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Navigating Infrastructural Rivalries in Global Politics: The MCC, the BRI, and Nepal's Domestic Agency

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ABSTRACT
This article examines the nature and impact of US–China competition on international infrastructure financing by analysing the China-financed Belt and Road Initiative (BRI) and the US-backed Millennium Challenge Corporation (MCC) in Nepal. Inductively building from the case of Nepal, it argues that competition in infrastructure financing is not new, but it has become more competitive, with these states using three strategies to promote their initiatives: *political lobbying, people-centred diplomacy*, and *high-level visits*. The article also highlights the paradoxical impact of competing infrastructure schemes in recipient states. Competitive promotion of these schemes has impacted domestic politics, fostering controversies around nationalism and sovereignty, and accentuating political polarisation in Nepal, but it has also enabled domestic political actors to scapegoat these schemes to enhance their political standing and portray themselves as more nationalistic than their opponents. Reconciling such political divisions has led to multiple delays and renegotiations of the schemes, ultimately shaping the scope of the BRI and the MCC. The article offers a corrective to the broader scholarship in International Relations by highlighting the agency of political elites and centrality of domestic politics in recipient states, as well as the domestic effects of international infrastructure financing.

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Introduction

In May 2017, Nepal signed up to the Belt and Road Initiative (BRI), the China-led infrastructural development initiative seeking to connect East Asia, Southeast Asia, Europe, Africa, and beyond through a vast network of road, rail, and sea links. The BRI has been celebrated in Nepal as a vehicle to address the country's persistent underdevelopment through 'infrastructure development' and 'cross-border connectivity' (Sharma & Chhetri, 2022). More significantly, the BRI has been pitched as a pathway to address landlocked Nepal's dependency on its southern neighbour, India, for trade and transit issues (Pyakurel, 2019). In February 2022, five years after joining the BRI, Nepal's parliament ratified the US$500 million Nepal Compact, a US-funded infrastructure grant under the Millennium Challenge Corporation (MCC), after multiple protests and rounds of consultations between political parties. In the lead-up to the ratification, the MCC

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became shrouded in controversy due to its alleged links to the US government's broader security policy in the region, the Indo–Pacific Strategy (IPS), which would have significant implications for Nepal's long-held policy of non-alignment and its commitment to alternative financing mechanisms such as the BRI.

The controversy polarised Nepali domestic politics, with leaders and parties divided as 'pro' or 'anti' MCC. Further, infrastructure financing became intertwined with debates on sovereignty. Beyond domestic divides, the furore over the MCC also saw heated diplomatic exchanges between US and Chinese officials, with US diplomats accusing China of a 'disinformation campaign' against the MCC (The Print, 2022). Chinese diplomats not only objected to Nepal's ratification of the MCC, but also called out the 'coercive American practices' being used to sell their infrastructure initiative (Global Times, 2022). In other words, US–China competition was overtly manifesting in small states in South Asia with infrastructure financing becoming the relatively new theatre of such contests (Mulmi, 2022). It also demonstrated the domestic political impact of such competition in the recipient states, and how small states such as Nepal not only sought a balance between the two global powers, but also to bargain on the terms of such initiatives to suit their interests (Acharya, 2022a).

With this background, this article seeks to examine two interrelated questions. First, it considers how the US and China have promoted infrastructure financing schemes in Nepal, and the nature and practices of such schemes. Second, it explores the impact of such competing models of infrastructure financing on recipient states. Conceptually, the article borrows from and builds on the scholarship on US–China competition, and the changing world order. Debates around US–China competition, its impact on various aspects of global governance, and the response of other states to this rivalry have been well-documented in International Relations (He & Li, 2020). The extant scholarship highlights the recent manifestations of this competition, including the US's rebalancing effort to strengthen its engagement in Asia, Washington's trade war against China, China's maritime claims in the South China Sea, China's BRI, and the US's championing of the 'Free and Open Indo–Pacific Strategy' as a counterbalancing strategy (Li, 2020). In exploring these questions, the article engages two key dimensions of the broader debate. First, it offers an empirical intervention. While much IR research on US–China competition has focused on Southeast Asia – particularly the 'hedging' strategies adopted by states in response to structural pressures (Han, 2018; Liang, 2018) – this article shifts attention to South Asia, with a focus on Nepal, offering novel regional insights. Second, it contributes to a growing body of literature that examines how US–China rivalry plays out across global regimes, including economic governance (Hopewell, 2020), development assistance (Woods, 2008), and peacekeeping (Lei, 2011), by foregrounding global infrastructure financing as a critical arena of geopolitical competition. An extensive literature has analysed how infrastructure projects and their financing have become sites of US–China rivalry, unfolding across multiple scales – from national to urban to rural contexts – and how recipient states exercise agency in shaping projects, thereby constraining the strategies and options of both powers (Hopewell, 2020; Lei, 2011; Schindler & DiCarlo, 2022; Woods, 2008). Complementing this work, scholars in geography and anthropology have analysed infrastructure development through more grounded and localised perspectives, focusing on its material effects on developing

states and populations, as well as the agentive role of recipient governments (Gurung, 2021; Murton & Lord, 2020; Paudel & Le Billon, 2020; Rankin et al., 2017). Departing from dominant macro-level approaches in IR, this article methodologically and discursively adopts a recipient state perspective through an inductive analysis by systematically process-tracing the evolution of competing infrastructural financing initiatives in Nepal.

Methodologically, the article draws on the Digital Himalayan archives of the *Nepali Times*, a premium weekly newspaper; inferences from 21 interviews conducted between 2017 and 2018 with political leaders, civil society representatives, and scholars; along with a review of secondary sources, including Nepali-language sources. The article also undertook a systematic review of all the articles, reports, and news features that discussed the BRI, the MCC, or both in the *Nepali Times* between 2017 and 2023. Articles were filtered out so that the results only mentioned status updates for the BRI or the MCC (e.g., the date of signing) without further details or featured only international aspects of the BRI (examples of other countries signing up to the initiative). We created a list of 37 items to genealogically trace the origins of the MCC and the BRI and the domestic discussions on these schemes (see Appendix 1 for reference).

The article proceeds as follows. First, it examines the increased focus on global financing in the wider US–China competition in South Asia. Next, it historically appraises Nepal's navigation of US–China competition. The article then highlights the nature of the US–China context by examining the assertive push for the MCC and the BRI in Nepal by the US and China respectively, before discussing the paradoxical impact of competing infrastructure financing schemes as it intersects with power dynamics in domestic politics. The conclusion rounds out the article.

