



# Changing Dynamics of the U.S.–Nepal Policy: An Analysis through the Lens of Hegemonic Stability Theory

Dron Prasad Lamichhane<sup>1</sup>

<sup>1</sup>*Institute of Foreign Affairs (IFA), Kathmandu*

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## Abstract

This study examines the evolving dynamics of U.S.–Nepal relations through the lens of Hegemonic Stability Theory (HST), focusing on the period from establishment of diplomatic ties to Biden administration. The objectives are to analyze U.S.–Nepal foreign policy initiatives, assess Nepal's positioning within these policies, and apply HST to understand the interactions. Utilizing a descriptive-analytical approach to collect, describe and analyse relevant data from academic sources and grey literature, the study highlights Nepal's strategic importance amid shifting global and regional power dynamics. Findings indicate that U.S.–Nepal relations have been shaped by the U.S. goal of maintaining a balance between China and India, particularly during the Cold War. U.S. policy emphasized supporting Nepal's sovereignty and democratic development in coordination with India to counter communist influence. Following the Cold War, U.S. engagement with Nepal increased, driven by regional dynamics and concerns, including the Maoist insurgency and War on Terror. As global power structures shifted from unipolarity to multipolarity, U.S. policy towards Nepal has remained unchanged in terms of development assistance through the USAID program and the recent Millennium Challenge Corporation (MCC) agreement. Although the U.S. has always consistently maintained that MCC is a bilateral development program, it has frequently been characterized in Nepal's public discourse as a instrument of the Indo-Pacific Strategy. Despite deepening engagement, Nepal remains concerned that Indian perspectives are shaping U.S. policies towards Nepal. The study concludes by providing critical insights into U.S.–Nepal relations, suggesting that Nepal needs to redefine its foreign policy to engage more independently with the U.S., while balancing regional pressures and strengthening its institutional capacity to counter misinformation and check foreign influence over public discourse.

**Keywords:** Bilateral relations, foreign policy, Nepal, Nepal's position, U.S.

Corresponding author: D. P. Lamichhane ([dronlamichhane33@gmail.com](mailto:dronlamichhane33@gmail.com))

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# संयुक्त राज्य अमेरिका-नेपाल नीतिको परिवर्तनशील गतिशीलता: आधिपत्य स्थिरता सिद्धान्तको दृष्टिबाट विश्लेषण

द्रोण प्रसाद लामिछाने<sup>1</sup>

<sup>1</sup>परराष्ट्र मामिला अध्ययन प्रतिष्ठान (आइएफए), काठमाडौं

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## सार

यस अध्ययनले आधिपत्य स्थिरता सिद्धान्त (Hegemonic Stability Theory) को प्रयोग गरी अमेरिका-नेपाल द्विपक्षीय सम्बन्धको स्थापनाकालदेखि बाइडेन प्रशासन सम्मको अवधिलाई केन्द्रित गर्दै संयुक्त राज्य अमेरिका र नेपालबिचको सम्बन्धमा आएका परिवर्तनहरूलाई विश्लेषण गरेको छ। यसका मुख्य उद्देश्यहरू अमेरिकाको नेपालसम्बन्धी परराष्ट्र नीतिका पहलहरूको विश्लेषण गर्ने, यी नीतिहरूभित्र नेपालको स्थितिलाई आकलन गर्ने र आधिपत्य स्थिरता सिद्धान्तको प्रयोग गरी द्विपक्षीय सम्बन्धको अन्तरक्रियालाई बुझ्नु रहेको छ। यस अध्ययनले विभिन्न सान्दर्भिक प्राज्ञिक स्रोत तथा श्याम साहित्य (ग्रे लिटरेचर) को सङ्कलन, वर्णन र विश्लेषण गरी नेपालको वैश्विक र क्षेत्रीय शक्ति संरचनामा रहेको रणनीतिक महत्त्वलाई प्रकाश पारेको छ।

अध्ययनका नतिजाले अमेरिका र नेपालबिचको सम्बन्धलाई विशेष गरी शीतयुद्ध कालमा चीन र भारतबिच सन्तुलन कायम गर्ने अमेरिकाको लक्ष्यले आकार दिएको छ भन्ने देखाउँछ। अमेरिकाले नेपालको साम्यवादी प्रभावलाई नियन्त्रण गर्न नेपालको स्वाधीनता र लोकतान्त्रिक विकासलाई भारतको सहयोगमा समर्थन गर्ने नीति अघि साँच्यो। शीतयुद्ध पछिको खण्डमा माओवादी विद्रोह र आतङ्कवाद विरुद्धको युद्धजस्ता क्षेत्रीय परिवर्तन र चिन्ताहरूले गर्दा अमेरिकाको नेपालप्रतिको संलग्नता बढ्यो। वैश्विक शक्ति संरचना एकध्रुवीयताबाट बहुध्रुवीयतातर्फ सर्दा पनि अमेरिकाको नेपालप्रतिको नीतिमा अन्तर्राष्ट्रिय विकासका लागि अमेरिकी नियोग (युएसएआइडी) कार्यक्रम र हालैको मिलेनियम च्यालेन्ज कर्पोरेसन (एमसीसी) सम्झौताजस्ता विकास सहयोगका पहलहरूमा कुनै परिवर्तन आएन। एमसीसीको हकमा अमेरिकाले सदैव यसलाई द्विपक्षीय विकास कार्यक्रम हो भनेर जोड दिँदा पनि नेपालको सार्वजनिक भाष्यमा यसलाई प्रायः इण्डो-प्यासिफिक रणनीति (आइपीएस) को साधनको रूपमा चित्रित गरिएको पाइन्छ। संयुक्त राज्यसँग नेपालको बढ्दो संलग्नताका बाबजुद नेपालले अमेरिकाको नेपाल-नीतिलाई भारतीय दृष्टिकोणले प्रभावित गरिरहेकोमा चिन्ता व्यक्त गरिरहेको छ।

**Keywords:** Bilateral relations, foreign policy, Nepal, Nepal's position, U.S.

Corresponding author: D. P. Lamichhane (dronlamichhane33@gmail.com)

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## **1. Introduction**

What are the key priorities of U.S. policy toward Nepal, and how has it been evolving? The U.S.–Nepal relationship is characterized by both great and small power dynamics, with Nepal being positioned as a strategic buffer between China and India. Thus, U.S. policy priorities toward Nepal heavily influence regional factors. During the Cold War, the U.S.’s policy towards Nepal was largely subordinated to ideological confrontation between the U.S. and the Soviet Union and China. As India emerged as an independent nation, the U.S. recognized India as a democratic leader in Asia, which directly influenced the communist containment policy on Nepal. It was the US’s dominating policy, which was largely determined by development programs, strengthening democratic values and institutions (Vinodan & Kurian, 2024). At the end of the Cold War, during the U.S. unipolar movement, the major policy priority was supporting Nepal’s democratic transition, development, and human rights issues. The U.S. felt less of a communist threat from China after the Ping Pong diplomacy. However, the Maoist insurgency in Nepal since 1996, along with its ideological proximity to China, led the U.S. to increase its involvement in Nepal. The 9/11 attack reduced U.S. trust towards the Muslim world, and Pakistan. On the other hand, Maoist ideological proximity with China brought U.S. and India together on regional and Nepal affairs (Khaliq, 2017). Therefore, the U.S. and India were together to suppress the Maoist insurgency in Nepal.

During India’s initiative for the twelve-point Delhi agreements despite King Gyanendra’s proximity to China, Washington was not ready to support that agreement because the U.S. was in favor of the monarch and the political party’s agreement (Timalsina, 2024). However, after the success of the people’s movement and a comprehensive peace agreement, the U.S. adjusted its stance to align with India’s Nepal policy (Vaughn, 2008). Similarly, during Nepal’s transition to republic, the U.S. recognized India as a regional leader capable of managing Nepal’s transition (Nayak, 2008). During the shift from unipolar to multipolar dynamics, U.S. policy toward Nepal has been part of a broader pivot toward the Asia-Pacific region through the Indo-Pacific Strategy (Smith & Khanal, 2019). Since the implementation of the Indo-Pacific Strategy, U.S. relations with India have become more strategic, while ties with China have grown tenser, impacting U.S.–Nepal policy and strategy. India’s role in U.S.–Nepal policy has always been significant, prompting Nepal to express concerns to the U.S. about the need for an independent Nepal policy, rather than viewing Nepal through the lens of its neighbors (Bhandari, 2014). However, U.S. independent engagement with Nepal has intensified since the U.S. shifted its focus toward the Asia-Pacific region through the Indo-Pacific policy. It has engaged

with Nepal through the Millenium Challenge Corporation (MCC), State Partnership Program (SPP), Tibetan refugee issues, and regular high-level visits (Hu, 2020).

In the US-Nepal study, a policy gap exists in understanding how the competitive and cooperative dynamics of the U.S. with China and India influence its policy toward Nepal. The prevailing narrative suggests that the United States views Nepal through the lens of India; however, there is a lack of empirical analysis to assess the extent to which this is true. There are gaps in testing how much the U.S. relies on India to shape its Nepal policy and foreign policy behaviors. Similarly, the U.S. strategic move toward China, its relations with India, and how India helps shape US-Nepal policy by partnering against China have not been adequately examined through the lens of Hegemonic Stability Theory (HST). Understanding these dynamics is crucial for assessing Nepal's position in U.S. policy. This research endeavors to bridge critical gaps in understanding the evolution of U.S. foreign policy behaviors toward Nepal.

The evolving nature of U.S.–Nepal relations must be examined within the broader context of great power politics and regional rivalries rather than in isolation. Understanding the dynamics between great powers and smaller states is crucial for interpreting the trajectory of U.S.–Nepal foreign policy. This study examines the evolution of U.S. policy toward Nepal since the establishment of diplomatic relations and identifies the key drivers behind this transformation. It further explores how the competitive and cooperative dynamics between China and India influence U.S. decisions on security cooperation, development assistance, and diplomatic engagement with Nepal. Specifically, the study addresses three core objectives: (1) What have been the key initiatives in U.S. foreign policy toward Nepal since the inception of bilateral ties? (2) How has U.S.–Nepal foreign policy evolved over time, and what are the underlying motivational factors? (3) How can hegemonic stability theory help explain the changing nature of U.S. policy toward Nepal and Nepal's strategic positioning within this framework?

## **2. Study Method**

This study employs descriptive-analytic approach to examine Nepal's role in U.S. foreign policy, thorough comprehensive study of U.S.–Nepal policy dynamics, focusing on the underlying factors, motivations, and consequences of bilateral ties. The study assesses U.S. foreign policy from the establishment of diplomatic ties with Nepal to the Biden administration, placing Nepal within the broader framework of U.S. strategies in the Indo-Pacific region.

