of distorting mirrors, another relic of the fun loving Ranas (which delighted the Nepalese dignitaries attending this function), and entered the ornate and chandeliered reception room. Here, the Russian Ambassador and Mr. B.B. Thapa, Secretary of the Ministry of Economic Planning, signed the aid document. I estimated there were about 50 to 60 Russians in the room, an equal number of Nepalese, and about 15 to 20 others, but no Chinese. The vice-

chairman of the Council of Ministers made a brief speech in Nepali, which was translated -- into English. He said that when he visited Moscow last year he had told Mr. Krushchev that Nepal needed an agricultural implement factory. Mr. Krushchev had said that it would take some time to consider. The Nepali had replied, "Alright, I'll wait, but I can't return home empty handed." The Russians agreed to send their survey team and we were celebrating the outcome of their mission.

### Other Aid

In comparison with the big four, other countries are involved to a much smaller, though still significant extent. For example, Britain, which has had special relations with Nepal ever since the British victory in 1816, has offered £1 million for projects of Nepal's choice. In addition they have helped with forest development, helped to establish a Botanical Garden, and installed power plants.

Switzerland has taken a particular interest in Nepal because of their geographic similarities. The Swiss helped to develop dairy farming and there is now a modern dairy in Kathmandu which supplies fresh pasteurized milk, cream and yoghurt, to the residents of the capital. Another innovation is a cheese factory. The Swiss have also helped to set up a cottage industry at the Tibetan refugee camp at Patan, about four miles from Kathmandu. There, rugs, jackets, and boots are made according to traditional Tibetan design and sold to tourists.

Other countries which have contributed to Nepal's development include New Zealand, Australia, Canada, Japan, West Germany, and Israel. In addition, the United Nations and five of its specialized agencies are active in the country, and the Ford Foundation has also made a major contribution.

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A major problem for Nepal however, has been the embarrassing inability to make use of all the aid. For example, during the first Five Year Plan, only 35% of the budgeted amount (90% of which was pledged by foreign aid) could be used. The reasons for this are shortage of trained manpower and lack of administrative machinery. To help solve the manpower problems foreign countries have rallied round with offers of fellowships to train Nepalese abroad. As Table I shows, most have gone to India. The Chinese have tended to give training in subjects related to their technical assistance projects, and the Russians prefer to take students and give them five to six years training. There was some concern however, that many students who return are not making use of their overseas training. This did not seem to be true of those who had been to the United States and I found that about 95% of these appeared to be in jobs at least related to the training they had received in the States. The average length of time for an

American sponsored scholarship is nine months.

TABLE I

NUMBER OF NEPALESE WHO STUDIED ABROAD 1951-61

<u>Subject</u>	<u>Country giving scholarship</u>					TOTAL
	India	Nepal Govt.	U.S.A.	U.K.	Other	
General education	224	67	77	18	29	415
Agriculture	194	30	25	1	29	277
Engineering	389	19	10	105	80	603
Health	240	73	66	23	16	418
Other	354	-	49	15	32	450
TOTAL	<u>1,401</u>	<u>189</u>	<u>225</u>	<u>162</u>	<u>186</u>	<u>2,163</u>

There are indications that all this assistance is beginning to have some effect. A review made at the end of the first year of the current Three Year Plan showed slight improvement in the economy of the country. At the same time the strategic importance of the area is increasing. King Mahendra has recently asked Britain and the United States for military assistance, to modernize his armed forces. The Prime Minister of neighbouring Bhutan was assassinated while I was in Nepal and unofficial talks were in progress to "explore the possibilities of a confederation of Himalayan States", to include Tibet, Nepal, Bhutan and Sikkim. All the while the Nepalese sit tight, listen to whatever anyone has to say, accept all that anyone has to offer, and try to maintain their independence and integrity. I couldn't help but be reminded of an old adage from my native Yorkshire:

'Ear all, see all, say now't,  
Eat all, sup all, pay now't,  
And if tha does owt for now't  
... Do it for thee sen!

Yours sincerely,

*C.H.G. Oldham*

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