The Geopolitics of Global Infrastructure Financing: The US and China in South Asia

Discussions around a global power transition, marked by a decline of the West and the rise of non-Western states such as China, have led to animated debates about how China would compete with or engage the US (Kupchan, 2012). The dominant focus has been on competition in the global trade regime, engagement in the Security Council, and development assistance. Beyond this, a nascent body of work has examined how such competition is materialising in infrastructure building or financing. Characterised as 'conflict of connectivity' (Abels & Bieling, 2022), 'competing infrastructure financing policy' (Katada & Liao, 2020), and 'infrastructure statecraft' (Zhao, 2023), these scholars have focused on how major powers are engaged in strategic competition in infrastructure-building in the Global South to enhance their influence and consolidate their leadership.

This focus on infrastructure, while not new in general, marks areturn to the US prioritising infrastructure financing, as it responds to China's growing global infrastructure-financing drive. This body of work is significant in two ways. First, unlike other regimes of global governance, including human rights and economic governance, where Western states have dominated discursively as well as in their financial contribution (Hurrell, 2006), China has for decades financed 'infrastructure development' in developing countries through loans and grants, and thus has the 'first-mover' advantage

in several regions. From the Araniko Highway built in the 1960s in Nepal, to the Bandaranaike Memorial International Conference Hall in Sri Lanka in 1973, to the Tanzania–Zambia railway built in 1976 as one of the most iconic infrastructure projects in Africa, China has historically focused on large-scale infrastructural and architectural projects (Chang et al., 2019). Chinese development assistance has been distinguished from that of Western countries given the former's focus on 'infrastructure', often in the form of turnkey projects with limited conditions on economic and political reforms (Bräutigam, 2011). China is also seen to have a comparative advantage in building physical infrastructure compared to G7 countries, with more effective project-management skills, cost controls, and access to cheaper construction workers and materials (Rana, 2021). The BRI has consolidated and scaled this momentum for infrastructure financing. Alternatives initiated by countries such as the US or Japan are often seen as a response to the BRI, especially as it has sought to change patterns of global connectivity and transport, introduce a new economic model of development, and consolidate China's position as an economic power (Gaens & Sinkkonen, 2023).

Second, this focus on infrastructure also mirrors foreign policy priorities, with 'infrastructure' increasingly becoming the new frontier of geostrategic competition (Leonard, 2021). Such competition is evident in the prioritisation of infrastructural financing by several states. In response to the BRI, Japan unveiled the Partnership for Quality Infrastructure Initiative to promote 'quality' infrastructure investment, engendering the largest foreign aid expansion programme in decades (Mao, 2023). The EU's 2018 Europe–Asia connectivity strategy, similarly, aimed to deliver 'sustainable, comprehensive, and rules-based connectivity', which is the EU's alternative to the BRI (Grieger, 2021). Similarly, the US has proposed the 'free and open Indo–Pacific strategy' and 'Partnership for Global Infrastructure and Investment', which compete with the BRI and build networked coalitions with its allies to implement these projects (Zhao, 2023). Within the broader push for infrastructure and connectivity by the US, the Millennium Challenge Corporation (MCC) preceded the BRI. The MCC was created in 2004 to provide assistance to the world's poorest countries to enable them to reap the benefits of globalisation (Soederberg, 2004), and focused largely on infrastructure and agricultural development projects. However, the MCC's integration into frameworks such as Build Back Better and its promotion as part of the wider Indo–Pacific strategy are novel (Runde, 2017). Despite predating the BRI, the ferocity with which the MCC has been promoted as an 'infrastructural' programme also follows the BRI: it was the only institution to have its budget increased under the first Trump administration, despite significant cuts for other institutions such as the United States Agency for International Development (USAID) (Davies, 2018).

While insightful, this body of work on the geopolitics of infrastructure financing has largely focused on competition from the perspectives of the US and China, their narratives, and their motivations. Such top-down approaches, however, overlook the agency and perspectives of recipient states in navigating this infrastructural contest. Little is therefore known about the complex interplay between structural/global factors and domestic politics, which has long been recognised to be critical in International Relations (Chaudoin et al., 2015). Further, if insights from the extensive research on the BRI's impact on host states is to be invoked, there is a growing acknowledgement of the agency of recipient states in shaping infrastructural projects to suit their needs rather than

acquiescing to China's priorities (DeBoom, 2020; Mansour, 2020). Such inferences on the agency of recipient states gain added salience when applied to contexts such as Nepal, which have hosted competing infrastructure initiatives, given the added advantage of playing off different infrastructure finance providers (Mohan & Lampert, 2013).

A Historical View of Nepal's Relationship with the US and China

Nepal's navigation of the US–China contest has a historical precedence rooted in its very geography. Hemmed in by India and China, Nepal's foreign policy has, accordingly, been centred on balancing these two neighbours, often by diversifying relations with countries outside the region, including the US (Shaha, 1978). Similarly, historically, Nepal's geographical proximity to China and India has been the main factor determining the interest of major powers such as the US in Nepal (Khadka, 2000).

China–Nepal relations and the Tibet question

China's bilateral relations have shaped its perceptions of security threats and economic interests (Liu & He, 2023). In Nepal, the former dominates. Nepal's strategic significance for China lies in its shared boundary of 1,236 kms with Tibet, the contested province of Southwest China (Dabhade & Pant, 2004). Chinese occupation of Tibet in 1950, the resulting flow of Tibetan exiles across the border to Nepal, and the accompanying 'Free Tibet' mobilisations that threaten the sanctity of China's 'One-China' policy have heightened Nepal's significance for China (Karki, 2013).

China's relations in Nepal, until recently, focused on development assistance, defence partnership, and cultural relations, and politically centred on its support to Nepal's monarchy (until 2006, when Nepal transitioned to a republic). Infrastructure has been a key focus within wider international development. China has funded the construction of major infrastructure arteries of the country, including the Araniko Highway linking Kathmandu, the capital city, with Tibet, Kathmandu's Ring Road, the dry port in Rasuwagadhi along the Chinese border, and the Kathmandu–Rasuwagadhi optical fibre project. Besides these, China has provided concessional loans for the construction of Pokhara International Airport and the Trishuli Hydropower Project. This infrastructural focus has complemented the domestic political narrative where connectivity has been promoted as a strategy of national integration and a pathway for development and modernisation (Schindler et al., 2022).