Data and information from official documents of U.S. and Nepalese government institutions, policy briefings, speeches, and bilateral agreements were primarily analyzed by the author to provide a comprehensive overview of Nepal's role in U.S. foreign policy and its broader implications for regional stability, strategic competition, and national sovereignty. All collected data are organized and categorized based on thematic relevance, time periods, and geopolitical contexts to identify recurring patterns, narratives, and policy trends, particularly concerning U.S. strategic interests, hegemonic positioning, and bilateral interactions with Nepal.

Secondary data come from scholarly journals, books, academic papers, and reputable media sources, which provide the context for understanding the United States' engagement with Nepal. Descriptive analysis is utilized to present a comprehensive account of the evolving U.S.–Nepal relationship, highlighting significant policy initiatives, influential individuals, and decisions made by successive U.S. administrations. Additionally, this study is grounded in Hegemonic Stability Theory (HST) to interpret the shifting nature of U.S. policy toward Nepal, particularly in light of strategic competition with China and coordination with India. I have also analyzed limited quantitative data related to aid and trade to identify the trend.

### **3. Findings**

#### **3.1 U.S.–Nepal Foreign Policy Initiatives**

##### **3.1.1 During Cold War Bipolarity (1945-1991)**

After Great Britain left South Asia, China emerged as a communist country, while India became a democracy. India adopted a non-aligned policy, and the rising superpower, the U.S., recognized India as a democratic leader in Asia (Muraviev et al., 2021). Similarly, the U.S. regards Nepal as a key partner in promoting stability and democratic values in South Asia. From the outset, the United States has supported Nepal's steadfast efforts to strengthen its independent identity, a goal that has persisted throughout its long history (Pandey, 2015). Satterthwaite, who held the personal rank of minister during his mission to Nepal, arrived in Kathmandu on April 13, 1947. On April 21, he presented a personal letter from President Harry S. Truman to King Tribhuvan, through which the United States formally acknowledged Nepal's independence (Duncan, 1987). Subsequently, the U.S. and Nepal established diplomatic and consular relations. During the Cold War, the world was divided between the United States and the Soviet Union led blocs. The United States strongly supported Nepal's membership in the United Nations on December 14, 1955. Nepal's relations with the United States and its membership in the United Nations were vital for asserting its status as a truly free country (Brown, 1971).

During that time, several agreements were made. The General Agreement for Economic, Technical, and Related Assistance (1951), often referred to as the “Point Four Agreement” formalized U.S. economic and technical aid to Nepal as part of the broader U.S. development assistance program initiated by President Harry S. Truman (U.S. Embassy in Nepal, 2022). On April 25, 1947, Nepal and the United States of America signed the Agreement of Commerce and Friendship. Additionally, the Peace Corps Agreement (1961) began operations in Nepal in 1962 (Kofroth, 2023). Through USAID, the U.S. has supported Nepal with numerous agreements focusing on health, education, governance, and economic development (Lepcha & Paul, 2020). The U.S. has aided the Election Commission of Nepal in capacity building and ensuring election integrity. Similarly, in healthcare, U.S. assistance has led to the establishment of institutions such as the Nepal Family Health Program (NFHP), improving maternal and child health services across the country. It also played a pivotal role in supporting Nepal’s malaria eradication efforts, particularly during the mid-20th century (Shah, 2008). Before the mid-1960s, the United States had not only been the first developed country to provide assistance to Nepal, but had also offered the largest amount of aid to Nepal (Sapkota, 2020). This ultimately contributed to Nepal’s economic development and the strengthening of democratic values and institutions.

During the Cold War, U.S. policy toward Nepal was part of its broader containment strategy against communist expansion in Asia and aimed at promoting political stability in South Asia (Brown, 1971). U.S. policies regarding Tibetan refugees and support for the Khampa rebellion have roots in its overarching effort to contain communist influence. The Khampas were active in Nepal’s Mustang region during the 1960s and 1970s. The United States provided support for Tibetan resistance against China, including covert operations by the Central Intelligence Agency (CIA) to assist Tibetan guerrillas. In 1974, under pressure from China, Nepal disbanded the Khampa rebels, ending their insurgency and U.S. covert support (Thapa, 2014). Despite Nepal’s non-aligned stance, the U.S. respected Nepal’s neutrality and sought to engage through diplomatic and economic means, aiming to uphold western norms while countering Soviet and Chinese influence (Smith & Khanal, 2019). Thus, although the monarchs were autocratic, the U.S. supported monarchies, viewing them as stabilizing forces against communist threats.

In the 1960s, when King Mahendra built the Kathmandu-Kodari Road, the United States strongly protested. To persuade America and India, King Mahendra used the phrase, “Communism doesn’t arrive in a taxi and spread through road connectivity” (Thapa, 2019, para. 5). To explain this, Mahendra sent Bhekh Bahadur Thapa, the then-member secretary of the National Planning Commission, to the US. Thapa had



studied there and returned to Nepal just a year earlier. He was convinced that Nepal sought alternatives to preserve its existence; it had not attempted to engage in any political changes (Duncan, 1987). Similarly, during Jimmy Carter's presidency, Nepal experienced Indian influence on U.S. policy toward it. Hence, King Birendra's stance at that time was that America, as a superpower, needed to maintain relations with all nations on its own terms; neighbors are not eyes (Bhandari, 2014). However, with Ronald Reagan's presidency and King Birendra's state visit to the United States from December 5 to 13, 1983, a new chapter began in Nepal-U.S. relations. President Reagan understood Nepal's sensitivities and priorities. However, this policy could not continue during the administration of President Bill Clinton. According to then-ambassador Bhek Bahadur Thapa, "The U.S. president was very fond of India; his administration used to put India first". He often mentioned the 1950 treaty between India and Nepal (Paudyal & Dhungana, 2022).

After multi-party democracy was restored in 1991, despite giving moral and financial support, Washington showed no more interest in strengthening relations. Thus, since King Mahendra, Nepal has been criticizing U.S.–Nepal policy through India's eyes. The U.S. adopted a rapprochement with China to weaken the China-Soviet bloc. In 1972, during the Ping Pong diplomacy, the U.S. felt less of a competitor and a communist threat from China. The relationship between Nepal and the U.S. experienced a period of lesser significance, marked by India's dominance. Thus, Nepal requested America to have a better understanding of Nepal's own long history and independent identity (Pandey, 2020). The dominant theme for the period was "Don't look at us from another's point of view, don't judge us by listening to another's words, see us as a separate nation, and maintain a separate opinion. And as a big country, don't put humiliating conditions on us when supporting us financially" (Shrestha, 1988).

However, the sympathy and support of the United States were exhausted when India imposed an economic blockade against Nepal in 1989/90. At that time, Stephen Solarz, chairman of the powerful Asia Pacific Sub-Committee on Foreign Affairs of the Congress, was sent to Nepal to give political support (Dutt, 2009). Similarly, U.S. President Gerald Ford discussed with Chinese officials in 1975 Nepal's security situations and how U.S. and China can help Nepal with India's annexation of Sikkim (U.S. Department of State Archive, 2008). In the same way, after seven years during the Reagan presidency, the U.S. supported Nepal's peace zone proposal. After that, other countries in Europe and Latin America showed their support and reached 130 countries in favor of it (Rijal, 2019).

This Cold War period was a golden period for strengthening U.S.–Nepal relations. The U.S. recognized Nepal’s independent identity, helped economically, and strengthened democratic institutions. However, to maintain the balance of power against communist expansion in South Asia, the U.S. perceived India as a counterbalancing force. Thus, India’s factor in U.S.–Nepal policy prevails somehow in a vital position.

During the Cold War period, the regional political scenario and competition for ideological supremacy were major U.S. foreign policy determinations. U.S. focused on institutionalizing bilateral relations for that; it made several bilateral agreements and invited the king and Nepalese leaders to the US. As India became independent, U.S. saw India as a regional democratic leader to counterbalance Chinese communist expansion. However, Washington supported Nepal’s independent personality.

**Table 1: U.S. policy priorities during Cold War period**

| <b>Policies</b>                                                                          | <b>Areas of priorities</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Policy of communist containment and filling the vacuum of Great Britain in South Asia | <ul style="list-style-type: none"> <li>• Following Britain’s declining, the U.S. sought to establish a foothold in South Asia and Nepal to counterbalance communist expansion, particularly from China and the Soviet Union.</li> <li>• Nepal was seen as a buffer and window between India and China. The United States engaged with Nepal as part of its broader Cold War strategy to contain communism in South Asia.</li> <li>• U.S. frequently invited the Nepalese king and leader to engage with the US. King Mahendra made two visits, first in 1960 as an official visit and in 1967 as a state visit. Similarly, Prime Minister BP Koirala, President of the Council of Panchayat Dr. Tulsi Giri, King Birendra and Queen Aishwarya did state visits at different times, which were historical events in bilateral relations.</li> <li>• Though monarchy was autocratic, Washington supported Nepal’s monarchy as a stabilizing force against leftist movements.</li> <li>• In April 25, 1947, Nepal and the United States of America signed the Agreement of Commerce and Friendship. Similarly, in 1951, the “Point Four Agreement” formalized U.S. economic and technical aid to Nepal as part of the broader U.S. development assistance program.</li> </ul> |
| 2. Policy of recognizing Nepal as an independent identity                                | <ul style="list-style-type: none"> <li>• The United States officially recognized Nepal’s sovereignty and independence on April 21, 1947, when Joseph C. Satterthwaite presented a letter from President Harry S. Truman to King Tribhuvan, establishing diplomatic relations.</li> <li>• The U.S. encouraged Nepal’s participation in international institutions such as the United Nations (1955); however, Soviet Russia was against it.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |



| Policies                                                                                                  | Areas of priorities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                           | <ul style="list-style-type: none"> <li>• The U.S. President Gerald Ford discussed with Chinese officials in 1975 Nepal's security situations and how U.S. and China can help Nepal with India's annexation of Sikkim.</li> <li>• In the same way, after proposing for seven years during the Reagan presidency, the U.S. supported Nepal's peace zone proposal. After that, other countries in Europe and Latin America showed their support and reached 130 countries in favor of it.</li> <li>• U.S. showed sympathy support when India imposed an economic blockade against Nepal in 1990. At that time, Stephen Solarz, chairman of the powerful Asia Pacific Subcommittee on Foreign Affairs of the Congress, was sent to Nepal to provide political support.</li> <li>• The U.S. supported Nepal's efforts to maintain diplomatic autonomy while keeping its non-aligned foreign policy intact.</li> </ul> |
| <p>3. Policy of economic assistance, development aid and strengthening of the democratic institutions</p> | <ul style="list-style-type: none"> <li>• The U.S. provided significant economic aid, infrastructure development, and technical assistance to Nepal to prevent communist influence.</li> <li>• Before the mid-1960s, the United States had not only been the first developed country to provide assistance to Nepal, but it had also been a country that provided the largest amount of aid to Nepal.</li> <li>• The establishment of U.S. agencies, such as USAID in Nepal (1951), contributed to Nepal's economic modernization, rural development, and education.</li> <li>• The Peace Corps Agreement (1961) began operations in Nepal in 1962. It reflected American interests in preventing the spread of communist ideology by promoting education and modernization.</li> <li>• The U.S. has assisted the Election Commission of Nepal in capacity building and ensuring election integrity.</li> </ul>   |
| <p>4. Policy of Tibet and Tibetan refugees support</p>                                                    | <ul style="list-style-type: none"> <li>• The United States' policy toward Tibet and Tibetan refugees has gained significant importance since China took control of Tibet in 1950. The policy has been shaped by Cold War geopolitics, human rights concerns, and broader US-China relations.</li> <li>• Nepal's strategic location made it a crucial base for U.S. covert operations, including support for Tibetan resistance movements against China.</li> <li>• The CIA backed Tibetan guerrillas operating from Nepal's Mustang region in the 1950s and 1960s.</li> <li>• U.S. support for armed Tibetan resistance waned as diplomatic relations between U.S. and China improved in the 1970s under Nixon and Kissinger's rapprochement with Beijing.</li> </ul>                                                                                                                                            |

| Policies                                                                                                                | Areas of priorities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5. Convergence between the United States and India on ideological and the Tibetan refugee issue: Implications for Nepal | <ul style="list-style-type: none"> <li>• Following India's independence, the United States began to view India as a democratic regional leader for counterbalancing the expansion of Chinese communism in South Asia.</li> <li>• During the construction of the Kodari Highway between Nepal and China, both the U.S. and India shared concerns over the potential spread of communism in South Asia via Nepal.</li> <li>• Consequently, both countries supported Nepal's autocratic monarchy as a bulwark against rising communist influence within the country.</li> <li>• A significant portion of the Tibetan refugee population settled in Nepal and in Dharamshala, India, with Nepal also functioning as a critical transit route for Tibetan exiles.</li> <li>• Nevertheless, Washington maintained direct bilateral ties with Kathmandu, seeking to prevent Nepal from becoming excessively dependent on New Delhi.</li> <li>• In 1983, U.S. President Ronald Reagan expressed support for Nepal's Peace Zone proposal, signaling U.S. interest in preserving Nepal's sovereignty and neutrality.</li> <li>• The United States also extended sympathy and political support to Nepal during the 1989–1990 Indian economic blockades. Earlier, in 1975, President Gerald Ford held discussions with Chinese officials regarding Nepal's security situation and explored ways in which the U.S. and China could assist Nepal following India's annexation of Sikkim.</li> </ul> |

### 3.1.2 Post-Cold War (Unipolar World System 1991-2000)

The end of the Cold War in 1991 marked a major shift in the international system; the U.S. became the only superpower leading a unipolar world. Following the Cold War and the end of bipolarity, the U.S. promoted a liberal world order. In 1990, Nepal experienced a second wave of democracy, ending the absolute monarchy and establishing a constitutional monarchy with a multi-party system (Kaur, 2018). The United States welcomed and supported Nepal's move toward democratic stability. During this period, the U.S.'s main policy focus on Nepal was shaped by the rise of the Maoist insurgency, which began in 1996. Although the Cold War ideology had ended, the American stance against the Maoists remained firm. The September 11, 2001, terrorist attacks on U.S. soil had significant effects on Nepal's Maoist insurgency, as the U.S. linked it to its War on Terror strategy. The U.S. saw the Maoist insurgency as a threat to Nepal's democratic progress and regional security (Lawoti & Pahari, 2010).

The U.S. policy of active military intervention in Nepal began with the April 2001 nomination of Christina Rocca as the Assistant Secretary of State for South Asia. The Rocca period (2001-04) saw the close coordination of U.S. intervention in Nepal with the then-BJP government in India. In 2001, the United States appointed a military attaché to its Kathmandu mission (Nayak, 2007). In June 2001, a U.S. “Office of Defense Cooperation” with Nepal was established at the Kathmandu embassy. U.S. Secretary of State Colin Powell’s visit in January 2002 marked the first high-level diplomatic trip by a U.S. official in thirty years. Powell, who has a military background, was the first foreign minister to visit a Nepalese Army military base to gather information about the security situation and military preparedness. While American aid declined from 1970 to 2001, it increased as the Maoist movement gained momentum, resulting in greater military aid and political cooperation with Nepal (Thapa, 2019). As part of counterterrorism cooperation, the number of fatalities increased approximately tenfold between 2000 and 2005. An extensive U.S.-aided expansion of the Security Forces (Royal Nepal Army [RNA] and the paramilitary Armed Police Force [APF]) commenced. The U.S. announced a USD 20 million aid package in 2002, which included 12,000 M-16 submachine guns and military training support for Nepalese security forces (U.S. Department of State, 2018). RNA officers were sent to the U.S. Army War College, the U.S. Army and General Staff Colleges, the National Defense University, and the Asia Pacific Center for Strategic Studies (Ghimire, 2019).

The King dismissed the U.S.-backed Deuba government in October 2002 and nominated royalist Lokendra Bahadur Chand. The U.S. was displeased with this move. The U.S. stated that the king’s loyalty to democracy cannot be confirmed by changing the government. Year 2003 marked the peak of U.S. military involvement in Nepal. The U.S. embassy in Kathmandu initiated the process of placing revolutionaries on U.S. “terrorist” lists by comparing them to Pol Pot (Mage, 2007). In 2003, the U.S. State Department designated the Communist Party of Nepal (Maoist) as a terrorist organization, and the U.S. provided full support to suppress the rebellion. In January 2003, a 49-member team of U.S. military “experts” came to Nepal to train with the RNA, alongside the first shipment of what would eventually amount to over 8,000 M-16 rifles. Elaborate permanent quarters for U.S. “advisers” were constructed next to RNA headquarters in the center of Kathmandu. Through its International Military Education and Training Program (IMET), the U.S. trained the security forces in “special operations” (Adhikari, 2012). The *Bharatiya Janta Party* (BJP) regime’s ambassador in Kathmandu, Shyam Saran, claimed to see no change in India’s Nepal policy regarding the acceptance of U.S. military intervention. Although the 1950 treaty prohibited Nepal from seeking military assistance from

other states, emerging U.S.–Indian military cooperation took precedence. At the end of 2003, Saran was quoted as saying that India and the United States were “on the same wavelength” (Mage, 2007).

In February 2005, Gyanendra formed a government supported by the armed forces, with royalist ministers personally loyal to the king. The leaders of the political parties, including the former ministers now charged with corruption, were arrested (Habibullah, 2009). Americans felt flustered to encounter King’s doctrine of “You are with us or against us”. U.S. policy accordingly addressed King Gyanendra with, “Either support me or the terrorists”. Consequently, both Delhi and Washington suspended their support for Nepal’s army (Norris, 2005). Gyanendra then turned to China for arms, which had refused to condemn the February 2005 coup, calling it an “internal affair”.

A significant gesture toward China was the January 2005 closure of the Tibetan Welfare Office in Kathmandu, just days before the coup—a move that would have been inconceivable prior to the new U.S. policy represented by the arrival of Moriarty (Jabeen, 2014). China responded positively, much to the dismay of Foreign Secretary Shyam Saran, who reportedly began to view matters from a different perspective thereafter. In June 2005, five armored personnel carriers arrived in Nepal from China. In September 2005, it was reported that China agreed to provide arms and ammunition worth approximately USD 22 million. By late November, 18 trucks carrying military hardware from China were reported to have arrived in Nepal (Adhikari, 2018). Not wanting to openly break ranks with India or the European Union regarding military assistance to the increasingly isolated royal regime, the United States turned to its Israeli alternative. The gradual divergence in Indian and U.S. policy continued onward.

The U.S. stance was clear: democracy should not be destroyed, and Maoist terror should not succeed. However, “terrorist” disappeared from Indian officials’ vocabulary within the year, the declaration was made that the Maoists “are not terrorists” (Mage, 2007). By late July 2005, local activists of the parliamentary parties were openly cooperating with the Maoists in the countryside. The Indian government was forthcoming, and successful negotiations between the revolutionaries and the political parties on a joint insurrectionary course concluded in November 2005 (the “Twelve Point Agreement”) (Nayak, 2007). As soon as Indian Foreign Secretary Shyam Sharan called on the American ambassador in New Delhi and asked for support, he received the reply that “Washington is not ready to encourage terrorists”.

The United States openly sided with the Palace in denouncing the agreement, insisting that the Maoists were “illegitimate” and not proper parties to a settlement (Miklian, 2008). The U.S. did not support an agreement with the terrorists; however, the emphasis was that the king should not delay the development, which was trying to take a difficult turn. The king did not take the advice given seriously. The U.S. believes that since the twelve-point agreement, the Nepali Congress has followed the Maoist agenda due to Koirala’s courage, which made the agreement possible (Timalsina, 2024). Nevertheless, the U.S. renewed its engagement with Nepal following the success of Jana Andolan-II. In 2006, the Maoist insurgency ended with the signing of the Comprehensive Peace Agreement (CPA) between the Maoists and the Seven-Party Alliance. The U.S. government welcomed the end of the civil conflict and supported Nepal’s efforts to implement the Comprehensive Peace Agreement (CPA). This marked the beginning of Nepal’s peace process and the formal integration of the Maoists into the political mainstream (Hachhethu, 2009).

In the post-Cold War era, regular high-level visits from security officials, government officials, and political leaders also helped shape U.S.–Nepal policy. During the height of the Maoist insurgency, U.S. Secretary of State Colin Powell’s visit was intended to demonstrate Washington’s solidarity and support for the government’s efforts against the rebellion (Voice of America, 2009). Since his visit, U.S. aid to Nepal has increased, following a reduction that occurred after President Nixon’s trip to China. After King Gyanendra’s direct rule began in 2005, Donald Camp, Principal Deputy Assistant Secretary of the U.S. House of Representatives Committee on International Relations, presented his committee with information about U.S. interests and goals in Nepal after visiting the country on March 2, 2005.

King Gyanendra’s February 1 dismissal of the government, declaration of a state of emergency, and suspension of fundamental rights must be reversed. The Maoists have made clear their intention to impose a one-party “people’s republic” and export their revolution to neighboring states. Such a regime would almost certainly threaten stability in the region. The humanitarian ramifications of such a regime would be immense, reminiscent of the nightmare brought upon Cambodia by Pol Pot. President Bush’s declaration of the United States’ support for freedom around the world very much extends to Nepal. In this situation, U.S. resources and programs are more important than ever in helping Nepal defeat the insurgency and build a peaceful and prosperous future (Camp, 2005).