Beyond its developmental contribution, China is important to Nepali political elites in providing a critical counterweight to dependence on India (Rose, 1973). Successive regimes in Nepal have pushed for closer cooperation with China when relations with India have deteriorated (Ghoble, 1992). Occasional political mobilisation of the Tibetans, however, has failed to completely assuage China's concern about Nepal being used as a launchpad for the Free Tibet movement (Karki, 2013). Such mobilisations coincided with domestic political changes in Nepal in the mid-2000s, where Nepal transitioned from a monarchy to a republic and from a centralised state to a federal one.

Such radical changes in the constitutional framework of Nepal posed challenges for China's foreign policy towards Nepal. Until 2006, China relied on its good relations with Nepal's monarchy to ensure its core interests in Nepal were protected. However, with the

abolition of the monarchy and other related political changes, including a new constitutional order post-2006, China was compelled to rethink its Nepal policy. Consequently, China has sought to diversify its engagement at all levels of Nepali society, including different state agencies, political parties, and media in a bid to cultivate loyalties that could alleviate its security concerns (Adhikari, 2017). China has focused on strengthening its cooperation with Nepal's security agencies, including training, equipment supply, joint exercises, scholarships for Nepali military personnel in Chinese military universities, and high-profile visits, as well as infrastructural support through building the training academy of the Nepal Armed Police Force (Bogati & Strasheim, 2019).

Beyond the security-related priorities, a secondary priority for China in expanding connectivity in Nepal is driven by its domestic pursuit of opening and developing its less developed provinces, including the Tibet Autonomous Region (TAR) (Mathou, 2005).

The US role in development and peacebuilding

The US engagement in Nepal has historically been connected to apprehensions about China, be they in the form of the 'Communist' threat that China posed or the question of Tibet. The early interests of the US in Nepal stemmed from keeping a watch on India, which then was regarded as a Soviet ally, based on the assumption that New Delhi was not equipped to counter the Chinese aggression on its own (Khadka, 2000; Rose, 1973). Accordingly, the US extended diplomatic recognition to Nepal in 1947, and in 1951 started its developmental assistance programme in the country. The US began to use aid systematically to achieve its foreign policy goals (Khadka, 2000).

Over subsequent decades, development assistance has been a core pathway for US influence in and access to Nepal (Dixit, 1997). In comparison to China's infrastructure focused projects, US development assistance has been more diverse, across various sectors, including health, education, and governance. This has enabled well-entrenched partnerships with civil society organisations and government institutions, which has given the US significant leverage over Nepal's key policy decisions across various sectors of governance. Despite this leverage, the US's proactive political engagement in Nepal is only recent. The terrorist attacks of 11 September 2001 on the US, and the accompanying war on terror policy, resulted in the US extending military aid to Nepal, which at the time was undergoing a civil war waged by Maoist rebels (Adhikari, 2017). During the decade-long peace process (2006–2015), American development assistance, along with networks of American civil society groups and experts, provided key inputs to the promotion of the rule of law, democratic strengthening, and minority rights (Sharma & Harper, 2018). Understanding this history of Nepal's dependence on US aid is significant, as the US has sought to make Nepal's ratification of the MCC a condition for the continuation of its developmental aid, as is examined below.

US–China Competition in Infrastructure Financing: The BRI and the MCC in Nepal

In 2017, Nepal formally committed to the MCC Compact, which pledged US$500 million worth of funding, with Nepal investing another US$130 million. The preparatory work for the MCC, however, started as early as 2012. Eligibility for MCC funding is based on

17 indicators that measure a country's relative performance in the areas of good governance, investments in health, education, and environment, and its economic policies (Hewko, 2022). Until 2012, Nepal's civil war, and concerns over governance, were thought to preclude it from being eligible for the MCC. After 2012, working with USAID, Nepali planners identified priority areas that could catalyse economic growth, including the Hetauda–Damauli–Butwal 400kVA transmission line, and rehabilitation of 305 km of highways from Itahari to Kakarvitta and Pokhara to Butwal (Nepali Times, 2019). As a country rich in the potential for hydropower, the imperative for the transmission lines was that they would facilitate energy trade with India and stimulate the economy.

Despite Nepal being the first South Asian country to qualify for the compact and this being the largest grant Nepal has ever received for a project, the MCC was shrouded in controversy. Debate surfaced around the conditions Nepal had to fulfil as a part of the project, including that the MCC needed ratification by parliament (which would set a precedent for other foreign investments in Nepal) and that the grant had to comply with MCC-related provisions above Nepali law. A further controversy was approval from India, which was the primary market for the energy exports from the electricity generated through MCC projects (Roka, 2022). Political parties opposing the MCC argued that the MCC could not be ratified because this had not occurred in similar cases, such as the BRI in 2017 (Jha, 2020). However, most divisive was the controversy about whether the MCC was part of the US's Indo–Pacific Strategy. The controversy started in late 2018, when the US Secretary of State Mike Pompeo told visiting Nepali Foreign Minister Pradeep Gyawali that Nepal was a 'strategic partner in the US-led Indo–Pacific Strategy' (cited in Ghimire, 2018). In 2019, during his visit to Nepal, David J. Ranz, the Assistant Secretary for South Asia at the US State Department, reiterated that the MCC was part of the Indo–Pacific Strategy. After this, the MCC transformed from a 'developmental' initiative to a 'geostrategic one', dividing the political landscape into those who favoured it and those who opposed (Mulmi, 2022).

Views about what the MCC meant for Nepal's long-tested foreign policy principle of non-alignment and what it meant for Nepal's immediate neighbours, India and China, also dominated the discussions. Some political leaders toed the nationalist line and called for the rejection of the MCC, arguing that clauses in the agreement violated Nepali sovereignty and would invite US interference in its domestic politics and economy. Many further asserted that the MCC could be considered as a part of the US government's economic diplomacy under the Indo–Pacific Strategy, and thus, as a response to China's equally assertive economic diplomacy through the BRI (Ghimire, 2020). Nepal's government, in turn, publicly stated that it would reject the MCC if it affected ties with neighbouring countries (Kumar, 2021).