During that time, United States maintained a close relationship with its friends in Nepal, particularly India and the United Kingdom. It was believed that the Maoist insurgency must be resisted and addressed. Additionally, the government's order to close the Tibetan Refugee Welfare Office and the Dalai Lama's office was concerning. In a similar way, Assistant Secretary for South Asia Christine Rocca visited Nepal on May 10, 2005. This was her fourth visit to Nepal. During her trip, she suggested five points for Nepal.

First, Gyanendra's move on January 19 was a serious blow to democracy; the security situation did not improve after January 19. King should return to the democratic process and need to hold municipal elections followed by parliamentary election which must be free and fair. Second, American aid to Nepal will continue in this difficult situation. Third, without consulting with India, taking power on January 19<sup>th</sup> makes India angry. Maoist is threat for India also thus Nepal should quickly maintain good relations with India. Fourth, King should communicate with the parties; the King's loyalty to democracy cannot be confirmed by putting aside the parties. It is also making the political parties cautious about not making the mistake of strengthening the Maoists. Political parties and the government must work together to defeat terrorism. Fifth, King is attempting to revive his father's policies; if so, it will be fatal for the dynasty itself. It is beneficial for the king to get the understanding and sympathy of his friends by quickly eliminating the cause of such a feeling. The panchayat system of governance is not acceptable (Pandey, 2015).

During this time, U.S. policy priorities towards Nepal were driven by four factors: first, the rise of the Maoist insurgency; second, the War on Terror policy towards South Asia; third, the King's move against democracy; and fourth, U.S. convergence and divergence with India and China regarding the Maoist insurgency and King Gyanendra's actions. The world system shifted from bipolar to unipolar, while Nepal transitioned from a Panchayat system to a multi-party democracy. The U.S. continued its policy of communist containment, linking it to its War on Terror strategy. Consequently, strengthening democracy and human rights remained a consistent aspect of its Nepal policy (Bhattarai, 2022). The U.S. significantly increased its security and economic support, which had diminished after Nixon's visit to China and the U.S.–China rapprochement. Conversely, the U.S. opposed Panchayat-style governments; however, during the Cold War, it viewed autocratic monarchs as a stable force against communist threats. Similarly, issues concerning Tibetan refugees were of lesser importance compared to the priorities during the Cold War (Kramer, 2006). In line with this, U.S. visits



increased. Secretary of State Gen. Colin Powell and First Lady Hillary Clinton made high-level visits to Nepal; however, Nepal could not reciprocate with a state visit to the U.S. The primary foreign policy action involved military intervention against the Maoist insurgency, closely coordinated with India. Although the Nepal-India 1950 Treaty prohibits military and defense support from other nations, both the BJP and Congress governments aligned with the U.S. After 2004, the Congress government in India and the U.S. entered into defense cooperation and a civil nuclear deal, which further solidified their collaboration on Nepalese issues (Nayak, 2008). During King Gyanendra's direct rule, the U.S. suggested that Nepal should quickly establish good relations with India. In contrast, during the twelve-point agreement, India requested U.S. support for this initiative; however, the U.S. opposed it because President Bush's policy was that countries were either with us or with terror. Thus, the U.S. did not favor the Maoist and political party agreement. Although, following the success of the people's movement and the comprehensive peace agreement, the U.S. adjusted its policy in line with India. Nonetheless, it continued to list the Maoists as terrorists for a considerable time (Kreuttner, 2009).

During this time, the major shift in U.S.–Nepal policy was that regional and domestic factors jointly influenced U.S.–Nepal relations. India gained more leverage over its policy. The U.S. no longer supported the autocratic monarch for communist containment as it had during the Panchayat regime. Issues concerning Tibetan refugees became less important than those related to the Cold War. Similarly, the U.S. did not extend invitations for state visits as it had during the Cold War. However, visits from the U.S. to Nepal increased, and these trips were conducted through India, returning after consultations with it.

Table 2: U.S. policy priorities during the post-Cold War period

| Policies                                      | Policy Priorities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Policy of supporting democratic transition | <ul style="list-style-type: none"> <li>• During this time, the U.S. became the single hegemony leading a unipolar world. On the other hand Nepal underwent a second wave of democracy, which led to the end of the absolute monarchy and the establishment of a constitutional monarchy with a multi-party democracy.</li> <li>• U.S. promoted a liberal world order globally likewise it welcomed and supported Nepal's transition towards democratic stability.</li> <li>• Encouraged Nepal's political actors to strengthen multiparty democracy, human rights, and governance reforms in Nepal.</li> </ul> |

| Policies                                                                         | Policy Priorities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|----------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2. Policy of War on Terror and Maoist insurgency                                 | <ul style="list-style-type: none"> <li>• After 9/11, the U.S. viewed Nepal's Maoist insurgency through the lens of counterterrorism and included Nepal's Maoists in its terrorist list.</li> <li>• Though the ideological Cold War finished, U.S. was strict towards Maoist insurgency due to Maoist ideological proximity with China.</li> <li>• The U.S. saw the Maoist insurgency as a threat to Nepal's democratic transition and regional security stability.</li> <li>• U.S. gave moral support and military assistance, including weapons, training, and funding, to the Nepalese government to combat the insurgency.</li> </ul>                                                                                                                                                                                                                                                                                        |
| 3. U.S. policy on King's move against democracy                                  | <ul style="list-style-type: none"> <li>• U.S. strongly opposed King Gyanendra's dismissal of the democratic government and takeover of power in 2005.</li> <li>• U.S. didn't support Panchayat government and suspended military aid and imposed diplomatic pressure to restore democracy.</li> <li>• U.S. encouraged King and political parties to unite against the Maoist insurgency.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 4. U.S. convergence with India about Maoist insurgency and King Gyanendra's move | <ul style="list-style-type: none"> <li>• Both the U.S. and India shared concerns about the Maoist insurgency and the King's actions. U.S. did military intervention against Maoist insurgency with the coordination of India's BJP government.</li> <li>• U.S. was not happy with the Royal takeover in 2005 without India's consultation; thus, U.S. suggested Nepal should quickly maintain good relations with India.</li> <li>• However, U.S. and India's policies differed when "terrorist" disappeared from Indian officials' vocabulary and Indian government efforts for the Twelve Point Agreement. U.S. stance was clear: King and democratic force should come together.</li> <li>• The success of the people's movement and comprehensive peace agreement led the U.S. to accommodate its policy with India. However, U.S. continued to designate the Maoists as terrorist organization for a long time.</li> </ul> |

### 3.1.3 From Post-Monarch to Transition Towards a Multipolar World

In 2006, the United States renewed its Nepal policy following the success of the third wave of democracy that led to the end of the monarchy. During this time, the United States provided full support for the democratic transition (Miklian, 2008). The Carter Center played a significant role as an international observer during Nepal's Constituent Assembly elections. Since the elections, it has been actively involved in monitoring the country's peace process and the drafting of its new constitution (Nayak, 2007). The Maoists participated in a comprehensive peace

agreement and the peace process; however, their desire to strengthen ties with China and passing anti-U.S. resolutions raised concerns for the U.S. after the Maoist victory in Nepal's 2008 Constituent Assembly elections (Ranjit, 2023). Thus, despite the Maoists' victory in the 2008 Constituent Assembly elections, then-U.S. Ambassador Nancy Powell reportedly favored the Nepali Congress leading the new government and viewed Koirala as a stable and experienced leader who could safeguard democratic principles and maintain close ties with the West (Varadarajan, 2008). Likewise, the Maoists remained on the U.S. terrorist list for several years. Deputy State Department Spokesman Tom Casey stated on May 14, 2008 that the Maoists were on the terrorist exclusion list, which prohibits their members or associates from entering the U.S. (U.S. Department of State, 2008).

The U.S. decided that its policy toward the new government would “depend on the attitude of the new government towards maintenance of democratic norms” After 2008, under Barack Obama's leadership and with Scott H. DeLisi as ambassador to Nepal, the policy appeared to shift. The Global War on Terror continued under Barack Obama; however, it analyzed global conflicts in terms of local dynamics (Nayak, 2014). Washington supported the peace process from a distance, without directly challenging India's influence. The U.S. viewed India as a regional leader capable of managing Nepal's transition to a republic (Adhikari, 2024). In contrast, in November 2009, Scott H. DeLisi was appointed as the new United States ambassador to Nepal. Instead of viewing Nepal through Indian perspectives, the United States opted to expand its engagement with Nepal. He emphasized that the U.S. recognized Nepal's unique geopolitical position and sought to engage with the country on its own merits (Dahal, 2011). During this time, the notion of gentleman's agreements regarding Tibetan refugee policy also became a significant policy issue in the U.S. In April 2010 and September 2012, Robert O. Blake Jr. stated that the Tibetan refugee issue was a ‘high profile’ agenda item for U.S. foreign policy. In his meeting with former Foreign Minister Narayan Kaji Shrestha, Blake urged Nepal to adhere to the ‘gentlemen's agreement’, which requires Nepal to treat refugees humanely and provide them with passage to India. Likewise, U.S. Under Secretary of State for Democracy and Global Affairs Maria Otero's visit to Nepal in November 2012 raised the same issues (Nayak, 2014). Throughout this period, several important agreements were signed, including the Trade and Investment Framework Agreement (TIFA) in April 2011, which promotes cultural exchanges, education, and mutual understanding. Similarly, following the devastating earthquake in Nepal in 2015, the U.S. and Nepal cooperated extensively in disaster risk reduction and post-earthquake reconstruction. Additionally, the USAID/Nepal Bilateral Assistance

Agreement (2022) provides a broad framework for bilateral cooperation (Shahi, 2025, March 12).

During this period, the global balance of power shifted toward the Asia-Pacific region. This change from a unipolar to a multipolar world system was marked by South-South cooperation through the creation of BRICS in 2006, the Belt and Road Initiative (2013), and the Shanghai Cooperation Organization (SCO). Additionally, the establishment of the Asian Infrastructure Investment Bank and BRICS Bank (Røren, 2024) played a key role. The U.S. likewise labeled China a near-peer competitor and India a strategic partner, intensifying the U.S.–China competition across trade, technology, space, and AI. The ongoing result of great power competition is seen in rapid alliance building and power expansion (Zhou, 2023). Since the Trump presidency in 2017, U.S. policy toward Nepal has become part of a global shift as it pivots toward the Asia-Pacific through the Indo-Pacific Strategy. This strategy has made U.S. relations with India more strategic, while ties with China have grown more tense. Previously, U.S. policy toward Nepal focused on domestic issues like promoting democracy, human rights, and economic growth. But since the Trump administration, China and India have emerged as key factors to broader policy initiatives that strategically counter China and enhance India's leverage (Shah & Karki, 2023).