Similarly, in May 2017, after decades of discussion on greater connectivity, Nepal and China signed a Memorandum of Understanding on bilateral cooperation under the BRI framework. This situated the MCC as the 'other' infrastructural initiative. Nepal followed a wider pattern across South Asia, where since the late 2000s, China has increased its aid portfolio and footprint in what India traditionally sees as its backyard (Ramachandran, 2022). When Nepal signed on to the BRI in 2017, several Chinese-facilitated development projects had already been completed decades earlier, and new projects in Rasuwa, Gorkha, and elsewhere were already underway or being discussed (Murton et al.,

2016). However, China's plan to extend the Lhasa–Shigatse railway further down to the Nepali border, and its proposition on multi-dimensional connectivity with Nepal, including highways, railways, airways, optical fibre, and transmission lines as a part of the BRI framework, found an immediate resonance with and interest by Nepali political elites, who saw it as a pathway for reducing the country's dependence on India for trade and transit.

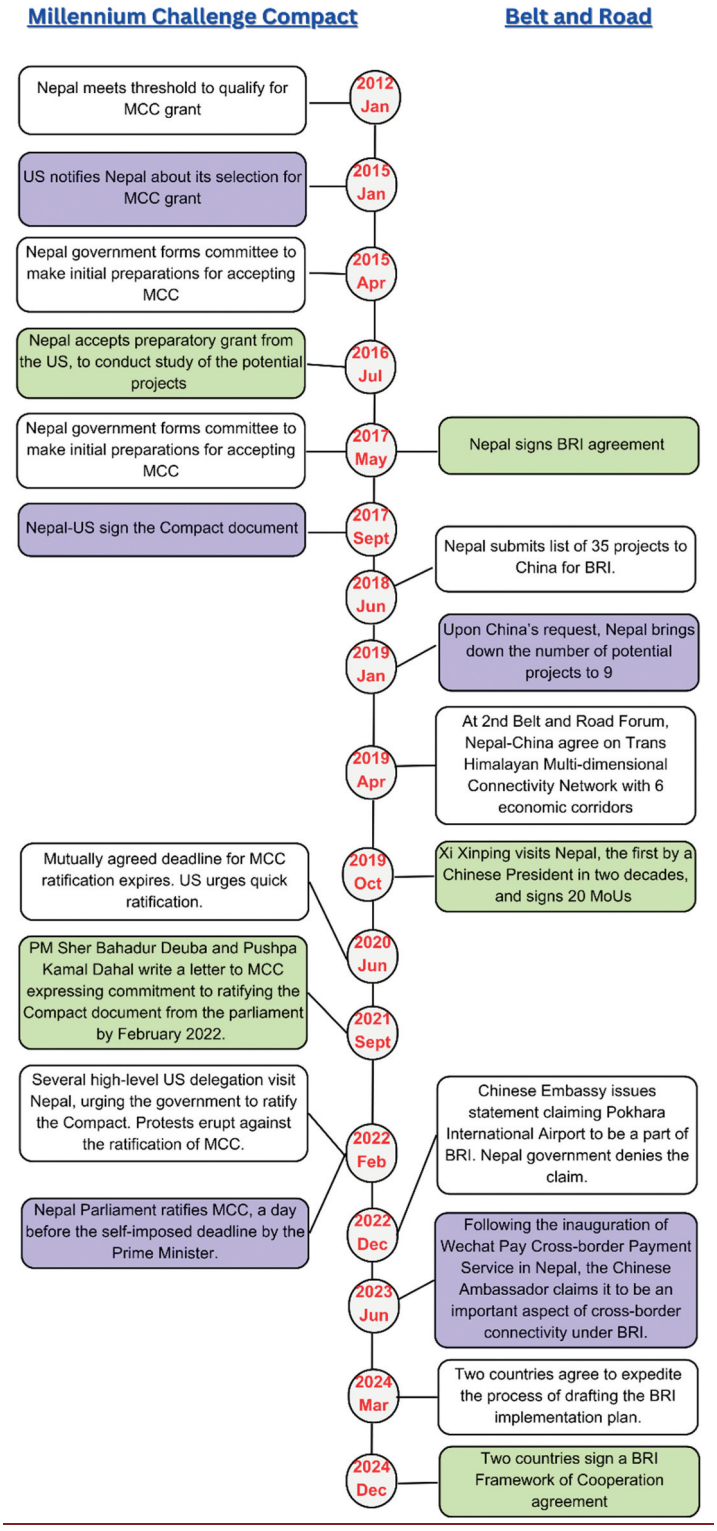
Despite the political class and much of civil society being attracted to the benefits of the BRI, Nepal has not prominently featured in the scheme's major corridors (Pyakurel, 2019). However, the political context of India–Nepal relations since 2015 has made Nepal's joining the BRI remarkably important. Its decision to join the BRI closely followed the 2015 India-supported blockade of key border points. India supported protestors from the southern plains of Nepal, who were demanding more inclusionary provisions in the constitution promulgated in 2015, by blocking trade and transit routes to India and choking the Nepali economy. The government led by Prime Minister KP Oli that came to power in the same year was eager to expedite economic diplomacy with Beijing and open alternative trade and transit routes. When he was returned to power after the 2017 elections, his government signed on to the BRI and identified a list of 35 potential projects, which were shared with the Chinese side during Oli's visit to Beijing in June 2018. Thus, while development partnerships such as the BRI were seen by many developing countries as a means of funding their infrastructure gaps, for Nepal this was also an opportunity to circumvent its historic dependency on India through robust connectivity with China (Paudel & Le Billon, 2020).

The initial enthusiasm for the BRI has, however, been moderated by concerns in other Asian and African countries about the scheme being a 'debt-trap'. The BRI has included projects such as the upgrading of the Kathmandu to Rasuwagadhi road leading to the Kerung border, a cross-border transmission line and feasibility study for the trans-Himalayan railway, and the Tamor hydroelectricity project, which is expected to generate 762 megawatts of electricity, but few of these projects have commenced due to bureaucratic and administrative hurdles. For instance, it is unlikely that the estimated US$1 billion Tamor hydroelectricity project will proceed. Given India's reluctance to purchase electricity from China-funded projects, unless the Nepal Electricity Authority agrees to purchase the electricity entirely for domestic consumption, or the generated power is exported to the Chinese market, the project is likely to stall (Basnet, 2022). The only project proposed as part of the BRI that has made speedy progress and has been completed on time is the cross-border Kerung–Rasuwagadhi–Kathmandu optical fibre line (Sharma, 2018). Table 1 shows the timeline for the adoption of the MCC and the BRI.