In the 2019 Indo-Pacific Strategy, the U.S. Department of Defense designated Nepal as a potential partner, sparking controversy in Nepal over its non-aligned foreign policy (Sapkota, 2020). In the 2019 Indo-Pacific Report, the U.S. mentioned that

The United States seeks to expand our defense relationship with Nepal, focusing on Humanitarian Assistance and Disaster Relief, peacekeeping operations, defense professionalization, ground force capacity, and counter-terrorism. Our growing defense partnership can be seen in the establishment of the U.S. Army Pacific-led Land Forces Talks in June 2018, our military dialogue with Nepal. The several visits to Nepal by the Commander and Deputy Assistant Secretary of Defense for South and Southeast Asia, United States Indo-Pacific Command (USINDOPACOM) to further advance our defense relationship (Department of Defense, 2019).

The debate over Nepal's Indo-Pacific strategy grew more intense during the parliamentary ratification process of the MCC. This was highlighted in the IPS report of 2019 and referenced by a U.S. official's statement linking the MCC to the IPS. The Millennium Challenge Corporation (MCC) expanded its eligibility criteria to include Nepal in December 2011 and signed the Compact in September 2017. That year also marked the 70th anniversary of the diplomatic agreement initiating

the MCC Compact. Nepal's Finance Minister, Gyanendra Bahadur Karki, and MCC's Acting CEO, Jonathan Nash, signed the Compact in Washington, D.C., in September 2017 (Millennium Challenge Corporation [MCC], 2017). However, major disagreements emerged within Nepal's ruling coalition about the parliamentary approval of the MCC agreement, especially regarding its connection to the Indo-Pacific strategy and its constitutionality. To clarify these issues, Nepal's Ministry of Finance sent a letter on September 3, 2021, with questions about the MCC Nepal Compact to MCC headquarters in Washington, D.C. The MCC responded with an 11-page letter, addressing and dismissing Nepal's concerns (MCC, 2021). In 2021, U.S. Assistant Secretary of State for South and Central Asian Affairs, Donald Lu, visited Nepal during the MCC's ratification by the House of Representatives. During this visit, the U.S. claimed that external factors and corruption contributed to the MCC's challenges. Donald Lu contacted leaders of Nepal's three main political parties, urging them to approve the MCC by February 16, warning that failure to do so would lead him to reconsider U.S. policy toward Nepal (Pandey, 2024). A U.S. State Department spokesperson expressed concern that propaganda against the MCC in Nepal had been "actively fomented or funded or encouraged or facilitated, or all of the above, by China," and noted that some imaginative conspiracy theories claiming a plan "to place American troops on Nepalese soil," which were said to be "aided by Chinese-orchestrated disinformation campaigns". These theories were described as utterly absurd (Yuwei, 2022). Amidst this, Nepal ratified the agreement with a twelve-point declaration. The ratification of the MCC Compact by Nepal's Federal Parliament on February 27, 2022, marked a significant milestone in this partnership and boosted bilateral relations.

After the ratification of the MCC, the U.S. consistently requested Nepal to participate in SPP programs. In July 2022, Assistant Secretary of State for South and Central Asia Affairs Donald Lu made his second visit. The SPP became controversial because it was mentioned in the 2019 Indo-Pacific Strategy Report from the U.S. Department of Defense. The draft of the SPP published by various media outlines 10 points. These include joint military training exercises in the high Himalayan areas and the improvement of anti-terrorism capabilities (Giri & Ghimire, 2022). It also covered joint disaster management efforts in Nepal, fellowships for Nepali army officers in the U.S., and short-term fellowships for U.S. Army officers at the National Defense University of Nepal. There was support for light and non-lethal military equipment, as well as cybersecurity training and equipment for the Nepali Army. Additionally, it was noted that the Nepali Army requested these measures (Kafle, 2022). However, the U.S. Embassy stated that the document, which reportedly contained sensitive security points, was fake.

The U.S. Embassy in Nepal issued a fact sheet on June 17, 2022 to dispel common misunderstandings regarding the State Partnership Program (SPP). It underlined that SPP is an exchange program for disaster response and training between the U.S. National Guard and partner nations rather than a military or security alliance. In 2015 and 2017, Nepal made requests to join, and in 2019, the United States agreed. Claims of a military arrangement are untrue, as there is no official SPP agreement with Nepal. Training and disaster management support are among the non-alliance military cooperation goals of the program, which predates the Indo-Pacific Strategy (U.S. Embassy in Nepal, 2022, June 17).

In light of the controversy over the SPP, on July 25, 2022, the Foreign Ministry sent a letter to the U.S. government indicating that Nepal had decided not to move forward with the SPP (Pathak, 2022).

During this period, the U.S. also leveraged the issues faced by Tibetan refugees to pressure China. The Tibet Policy and Support Act was signed by President Donald Trump in 2020, and on December 22, 2020, it was passed by Congress. The law aims to address the needs of the Tibetan community in Nepal and India regarding their leadership, culture, language, and asylum rights (Central Tibetan Administration, 2020). It states that any government blocking or restricting these rights could face U.S. sanctions (Giri, 2023). It also mentions that the 15<sup>th</sup> Dalai Lama should be chosen according to the wishes of the 14<sup>th</sup> Dalai Lama, and Tibetan exile communities worldwide should have the right to elect their leaders and exercise self-governance (Tsering, 2024). Nepal is mentioned in section 6 of the law, which states that the U.S. State Department should reach an agreement with the Nepali government, specifically regarding the Tibetan community that has long resided in Nepal and seeks legal identity and equal participation in economic and social rights. The foreign minister should advocate for the implementation of this agreement with the United Nations High Commissioner for Refugees (Baniya, 2023). Support for Tibetans in Nepal and India will be provided at a rate of USD six hundred thousand annually over five years (Aryal, 2025). In Nepal, Tibetan refugees live in various camps in Kathmandu and Pokhara. According to data from the Office of the United Nations High Commissioner for Refugees, there are approximately 15 thousand Tibetan refugees in Nepal (United Nations High Commissioner for Refugees, 2023). During Chinese President Xi Jinping's visit to Nepal, eight MPs, including two co-chairs of the human rights parliamentary body of the Nepalese Parliament, raised concerns about the potential risks of signing an extradition treaty with China, fearing that the Tibetan community could be targeted. Similarly, U.S. Senator and Foreign Affairs Committee member Robert Menendez highlighted this issue by



writing a letter on October 11, 2019, stating that “Nepal is ready to sign an extradition treaty with China during the upcoming visit of the Chinese President to Nepal and that the process of removing Tibetan refugees in Nepal can proceed”. Following this, Nepal moved forward with the treaty (International Campaign for Tibet, 2020). In a letter to the Nepali ambassador in the U.S., Tom Lantos, along with two co-chairs of the U.S. Congress Human Rights Commission and six other parliamentarians, requested to fully ensure the human rights of Tibetans living in Nepal (Tom Lantos Human Rights Commission, 2019, November 20). In their message, the American parliamentarians indirectly pressured Nepal by mentioning that the Nepali Garment Industry Bill was withdrawn from the Senate after Nepal deported 18 Tibetan refugees to China in 2003 (Langat, 2024). The extradition treaty between Nepal and China, which emerged during the Chinese president’s visit to Nepal, was a key focus of the letter. U.S. officials have previously stated that Tibetan refugees entering Nepal should be able to move into India through access to the Tibetan refugee center in Kathmandu. During a hearing on South Asia held by the Foreign Affairs Committee, Acting Assistant Secretary of State Alice G. Wells observed that as China’s influence grew in Nepal, so did the government’s control over the Tibetan community (Human Rights Watch, 2008).

During this period, U.S.–Nepal relations were further strengthened through increased exchange of bilateral visits and interactions involving U.S. officials from the State Department, the Millennium Challenge Corporation (MCC), USAID, and other agencies. Similarly, statements were made regarding IPS, MCC, and SPP. Important bilateral visits between 2015 and 2018 included those by Dana J. Hyde, CEO of the U.S. Government’s Millennium Challenge Corporation; Gyanendra Bahadur Karki, Nepal’s Finance Minister; COAS General Chhetri of the Nepal Army; Nancy Pelosi, U.S. Congresswoman and former Speaker of the House of Representatives; Admiral Harry B. Harris, Jr., Commander of the United States Pacific Command; and Pradeep Kumar Gyawali, Nepal’s Foreign Minister. In 2015, Dana J. Hyde’s visit to Nepal marked the beginning of the country’s partnership with MCC, occurring less than two months after MCC’s Board of Directors selected Nepal (MCC, 2015, February 20). Alongside Ambassador Peter W. Bodde, Hyde led a U.S. government delegation that included Deputy Assistant Secretary for South and Central Asian Affairs Fatema Z. Sumar and USAID Mission Director Beth Dunford. They discussed the compact development process and congratulated Nepalese leaders on their progress in adopting democratic principles (MCC, 2015). Similarly, in 2017, on the 70th anniversary of establishing diplomatic relations, Gyanendra Bahadur Karki, Nepal’s Finance Minister, and Jonathan Nash, Acting CEO of MCC, signed the Compact in Washington, D.C., in September 2017 (MCC,

2017). General Chhetri visited the U.S. in 2017 at the invitation of General Joseph F. Dunford, Jr., Chairman of the Joint Chiefs of Staff. COAS General Chhetri participated in the Global Chiefs of Defense Conference on Countering Violent Extremist Organizations (VEOs), pursuing military diplomacy by increasing military contact (Poudel, 2017). Leading a bipartisan delegation from the U.S. House of Representatives, U.S. Congresswoman and former Speaker of the House Nancy Pelosi visited Nepal on May 6–7, 2017.