Assertive and competitive promotion of the BRI and the MCC

Since the BRI and the MCC were negotiated almost simultaneously in Nepal, the two initiatives have often been compared. Further, with confusion over what projects the BRI included, and whether the MCC was part of the broader Indo–Pacific Strategy, both financing schemes intersected with debates on sovereignty and nationalism. Such domestic controversy escalated with the US and China's overt competition in promoting their infrastructural initiative while discrediting the other, with the occasional war of words

Table 1 Timeline of Evolution of MCC and BRI



Source: Based on review of multiple documents by the authors

between the two. To do so, the US and China have relied on three distinct pathways: *political lobbying*, wider *people-centred diplomacy* to highlight the uniqueness of their own infrastructural initiative, and *high-level visits* to reinforce commitment to their initiative. These three categories are inductively derived through document analysis and interviews in Nepal, but similar strategies are noted in the scholarship on China's emerging international engagement in other contexts. For instance, China's intensive lobbying has been noted even in countries such as Australia and the US. In Australia, Beijing-linked donors directly paid prominent politicians to shape Australian foreign policy more favourably towards China (Kurlantzick, 2022). Similarly, Yang et al. (2023) highlight how China increasingly focuses on public diplomatic engagement, especially in countries with anti-China protests. Likewise, Kastner and Saunders (2012) map high-level visits of Chinese representatives to argue that factors such as relationships with neighbours, relationships with the major powers in the international system, and outward FDI significantly affect the decisions by leaders to travel.

The US continued to lobby for Nepal's acceptance and ratification of the MCC, with multiple political parties governing at different times. Between 2018 and 2019, when Nepal had a left-wing government led by KP Oli, senior American diplomats such as Mike Pompeo, David J. Ranz, and Joe Felter met with Nepali ministers to lobby for the MCC. However, due to Nepal's internal political disputes, the government failed to get the compact endorsed through the parliament within the agreed timeframe of June 2020. Following the change in government in July 2021, a new round of lobbying from the US began. In September 2021, the MCC's Vice President Fatema Z. Sumar led a delegation to Nepal to dispel security concerns expressed by the government about the compact. In November 2021, the MCC Deputy CEO Alexia Latortue met Nepali Congress leader and Prime Minister Sher Bahadur Deuba on the sidelines of the COP26 conference in Glasgow, to inquire about the progress on MCC ratification. Within the next two weeks, another delegation led by the US Assistant Secretary of State Donald Lu landed in Kathmandu to meet the leaders of all three major political parties, including former Prime Minister and opposition UML leader KP Oli, then-Prime Minister and NC leader Sher Bahadur Deuba, and his coalition partner Pushpa Kamal Dahal of the Maoist party (OnlineKhabar, 2021). Lu followed his meetings in Kathmandu by calling all three leaders in February 2022, sending a clear message about the US's displeasure over Nepal's indecisiveness (Bagale, 2022).

The US also engaged in wider diplomacy for greater acceptance of the MCC through press releases and public engagement. It depicted the MCC as unique and highlighted its differences from the BRI. For instance, the MCC said that its partnership was 100 per cent funded by grants, unlike loans under the BRI. Likewise, it noted that Nepalis would lead the compact project teams and would be accountable to Nepali stakeholders for their decisions and results, which it sought to contrast with the persistent critique that China's loans and infrastructure projects mainly used Chinese labour (US Embassy Nepal, 2022). Similarly, in February 2019, the US Deputy Assistant Secretary of Defense, Joseph H. Felter, spoke to a group of journalists in Nepal about Chinese aid diplomacy and stated that Nepal should ensure that it benefitted from the BRI, rather than the scheme merely serving 'China's economic interests' (Giri, 2019). Such advocacy was further augmented by a series of high-level visits. In late 2021, high-ranking MCC officials, including Vice-President Fatema Sumar, visited Nepal to meet the country's top

leaders after the Finance Ministry raised concerns about the grant. In February 2022, the US Assistant Secretary of State, Donald Lu, reminded the leaders of Nepal's major political parties of the need to ratify the MCC and said non-ratification could have consequences for US–Nepal bilateral relations. Lu allegedly added that Nepal's non-ratification of the MCC would be understood by the US as having been informed by pressures from China (Lamichhane, 2022).

On the Chinese side, as part of wider political lobbying to influence the political dynamics surrounding the BRI, Chinese Ambassador Hou Yanqi overtly worked to keep the Left Coalition – an amalgam of various Communist parties formed in 2018 – unified. While the CPN (Maoist Centre) withdrew from the coalition in 2021, enabling a new government to be formed under the Nepali Congress (NC), China has continued with its attempts to reunify. Ambassador Hou's term, which began in December 2018, has been characterised by new scrutiny of China's perceived influence in Nepali politics as well as Nepal's professed policy of non-alignment (Mulmi, 2023). Contesting the MCC in Nepal, the Chinese Foreign Ministry spokesperson, Wang Wenbin, in February 2022 stated that the MCC demonstrated the US's 'coercive diplomacy' and outlined how China would support Nepalis in 'independently finding a path to development' (Wang, 2022). Another Chinese Foreign Ministry spokesperson, Hua Chunying, asked if the MCC was a 'gift from the American people or a pandora's box' (Global Times, 2022). The Chinese Embassy in Kathmandu condemned a statement by the US Deputy Assistant Secretary of Defense, Joseph H. Felter, as 'fabricated' and intended to disrupt friendly ties between Nepal and China (Koirala, 2019a).

This has been substantiated by a flurry of high-level visits and calls to political leaders. In 2022, Chinese Foreign Minister, Wang Yi, made an unexpected three-day visit to Nepal on the heels of the ratification of the MCC (Ministry of External Affairs, People's Republic of China, 2022). In December 2021, Vice Minister Chen Zhou of the International Department of the Communist Party of China (CPC) is said to have held a video conference with Nepal's then-ruling party, where the MCC was discussed, with the Secretary asserting that Nepal would not allow activities that were detrimental to bilateral relations.

Fragmented Domestic Politics and Domestic Divisions amid US–China Infrastructure Rivalry

The US–China contest has created structural pressures that have exacerbated political divisions in Nepal. Its fragmented polity is characterised by multiple political parties, intra-party factionalism, and ever-changing coalitions, so achieving consensus on infrastructural initiatives requires broad-based and continued support of subsequent governments.[1] Such domestic political divisions also mean that various political parties and factions use 'nationalism' to outbid each other and argue that their opponents' stance on a given global initiative is not 'nationalist' enough.[2] The overt competition between the US and China, which discredits the other's infrastructure financing scheme, has further exacerbated these divisions.

Broadly, in Nepal, the leaders of communist parties appear to be more welcoming of Chinese engagement, such as the BRI, as they have an institutional relationship with the Chinese Communist Party (Nepali Times, 2021b). On the other hand,

Table 2. Official Positions on the MCC by Various Political Parties

Party	Status	Official position	Exceptions
Nepali Congress	Opposition (2017–20)	Ratification	
	Government (2021–23)	Ratification	Support for 'interpretive declaration' by some leaders
CPN–UML	Government (2017–20)	Ratification	UML merged into Nepal Communist Party (NCP) but opposition by some senior leaders
	Opposition (2022–23	Ratification (with interpretive declaration)	NCP split and opposition by senior leaders such as Bhim Rawal
CPN–Maoist Centre	Government (2017–20)	Opposition	CPN–MC merged into NCP, but leaders from the party, notably Dev Gurung, Krishna Bahadur Mahara, and even Pushpa Kamal Dahal spoke against the MCC ratification
	Government (2021–23)	Ratification (with interpretive declaration)	NCP split with some senior leaders such as Dev Gurung continuing to oppose the MCC ratification
CPN–Unified Socialist	Government (2021–23)	Ratification (with interpretive declaration)	Split from NCP, Opposition by senior leader Jhala Nath Khanal
Janata Samajwadi Party	Government (2021–23)	Ratification	No known disagreement

Source: Based on review of multiple documents by the authors

Nepal's largest non-communist party, the Nepali Congress, has historically maintained strong relations with India and the United States, and thus has been more comfortable with commitment to the MCC (Subramanian, 2022). However, such neat categories have not always held firm since there are intra-party divides on the MCC, and political coalitions often contain a mix of pro- and anti-MCC forces (see Table 2). Furthermore, decisions on the MCC have become pressure tests for governments to survive. For instance, the issue of ratification led to the near-collapse of the Deuba-led coalition, which governed from July 2021 to December 2022. Deuba's party wanted to swiftly ratify the MCC, while the coalition partners, the Communist Party of Nepal (Maoist Centre) and the CPN (Unified Socialists), resisted (Giri, 2021). Their opposition was consistent with their view of opposing the MCC while part of the Left Unity government led by UML's KP Oli. The leaders of both communist factions were worried that their sudden change in position would cost them dearly during the elections scheduled for November 2022. Maoist leader Dahal and CPN(US) leader Madhav Nepal therefore assured Deuba of their support but continued to criticise the MCC compact in public. Worried about the 'nationalist backlash', some Congress leaders who were Deuba's intra-party competitors also expressed their reservations over the compact, and wanted to attach an interpretive declaration before agreeing to ratify it (NepalPress, 2022).

Alongside the political divisions, there was also a strong nationalist tendency among some of Nepal's media and civil society, their ideological differences notwithstanding, who have continued to see the MCC agreement as part of the larger US strategy aimed against a friendly neighbour, China. Concerns over whether political parties and their leaders may prioritise their own interests over that of the nation, undermining Nepal's sovereign foreign policy based on non-alignment and maintaining a fine balance between two nuclear-powered neighbours, have been widely expressed through editorials and

comment pieces. For instance, the Chairman of Rastriya Janamorcha, Chitra Bahadur KC, argued that the terms and conditions enshrined in the MCC should be thoroughly studied so that it can be determined if Nepal can benefit:

> During the time of the Mahakali Treaty, we used to be told about its advantages. Did we manage to take advantage of it? . . . In the past, we presented ourselves in such a way that external forces always play with our weakness. Our politicians and administrators are bribed and tempted for treacherous pacts (cited in Subedi, 2020).

Another leader, Bhim Rawal, argued:

> I am not against accepting US aid, but I believe the aid should be in line with our national interest, sovereignty, territorial integrity and self-respect . . . and if we don't follow our (non-alignment) foreign policy that upholds sovereignty, independence and territorial integrity, we will jeopardise not just our credibility but also national existence (cited in Kathmandupati, 2019).

China's flagship BRI also saw similar contestations among political parties and civil society. The Nepal Congress has categorically stated that Nepal should develop the cross-country railroad proposed under the BRI only through grants. But the communist parties have strongly favoured expediting the project, even if it requires loans.[3] The communist parties acknowledge the risks of loans for a country such as Nepal but seem more eager to appease China. For instance, a new international airport in Pokhara, built through China-funded loans, has failed to generate business (Annapurna Express, 2023). None of the leaders of these parties have spoken out on the BRI in the same way they have about the MCC. Further, communist leaders have even accused non-communist parties of taking rigid positions on the BRI to spoil the relationship with China (Bhattarai, 2023). There have also been wider civil society-led concerns about at least three aspects of the BRI: the economic and financial viability of the selected projects, the high interest rates on loans, and the absence of transparency in the tendering process (Giri, 2022).

Elite agency, domestic politics, and the ultimate scoping of the BRI and the MCC

Despite creating structural pressures, as the competing financing schemes intersect with domestic politics, such schemes have allowed political elites to use the projects to secure their political standing and strengthen their nationalist credentials against their opponents within and outside their own parties. After the 2022 parliamentary elections, this scapegoating of both the BRI and the MCC to beat their rivals increased (Acharya, 2022b). For instance, Pushpa Kamal Dahal, a leader of the Maoist-Centre party, continued to make MCC ratification a bargaining chip in dealing with the Nepali Congress, which was a coalition partner. He threatened that his party would quit the coalition, and deployed his party cadres to the streets to protest against ratification of the MCC, but it later emerged that he had privately co-written a letter with Prime Minister Deuba addressed to the MCC Board expressing support for ratifying the agreement (Pradhan, 2022b). Dahal's public opposition to the MCC was based on an electoral calculation, notably his standing within his party and the coalition government. With significant numbers of party cadres and the general public opposed to the MCC, partly because of the disinformation sowed by the party leaders, Dahal feared that endorsing the MCC would cost his party at the upcoming local elections (Poudel, 2022). Within his party,

Dahal's discontent over Oli's refusal to give him a share of the power within the NCP and his ambition to lead the government widened the rift with Oli and led to the split (Nepali Times, 2021a). Dahal supported the signing of the MCC compact later, when he joined the coalition with NC's Sher Bahadur Deuba-led government, which suggests he was only looking out for his own political interests. Similarly, UML's KP Sharma Oli had backed the MCC when he was in office, but refused to publicly support ratification after his party was relegated to the opposition benches, demonstrating how political parties switch their positions based on narrow partisan interests (Nepali Times, 2022).