The bipartisan Congressional delegation discussed a wide range of bilateral issues, including the registration and settlement of Tibetan and Bhutanese refugees. They also expressed concerns about Nepal's peace process, human rights situation, and trade and investment agreements (Sobolik, 2024). Admiral Harry B. Harris, Jr., Commander of the U.S. Pacific Command, visited Nepal and attended the opening ceremony of a U.S.–sponsored multinational U.N. peacekeeping exercise (Shanti Prayas) in Kathmandu on March 20, 2017. In 2018, at the invitation of Secretary of State Michael R. Pompeo, Foreign Minister Pradeep Kumar Gyawali visited the U.S. from December 17 to 20, where he held a bilateral meeting with his U.S. counterpart on December 18. Also, Assistant Secretary for Defense for Asian and Pacific Security Affairs Randall Schriver, Deputy Assistant to the U.S. President and Senior Director for South and Central Asia at the National Security Council Lisa Curtis, and the Chief Operating Officer of the Millennium Challenge Corporation (MCC), Jonathan Nash, participated in discussions on December 19, 2018. During the meeting, Secretary of State Pompeo stated that the U.S. Indo-Pacific strategy aims to make Nepal strong, independent, sovereign, and prosperous. He also praised Nepal's political progress and reaffirmed the U.S. government's willingness to support Nepal's development agenda (Ministry of Foreign Affairs [MOFA], 2019). Overall cooperation and Nepal's role in U.N. peacekeeping enhance the capacity of the Birendra Peace Operations Training Center in Panchkhal. The current progress of the MCC Compact in Nepal and the steps needed to complete the MCC projects were also discussed (Nepal, 2021). In January 2019, Admiral Phil Davidson, Commander of the U.S. Indo-Pacific Command, visited Nepal. Likewise, Samuel D. Brownback, the U.S. Ambassador at Large for Religious Freedom, traveled to Nepal in November 2019 (Giri, 2023). Additionally, U.S. Assistant Secretary of Defense for Indo-Pacific Security Affairs Randall Schriver visited Nepal in December 2019. David J. Ranz, a U.S. State Department official, made a statement during his visit to Nepal in May 2019, arguing that the MCC-Nepal Compact aligns with the Indo-Pacific strategy and highlighting Nepal's key role in “stabilizing the Indo-Pacific region” (Pokharel, 2024). From September 9–12, 2021, MCC's vice president, Fatema Z. Sumar, and deputy vice president, Johnathon

Brooks, visited Nepal. During her four-day stay, Sumar requested that Nepali politicians endorse the compact through parliament (Shrestha & Giri, 2021, September 8). A four-member U.S. Congressional delegation, led by Senator Kirsten Gillibrand, visited Nepal from April 22 to 24, 2022. The delegation included Senators Sheldon Whitehouse, Cory Booker, and Mark Kelly, as well as Representative Mondaire Jones. This visit played an important role in strengthening bilateral ties on a legislative level and sharing Nepal's progress and challenges across various fronts (Giri, 2023).

Similarly, following the MCC ratification, Uzra Zeya, the Under Secretary for Civilian Security, Democracy, and Human Rights at the U.S. Department of State and the Special Coordinator for Tibetan Issues in the Biden administration, visited Nepal. Likewise, Victoria Nuland, the U.S. Under Secretary of State for Political Affairs, arrived in Kathmandu. On July 14, 2023, Assistant Secretary of State for South and Central Asian Affairs Donald Lu visited Nepal for the third time. Uzra Zeya has been an American official since Nepal ratified the USD 500 million Millennium Challenge Compact in February 2022. During her visit to Nepal, Zeya stopped in India, where she met the Dalai Lama, the spiritual leader of Tibetan Buddhists, and visited two Tibetan refugee camps in Kathmandu, which received significant media attention (Bhattra, 2022). Similarly, Nuland conveyed the message of Nepal's sovereignty, stating, "Economic cooperation with neighbors, focus on protecting sovereignty," in reference to issues addressed to China. There should be no corruption in economic cooperation with neighbors. Everything should be transparent. Nuland stated that the USAID Country Development Cooperation Strategy for Nepal, covering 2020–2025, involves an increased level of grant commitment worth USD 659 million. The two countries are focused on effectively and promptly implementing development projects under these agreements. As of July 26, 2022, a total of USD 71 million had been disbursed by the U.S. for thirty development projects in Nepal from July 15, 2021, to July 16, 2022 (USAID, 2022). The most prominent individual, Assistant Secretary of State for South and Central Asian Affairs Donald Lu, visited Nepal four times during his tenure. First, for the MCC ratification; second, to advocate for the SPP after the MCC was ratified; third, he made a one-day trip to Kathmandu in July 2023; and fourth, his most recent visit occurred in December 2024 as part of a regional tour (Koirala, 2023). U.S. assistance for earthquake reconstruction, the celebration of Nepal-U.S. 75th diplomatic relations, the U.S. invitation to Nepal for the Summit for Democracy, the phone call to Prime Minister Sher Bahadur Deuba from Secretary of State Anthony Blinken, and the vote for the UN Human Rights Commission against Russia also highlight U.S.–Nepal policy priorities (U.S. Department of State, 2021).

Thus, during this period, regional dynamics have been influencing U.S.–Nepal policy. Similarly, instead of viewing Nepal solely through Indian perspectives, the United States has increased its engagement with Nepal based on its own merits. However, to strengthen its engagement with Nepal, the U.S. seeks India’s support on specific issues. During this time, U.S. policy toward Nepal has notably included the integration of Nepal in the Indo-Pacific Strategy, the agreement on the Millennium Challenge Corporation (MCC), the State Partnership Program (SPP), an increase in regular high-level visits, and concerns regarding the rights of Tibetan refugees, along with the transparency of Chinese investments in the region. In response to each policy initiative, China reacts.

During this period, regional factors became dominant in U.S.–Nepal policy. As the world system transitions from unipolar to multipolar, U.S. policy shifts from empowering Nepal in democracy, human rights, and economic development to focusing broadly on China and India. The Communist contentment policy transforms into Chinese contentment; thus, during high-level visits and discussions regarding IPS, MCC, SPP, and Tibetan refugees, the U.S. and China confront each other directly. Similarly, this situation heightened the significance of Tibetan refugee issues, prompting the U.S. to pressure for the resolution of social, cultural, and human rights concerns among the refugees. Likewise, U.S.–India strategic cooperation increased at the regional level; however, instead of viewing Nepal through Indian perspectives, the United States enhanced its engagement with Nepal based on its own merits.

**Table 3: U.S. policy priorities from Post Monarch to Transition towards a Multipolar World**

| <b>Policies</b>                                                    | <b>Policy Priorities</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. U.S. policy to support democratic transition and peace process. | <ul style="list-style-type: none"><li>• U.S. policy was to make an agreement between King and democratic forces; however, after the success of the people’s movement and comprehensive peace agreement, U.S. supported the democratic transition.</li><li>• Though Maoists won Constituent Assembly elections and participated in the peace process, U.S. didn’t trust the Maoists; thus, U.S. kept them on the terrorist list and told U.S. policy towards Maoists depends on their commitment to democracy.</li><li>• U.S. provided diplomatic, financial, and technical assistance in Nepal’s peace process. The Carter Center played a vital role in the peace process.</li></ul> |

| Policies                                                                                                                                                                                          | Policy Priorities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2. Evolving regional dynamics enter on U.S. Nepal policy.                                                                                                                                         | <ul style="list-style-type: none"> <li>• Since the Trump administration, US-Nepal policy shifted from empowering Nepal on democracy, human rights, and economic development to regional factors.</li> <li>• Nepal was included possible partner of Indo-Pacific Strategy, aligning it with U.S. regional priorities.</li> <li>• Some U.S. official's statements relating MCC with IPS. Thus, China and U.S. come face to face on the issues of MCC.</li> <li>• Similarly, the State Partnership Program (SPP) drags China and India's security and strategic concerns.</li> <li>• U.S. Tibetan Refugees Act and statement during a bilateral visit sensitize China's concerns on U.S. Nepal policy.</li> </ul> |
| 3. U.S. policy to establish regional supremacy through trade, technology and space competition weakens the communist containment policy. This helps to enter the new dynamics of US Nepal policy. | <ul style="list-style-type: none"> <li>• As global system transit from unipolar to multipolar, U.S. Nepal policy became a part of broader regional geopolitics.</li> <li>• During Cold war and post-cold war U.S. Nepal policy was guided by communist containment; however, during this time with the Indo-Pacific Strategy (IPS), focus shifted to countering China's influence which reflects U.S. Nepal foreign policy initiatives.</li> </ul>                                                                                                                                                                                                                                                             |
| 4. Policy of active engagement through regular visits.                                                                                                                                            | <ul style="list-style-type: none"> <li>• During this time, U.S. politician, government officials, security personal of Indo-Pacific command visits to Nepal increased. The regular high-level visits and statements about MCC relating Nepal with IPS, Tibetan refugees and their rights, SPP shows the active diplomatic and strategic engagement.</li> </ul>                                                                                                                                                                                                                                                                                                                                                 |
| 5. Policy of Tibetan refugees                                                                                                                                                                     | <ul style="list-style-type: none"> <li>• U.S. increased Tibetan refugee support activities. It pressured Nepal to maintain a humanitarian approach despite Chinese influence.</li> <li>• Donald Trump brought the Tibetan Refugee Support Act, similarly to Biden.</li> <li>• U.S. gave pressure to implement the gentlemen's agreement with Nepal and similarly, not to ratify the extradition treaty.</li> <li>• During this time, U.S. senators gave pressure to the Nepalese government for transit rights for Tibetan refugees, social and cultural rights, and identity cards. They warned to ban Nepalese garments if Nepal extradites Tibetan refugees.</li> </ul>                                     |

| Policies                               | Policy Priorities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6. U.S. Nepal Policy<br>India Factors. | <ul style="list-style-type: none"> <li>• U.S. and India’s policy differed during twelve points agreement. U.S. didn’t support the India’s efforts to make an agreement with Maoist and political parties.</li> <li>• After success of people’s movement and comprehensive peace agreement U.S. and India’s policy on Nepal seem similar.</li> <li>• India factor dominated till peace process then instead of viewing Nepal through Indian eyes, the United States increased engagement with Nepal on its own merits.</li> <li>• The MCC, SPP, Tibetan refugee’s issues, religious report and regular visits shows that U.S. wanted to look Nepal independently.</li> <li>• However, India became third party and remained silent during U.S. and China tug of war regarding the MCC.</li> </ul> |

### 3.2 MCC Compact: The Role of Disinformation in Bilateral Relations

Disinformation spreads during periods of instability, political transition, or geopolitical crisis. The government’s decision-making conundrum, along with the propagation of incorrect or misleading information to influence public opinion or policy, has arisen as a serious concern in contemporary international relations (Kharel, 2024). Misinformation can distort public discourse, cause social fear, and potentially influence public conduct (Acharya, 2025). During the MCC debate, a flow of misleading propaganda appeared in newspapers, on television, on the radio, and on social media, much of which contained apparent inaccuracies. Misinformation, conspiracy theories, and politicized narratives dominated national debate surrounding the accord. Before the compact was ratified, there was debate over whether the five-year grant was beneficial to Nepal. For weeks, before the approval in Parliament, arguments and street demonstrations took place, and some sections of the compact were interpreted differently (Acharya, 2025). Critics claimed that the MCC accord would weaken Nepal’s sovereignty or bind the country to the United States’ Indo-Pacific Strategy.