The communist parties were more supportive of the MCC deal, but back-tracked once they were in opposition to appease their nationalist base (Pokharel, 2022). This is also true for the BRI, where the communists have been eager to sign bilateral agreements for development cooperation with China while in government, but less keen about such agreements when out of power. This could be because they have realised that there is less clarity when it comes to implementing these agreements, especially under the BRI (Dahal, 2023). The global criticism of China's development model and 'debt-trap' diplomacy could also be a reason for hesitation by Nepal's communist parties, who may be worried about losing their nationalist voter base.

While debate on the BRI and the MCC has a significant domestic political impact and has tested the very survival of governments, domestic political factors have also impacted the scale and scope of both projects, highlighting *the agency of recipient states* in shaping infrastructure. Domestic political groups affected the contours of the BRI and the MCC in Nepal in at least two ways. First, as these projects became contentious, political parties persistently changed their stance on the MCC and the BRI, resulting in *delays due to negotiation and renegotiation*. Second, they sought *revisions* to the initial proposals to accommodate divisions within and between political parties, as well as bottom-up pressures from wider civil society groups, ensuring that the final shape of the BRI and the MCC was markedly different from what the US and China initially envisioned.

As the MCC and the BRI became controversial, Nepali political leaders altered their commitments, thus delaying the process. For instance, the General Convention of the Communist Party of Nepal–Maoist Centre in 2022 overwhelmingly endorsed amendments to the MCC compact, whereas some party leaders publicly called for the compact to be scrapped. To appease his nationalist voters, the party's leader Pushpa Kamal Dahal had previously said that the MCC would not be endorsed without amendments, but as mentioned above, he had privately committed to ratifying the compact and requested additional time to do so (Kathmandu Post, 2022).

Similar delays owing to overt politicisation and the changing positions of political parties have been evident in the BRI and other development projects with China. In 2017, the electoral alliance of the communist parties, the Nepal Communist Party, made development cooperation with China a major part of its manifesto and enthusiastically committed to the BRI (Koirala, 2019b). However, as the NCP split and new governments were formed, these decisions were overturned (Thapa & Karki, 2021). For instance, in June 2016, Prime Minister Pushpa Kamal Dahal's government had selected China Gezhouba Group Corporation to construct the Budhi Gandaki hydropower project, valued at more than US$2 billion. In November 2016, Deuba's government, which succeeded that of Dahal and is thought to be closer to India and the US, revoked the

contract, claiming that the award process had violated the Public Procurement Act (Mulmi, 2021).

Similarly, for the projects to be implemented, political parties had to bridge the divisions within their ranks and between different parties and accommodate multiple concerns. For instance, the 4-party governing coalition of the Deuba government was split right down the middle between supporters and opponents of the MCC: the Prime Minister's Nepali Congress (NC) and the Janata Samajbadi Party supported it, while the Maoist Centre and the Unified Socialists opposed its ratification (Awale, 2022). Further, political parties also faced dissent from within the rank-and-file, where key mid-level leaders differed from their party leaders on the MCC. For example, in February 2020, during the Central Committee of the then-ruling Nepal Communist Party Nepal, the MCC dominated the agenda despite not being a formal agenda item. To address the divisions within the party, the Committee formed a study group to gather suggestions and make recommendations after studying the 'facts'. Any national position on the MCC had to accommodate concerns about the MCC's implications for Nepali laws, concerns about sovereignty, whether the MCC was part of the US's 'grand design' to counter China's BRI, and how it would affect relations with China.

To assuage such concerns, ratification of the MCC compact by the parliament came one day before the expiry of its stipulated deadline on 28 February 2022, but was accompanied by an 'interpretive declaration' to the proposal (Pradhan, 2022a). This 'declaration' also sought to appease the sceptics and attract coalition partners who had previously opposed the MCC (Poudel, 2022). The 12-point declaration stated that Nepal would not be part of any US strategic, military, or security alliance, such as the Indo–Pacific Strategy, and that the Constitution of Nepal would prevail over the compact and associated agreements. To assuage concerns about Nepali ownership, the declaration also asserted that 'audits of all the activities and funds of MCA Nepal shall be conducted by the Office of the Auditor General in accordance with the prevailing laws of Nepal' (Setopati, 2022).

Similarly, to accommodate concerns within and among political parties about the BRI-related loans and tendering process, Nepal has delayed the finalisation of BRI projects. Despite Chinese President Xi Jinping's high-profile visit to Kathmandu in October 2019, no agreement was reached on the list of projects to be initiated under the BRI (Giri, 2022). Instead, Nepal has continued to lobby for inclusion of a grant component in the BRI, leading to the negotiations becoming protracted and project timelines being revised. Despite Beijing's active lobbying and assurances from some Nepali leaders, all major parties voted in favour of ratifying the MCC (Roka, 2022).

Conclusion

This article highlights how 'infrastructure financing' has taken a geostrategic turn with US–China competition becoming more overt and combative. The article has also empirically unpacked how such structural tensions have impacted and created further divisions within the political settlement. Rather than seeing the scope and intensity of such infrastructure initiatives as being dictated by the US and China, however, the article has also demonstrated how the agency of domestic political actors in recipient states, and

their political contexts, has shaped the contours of infrastructure projects. It argues that the reconciling of such domestic divisions over the type and modality of infrastructure financing has engendered delays and renegotiations of the original agreements and ultimately shaped the scope and pace of the BRI and the MCC in Nepal.

Through these findings, the article contributes to three broader debates in International Relations that go beyond the case of Nepal. First, it decentres the conversation on US–China competition from structural factors to focus on the 'agency' of recipient states by arguing that domestic contexts in states such as Nepal, which are marked by short-term governments, ever-changing political coalitions, and intra- and inter-party feuds, shape the outcomes of competing infrastructure financing schemes. Thus, rather than being seen as 'grand designs' shaped in Washington or Beijing, the outcomes of these schemes should instead be seen as manifestations of the domestic contexts and 'agentic' opportunities of host states, such as Nepal, to shape infrastructure projects.

Second, much of the conversation on US–China competition has been about how China will adjust, accommodate, or integrate into the US-led world order, or its various governance regimes. The article demonstrates that in South Asia, China's regional neighbourhood, the US is catching up to and having to contest China's leadership on infrastructure financing. The empirical evidence from Nepal about the US shifting from other forms of development assistance to infrastructure financing and having to advocate for the MCC as being 'distinct' from the BRI testifies to how the US is trying to catch up with China on infrastructure financing. Finally, recent scholarship on US–China competition argues that some middle ground or a 'cooperative' partnership could emerge between the two superpowers, described in terms such as 'G2 with Chinese characteristics' (Zeng & Breslin, 2016). In respect to infrastructure financing in South Asia, however, there is no evidence of cooperation; rather, there is overt contestation, as illustrated by the combative diplomatic exchanges between the two sides.

Beyond these broader inferences, the article draws attention to a bottom-up approach to methodologically examining broader themes such as US–China competition. Further, by focusing on Nepal, it situates the debate in South Asia, and offers empirical insights from a context that has received little attention in the discipline.

Notes

1. Interview with Member of Parliament and foreign policy advisor to Prime Minister of Nepal, Kathmandu, 14 August 2017.
2. Interview with former Nepali Ambassador to India and political scientist, Kathmandu, 31 August 2017.
3. Interview with Member of Parliament and expert in foreign and security affairs, Kathmandu, 11 December 2018.

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Appendix I

	Date	Title	URL
1	29Mar17	Dahal's China visit	https://archive.nepalitimes.com/article/from-nepali-press/Dahal,3630
2	19Jun18	What China really wants	https://nepalitimes.com/editorial/what-china-really-wants
3	25Jan19	Why Nepalis are learning Mandarin, and Chinese are learning Nepali	https://nepalitimes.com/here-now/why-nepalis-are-learning-mandarin-and-chinese-are-learning-nepali
4	23Apr19	YAM BETWEEN 3 BOULDERS	https://nepalitimes.com/editorial/yam-between-3-boulders
5	05Jul19	TRILATERAL TRAINS	https://nepalitimes.com/editorial/trilateral-trains
6	5Jul19	Which way will the Tibet-Nepal railway go?	https://nepalitimes.com/here-now/which-way-will-the-tibet-nepal-railway-go
7	11Oct19	What is Xi Jinping's 'Big Surprise'?	https://nepalitimes.com/here-now/what-is-xi-jinping-s-big-surprise
8	13 Oct2019	Self-reliance in Nepal's peace corridor	https://nepalitimes.com/opinion/self-reliance-in-nepal-s-peace-corridor
9	21Dec19	Missing links in Nepal's MCC debate	https://nepalitimes.com/news/missing-links-in-nepal-s-mcc-debate
10	26Dec19	A millennium challenge	https://nepalitimes.com/editorial/a-millennium-challenge
11	30Dec19	MCC row damages Nepal's credibility	https://nepalitimes.com/latest/mcc-row-damages-nepals-credibility
12	07July20	Putting the MCC in context	https://nepalitimes.com/news/putting-the-mcc-in-context
13	09Aug20	BRI and trans-Himalayan connectivity	https://nepalitimes.com/latest/bri-and-trans-himalayan-connectivity
14	25Oct20	'China's BRI will ride out the pandemic'	https://nepalitimes.com/news/china-s-bri-will-ride-out-the-pandemic
15	08May21	Power politics delays MCC in Nepal	https://nepalitimes.com/here-now/power-politics-delays-mcc-in-nepal
16	30Jun21	No light at end of trans-Himalayan train tunnel	https://nepalitimes.com/news/no-light-at-end-of-trans-himalayan-train-tunnel
17	25Aug21	Challenge of the millennium	https://nepalitimes.com/editorial/challenge-of-the-millennium
18	08Sep21	MCC: Damned if we do, damned if we don't	https://nepalitimes.com/news/mcc-damned-if-we-do-damned-if-we-don-t
19	09Sep21	MCC row rocks Nepal's ruling coalition	https://nepalitimes.com/news/mcc-row-rocks-nepal-s-ruling-coalition

(*Continued*)

	Date	Title	URL
20	13Sep21	MCC ball in Nepal's court	https://nepalitimes.com/here-now/mcc-ball-in-nepal-s-court
21	20Sep21	Nepal stuck between rock and hard place	https://nepalitimes.com/news/nepal-stuck-between-rock-and-hard-place
22	17Nov21	The cost of no MCC	https://nepalitimes.com/news/the-cost-of-no-mcc
23	18Nov21	Power politics	https://nepalitimes.com/here-now/power-politics
24	23Dec21	China lobbying against MCC	https://nepalitimes.com/here-now/china-lobbying-against-mcc
25	01Feb22	MCC risks split in Nepal's ruling coalition	https://nepalitimes.com/news/mcc-risks-split-in-nepal-s-ruling-coalition
26	09Feb22	Nepal House speaker embroiled in MCC row	https://nepalitimes.com/latest/nepal-house-speaker-embroiled-in-mcc-row
27	10Feb22	The deal-breaker	https://nepalitimes.com/news/the-deal-breaker
28	13Feb22	To be or not to be on the MCC	https://nepalitimes.com/opinion/to-be-or-not-to-be-on-the-mcc
29	14Feb22	Chief Justice suspension linked to MCC ratification	https://nepalitimes.com/news/chief-justice-suspension-linked-to-mcc-ratification
30	16Feb22	Nepal House sits for crucial MCC vote	https://nepalitimes.com/news/nepal-house-sits-for-crucial-mcc-vote
31	24Feb22	It's decision time	https://nepalitimes.com/here-now/it-s-decision-time
32	27Feb22	MCC gets green light in Nepal	https://nepalitimes.com/here-now/mcc-gets-green-light-in-nepal
33	25Mar22	Fixing the broken parts in Nepal-China ties	https://nepalitimes.com/banner/fixing-the-broken-parts-in-nepal-china-ties
34	13May22	BRI enters the tenth year	https://nepalitimes.com/opinion/comment/bri-enters-the-tenth-year
35	18Sep22	Nepal and China to study trans-Himalayan railway	https://nepalitimes.com/news/nepal-and-china-to-study-trans-himalayan-railway
36	26Sep22	'Nepal should make decisions for Nepal's good'	https://nepalitimes.com/here-now/nepal-should-make-decisions-for-nepal-s-good
37	13Sept23	Pokhara's China connection	https://nepalitimes.com/here-now/pokhara-s-china-connection