The spread of misinformation about the compact, especially the claim that it was part of the U.S. Indo-Pacific Strategy aimed at containing China, significantly fueled public opposition and nationalist sentiment in Nepal. The clauses of the compact, which required India’s approval to build a transmission line for exporting electricity to the neighboring country and allowed the U.S. to send forces to rescue American citizens, if necessary, jeopardized Nepal’s sovereignty as an independent nation (Acharya, 2025). Although the Millennium Challenge Account of Nepal (2021) and Millennium Challenge Corporation (2015, 2017, n.d.) repeatedly



emphasized that the grant was unrelated to military alliances, this false narrative—lacking factual basis—was widely circulated on social media, political campaigns, and local news outlets, turning a development project into a geopolitical dispute (Adhikari, 2023).

Similarly, rumors spread that China did not want the MCC to be ratified by Parliament. MCC has been portrayed by Chinese state media and allied think tanks as a form of “coercive diplomacy” or part of a broader military alliance (Shrestha, 2022). Such images resonated in Nepal, where domestic political parties exploited anti-western sentiments and nationalist ideology to oppose the agreement. As a result, the MCC became more than just a development discussion; it also turned into a proxy battle for influence between Washington and Beijing (Thapa, 2019). This case shows how disinformation can serve as a strategic tool in great power competition, shaping local perceptions and foreign policy in smaller states like Nepal (Gyawali, 2022). In the digital era, the rapid spread of disinformation through social media platforms has complicated diplomacy, destabilized international norms, and eroded trust among governments and global institutions. Both state and non-state actors increasingly use disinformation as a strategic weapon to weaken opponents, control local politics, and influence global perceptions (Rid & Buchanan, 2015). Therefore, disinformation plays a major role in hybrid warfare and strategic rivalry among major powers today (Wardle & Derakhshan, 2017). Smaller or less resilient states may suffer harsher impacts because they lack the institutional capacity to detect, counter, and reduce foreign influence operations.

### **3.3 Theoretical Lenses: Hegemonic Stability Theory**

#### **3.3.1 About Hegemonic Stability Theory**

Hegemonic Stability Theory (HST) posits that international stability is more likely when a single powerful state, or hegemon, dominates the global system. This hegemon enforces rules and norms, provides public goods such as security and open markets, and deters conflicts, helping to ensure order and cooperation among states (Webb & Krasner, 1989). According to HST, the loss of a hegemon can lead to global instability because no other actor can maintain systemic order. HST emerged in the 1970s as a response to the perceived collapse of international order during the interwar period and the Great Depression. The theory was first outlined by Charles P. Kindleberger (1973), who argued that the absence of a global leader following Britain’s decline and before U.S. dominance caused economic instability in the 1930s. Kindleberger (1981) believed that a healthy international economy needs a single dominant state to provide public goods like free markets, a stable

currency, and security, which help sustain global economic and political stability. Building on Kindleberger, Robert Gilpin (1981) further developed the theory within a realist perspective, emphasizing that hegemonic power depends on material capabilities. Gilpin argued that the hegemon maintains order through a mix of coercion and consent, and that international stability deteriorates when the hegemon's relative power declines. This process of hegemonic rise and fall, he suggested, is cyclical, characterized by hegemonic wars and systemic transformations.

In the 1980s, researchers such as Robert Keohane (1980) and Stephen Krasner (1983) contributed to the development and critique of HST. Krasner agreed that hegemonic power might establish and sustain regimes that organize international cooperation, but he also recognized that institutions can endure after hegemonic decline. While criticizing HST's deterministic approach, Keohane contended in *After Hegemony* (1984) that international cooperation could be preserved through institutions even in the absence of a hegemon, especially if states shared common interests and interacted frequently. Later contributions by scholars like Duncan Snidal (1985) offered theoretical challenges, arguing that HST underestimated the potential for cooperation in multipolar systems and overemphasized the importance of a hegemon. Meanwhile, Susan Strange (1987) highlighted the role of structural power and the significance of non-state actors in shaping international outcomes, broadening the analysis beyond state-centric hegemony. Thus, the evolution of HST reflects a dynamic debate from Kindleberger's liberal economic origins to realist formulations by Gilpin, institutionalist revisions by Keohane, and critical perspectives by Strange and others. The theory has evolved to acknowledge that while hegemons play a vital role in maintaining order, complex interdependence and institutional resilience can also foster stability in a more fragmented global system.

### 3.3.2 Hegemonic Stability Theory and Changing Dynamics of U.S.–Nepal Policy

This paper primarily draws on the realist-institutionalist variant of HST. It conceptualizes the United States as the hegemon, Nepal as a peripheral or secondary state, and China and India as rising powers within a shifting regional structure. The behavior of the United States toward Nepal illustrates its role as a global hegemon striving to promote a liberal order and regional stability. Historically, U.S. foreign aid to Nepal has been connected to developmental assistance, humanitarian efforts, and democracy promotion. Programs under the U.S. Agency for International Development (USAID) target areas like health, education, governance, and disaster resilience, aligning with HST's idea of the hegemon providing public goods to weaker states (USAID, 2023). These initiatives are not just altruistic; they also

serve strategic interests by helping to prevent instability in a geo-strategically sensitive ally-rich region containing allies between China and India.

Scholarships, exchange programs (such as the Fulbright and International Visitor Leadership Program), and cultural outreach serve as soft power tools that reinforce U.S. hegemony. According to Nye (2004a, 2004b), this participation enhances influence without coercion, illustrating HST's hegemonic consent mechanism rather than compulsion. These programs have cultivated pro-American elites and fostered goodwill among Nepal's youth and civil society, shaping long-term sentiments that support the liberal international system championed by the United States. Regarding governance and institutional development, the United States promotes democratic principles, the rule of law, and human rights by sponsoring civil society organizations while fostering transparency and accountability (State Department, 2022). This involvement highlights the hegemon's role in shaping the internal political structures of smaller states to align with global liberal norms (Ikenberry, 2001). Furthermore, the U.S.'s strategic posture in Nepal has evolved in response to growing Chinese influence. Through frameworks like the Indo-Pacific Strategy (IPS), the U.S. has aimed to reinforce Nepal's sovereignty, connectivity, and independence, consistent with HST's emphasis on maintaining order and countering rival power centers (Department of Defense, 2019). In essence, HST helps clarify that U.S. engagement with Nepal is not random or purely humanitarian but is strategically calculated to uphold a regional and global order conducive to American leadership.

Hegemonic Stability Theory (HST) offers a valuable perspective for understanding the changing dynamics of U.S. policy toward Nepal. The core idea of HST explains why and how the U.S. has adapted its approach to Nepal in response to shifting geopolitical conditions, especially with China's and India's rise in South Asia. Initially, U.S. policy toward Nepal mainly focused on development and humanitarian aid, reflecting the hegemon's role in providing global public goods to maintain stability (Kindleberger, 1973). Programs through USAID emphasized poverty reduction, health, education, and democratic governance. This aligns with Robert Gilpin's (1981) claim that a hegemon stabilizes peripheral states through economic and political support, thus reinforcing an international order that benefits its strategic interests. However, as China's influence in Nepal has grown—particularly via Belt and Road Initiative (BRI) projects and infrastructure diplomacy—the United States has increasingly viewed Nepal through a geopolitical lens. Including Nepal in the U.S. Indo-Pacific Strategy (IPS) and the controversial Millennium Challenge Corporation (MCC) agreement indicates a trend toward strategic engagement (Department of Defense, 2019). This shift supports Gilpin's argument that

hegemonic behavior shifts when emerging competitors threaten relative authority. The current hegemon, the United States, is working to bolster its presence and counter Chinese influence in South Asia, consistent with the logic of hegemonic maintenance.

Furthermore, as Keohane (1984) proposed, even when hegemony is challenged or declining, institutions and alliances formed under hegemonic leadership can endure and be reformed. The United States' ongoing reliance on development assistance, democratic institution-building, and people-to-people diplomacy in Nepal exemplifies efforts to sustain institutional influence in a more competitive multipolar environment. Therefore, the ideas of the HST writers help explain how U.S. policy has transitioned from a developmental priority to a more strategic, geopolitical engagement. It emphasizes the United States' dual role in providing public benefits while balancing power with adversaries to uphold a favorable international order.

### 3.4 Trend of Bilateral Economic Relations

This section looks into the trend of bilateral aid flow and trade relation for analyzing the dynamics of U.S. Nepal relation in different time period.

Figure 1 illustrates how U.S. aid to Nepal has changed from 1960 to 2022 and gives an interesting look at US-Nepal relations. For example, in the 1960s, U.S. aid increased sharply to support the panchayat system and to counter the perceived communist threat. A large part of this aid was military support for Khampa rebels. The decrease in aid after that suggests a shift in U.S. priorities, as discussed earlier.

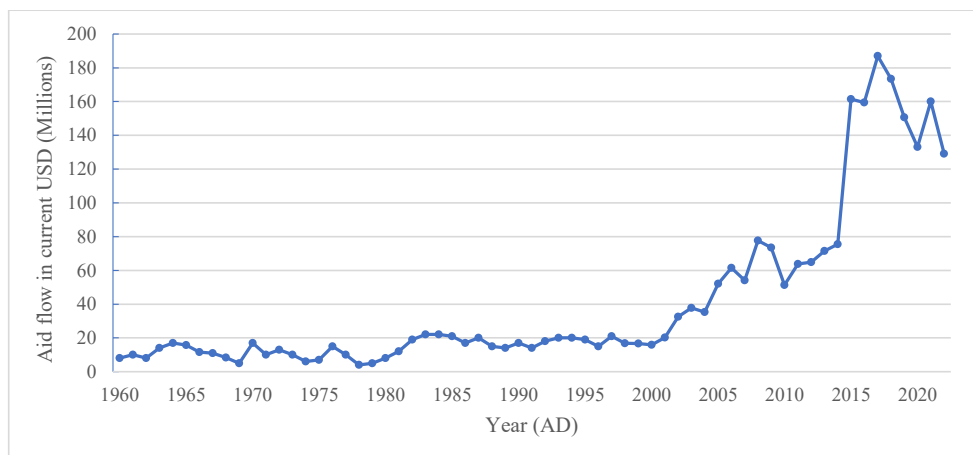


Figure 1. Net bilateral aid flows from United States to Nepal

Source: World Bank Databank (2025)

Since official documents and policy statements from the U.S. indicate that aid to Nepal is aimed at supporting its western alignment, the sharp rise in aid starting in the early 2010s, when China was beginning to position itself as a global superpower, is not surprising. Slight decrease in the aid flow to Sri Lanka and lesser fluctuation in aid amount to Thailand (Figure 2) during this period shows that United States foreign policy has provided significant attention to Nepal in recent times.

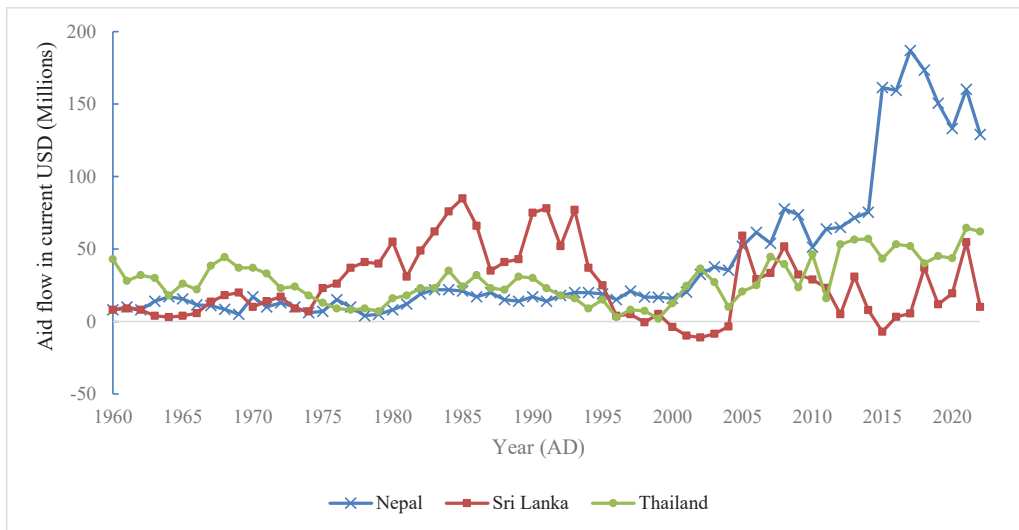


Figure 2. Bilateral aid flow from United States to Nepal, Sri Lanka and Thailand

Source: U.S. Census Bureau (2025)



Figure 3. U.S. trade in goods with Nepal in millions of USD on a nominal basis

Source: U.S. Census Bureau (2025)

Similarly, Figure 3, shows the trend of U.S. trade in goods with Nepal in millions of dollars from 1992 to 2024. The United States and Nepal signed a trade and investment framework agreement in 2011. Although the volume is not large in the context of the U.S. economy, these initiatives with Nepal can be seen as part of the United States' multifaceted approach to strengthening its presence and partnerships in South Asia.

## **4. Summary and Conclusion**

The United States and Nepal have maintained a friendly and cooperative bilateral relationship for seventy-eight years. The Cold War era was a golden period for strengthening U.S.–Nepal ties, during which, U.S. acknowledged Nepal's independent identity, provided economic aid, and supported its democratic institutions. To counteract communist expansion in South Asia, the U.S. backed the autocratic monarchy. Similarly, to fill the power vacuum left by Great Britain in South Asia, the U.S. recognized independent India as a democratic leader in the region and worked with it to counterbalance communist forces. As a result, India exerted indirect influence on U.S. policy toward Nepal. Additionally, as the global system shifted from bipolar to unipolar, Nepal transitioned from Panchayat to a multi-party democracy. At this point, U.S. policy toward Nepal was shaped by the rise of the Maoist insurgency, the second War on Terror policy related to South Asia, and the actions of King Gyanendra against democracy. Although the U.S. became a superpower after defeating the communist bloc, it continued its containment strategy in Nepal by linking the Maoist insurgency to the War on Terror. The U.S. felt less threatened by communist expansion from China after Nixon's visit; however, Maoism's rising influence and ideological similarities heightened U.S. concerns about Nepal. During this period, the U.S. actively collaborated with India to suppress the Maoist insurgency. The U.S. expressed displeasure when King Gyanendra took direct control without consulting India. As a result, the U.S. urged Nepal to maintain good relations with India. The Bush administration took a binary approach to the terror policy, viewing countries as either with us or against us. Consequently, during the twelve-point agreement, India asked the U.S. to support the initiative; however, the U.S. opposed it. The U.S. did not support the Panchayat-style government it had previously endorsed during the Cold War, nor did it support an agreement between political parties and Maoists. Although the U.S. and India once pursued different strategies, they aligned their Nepal policies after the success of the People's Movement and the signing of the Comprehensive Peace Agreement. Nonetheless, the U.S. kept the Maoists on the terror list for a long period.



At the beginning of the shift from unipolar to multipolar world, Nepal's political system changed from a monarchy to a republic. During this period, U.S.–Nepal policy became part of regional dynamics as the U.S. shifted its focus to the Asia-Pacific region through the Indo-Pacific Strategy. Instead of viewing Nepal solely through Indian perspectives, the U.S. increased its engagement with Nepal based on its own interests. U.S. policy toward Nepal has been heavily influenced by agreements such as the Millennium Challenge Corporation (MCC), considered by some as part of the Indo-Pacific Strategy; the State Partnership Program (SPP); more frequent high-level visits; concerns about Tibetan refugees' rights; and transparency issues related to Chinese investments. In 2019, the U.S. identified Nepal as a potential member of the Indo-Pacific Strategy. Because of its proximity to the Indian Ocean via SAARC and BIMSTEC, U.S. officials believe that Nepal can have a significant impact in the Indo-Pacific region. Meanwhile, China tried to keep Americans away from its neighbors, while the U.S. aimed to influence China's neighbors, including Nepal. As a result, several policies and programs in Nepal sought to counter each other's rivalry. U.S. initiatives like the Millennium Challenge Corporation (MCC), the State Partnership Program (SPP), and concerns about Tibetan refugee issues are directly connected. The debate over Nepal's MCC Compact also shows how disinformation, driven by geopolitical rivalries, can distort public discourse and complicate relations between smaller states. Building stronger institutions for verifying information and increasing public resilience are essential for reducing the influence of foreign influence operations.

On the other hand, the U.S. and India are engaging in strategic coordination through the Indo-Pacific strategy and the Quad frameworks to counter China. In Nepal, they are aligning on the peace process, Tibetan refugee issues, democracy, and human rights. India is not part of China's BRI because the China Pakistan Economic Corridor (CPEC) project, which passes through Jammu and Kashmir, violates its sovereignty. Meanwhile, China is pursuing various development and connectivity projects through the Himalayan and Terai regions of Nepal, which India views as a security threat. Consequently, during the MCC vs. BRI debate, India remained silent. Thus, they both do not welcome China's growing influence in Nepal, particularly regarding political, economic, infrastructure, and security matters. The U.S. has assigned India a significant role against China, as the U.S. consistently believes India is aligned with its ideological camp. This phenomenon directly and indirectly influences U.S.–Nepal policy. The U.S. has always supported Nepal's sovereignty and independent identity without undermining India's interests. After India annexed Sikkim during Gerald Ford and Henry Kissinger's visit to China, they discussed how Nepal could assist if India followed suit. Similarly, during the

economic blockade in 1989, the U.S. sent its representative to support Nepal. Likewise, after seven years, the U.S. backed Nepal's peace zone proposal. In the same vein, while India imposed an economic blockade in 2015, Nepal promulgated its constitution. The U.S. supported Nepal's efforts, calling it a milestone for democracy.

U.S.–Nepal policy aims to maintain a buffer zone between China and India to uphold hegemonic status. Whenever the balance of power shifts, U.S. foreign policy adjusts accordingly toward Nepal. Therefore, Nepal holds a strategic position in U.S. policy, as it provides insight into the balancing act between China and India. Consequently, with the U.S. Indo-Pacific Strategy, the U.S. believes that forming strategic partnerships with Nepal can enhance its Indo-Pacific posture. Increasing high-level visits, engagements, and statements indicate that the U.S. seeks to strengthen relations at the strategic level. During the bilateral visit, U.S. officials describe Nepal as a valued partner in the Indo-Pacific region. As a result, the U.S. has increased its involvement, revealing potential new patterns. In this context, questions arise about how much the U.S. will rely on India to shape its Nepal policy and how strong the partnership between India and the U.S. will be against China. Similarly, the actions of the United States regarding its relationship with China will influence future U.S.–Nepal policy. The Sino-India factor is a crucial consideration in the broader U.S. policy approach toward Nepal. Thus, U.S.–Nepal policy has been shaped in response to strategic movements related to China and its relationship with India.

For seven decades, Nepal has struggled to establish a country-specific foreign policy regarding the U.S. Therefore, Nepal needs to understand the nature of Nepal-U.S. relations and develop a framework to meet bilateral expectations. For a long time, Nepal has been expressing concerns that the U.S. should not view Nepal through someone else's lens and formulate foreign policy initiatives accordingly. Nepal-U.S. relations have been built independently, not influenced by others, and Nepal possesses its own long-standing, independent identity. To meet this expectation, Nepal must define the U.S. as a third neighbor, as Ronald Reagan remarked that Nepal is a friend located in the next corner of the world. Additionally, to enhance Nepal's influence on U.S. policy, Nepal should foster relationships through multiple channels, including political parties, parliament to parliament, think tanks to think tanks, and academia to academia.

## 5. Recommendations

Based on the above analysis, following implications can be generated, which guide policymakers to identify the strength of U.S. Nepal dynamics and grab opportunities to position Nepal strategically in U.S. foreign policy.

- 1) Nepal may not have much influence on global politics; however, it provides strategic leverage for the U.S. Therefore, U.S. policy toward Nepal affects regional factors more than domestic ones, as it seeks to turn Nepal into a buffer zone, serving as a window between two Asian giants.
- 2) U.S.-Nepal policy has been shaped by strategic maneuvers toward China and its ties with India. As a result, U.S. policy toward Nepal adjusts based on shifts in the regional balance of power. In this context, the Sino-India dynamic plays a crucial role in shaping the broader U.S. approach to Nepal.
- 3) The U.S. seeks to enhance its engagement and partnership with Nepal by providing development aid, strengthening defense ties, and promoting economic cooperation to reduce Nepal's reliance on China. Meanwhile, the U.S. and India are working together on the peace process, Tibetan refugee issues, democracy, and human rights in Nepal. Therefore, the U.S. believes that engaging with Nepal can strengthen its strategic leverage in the region.
- 4) With the shift from unipolarity to multipolarity, the dominant superpower, the U.S., and the emerging power, China, are competing for global dominance. The traditional patterns of great power rivalry have moved from ideological containment to competition in trade, technology, military, and space. Since implementing the Indo-Pacific strategy, the U.S. has acknowledged China as a genuine peer competitor and India as a strategic partner. As a result, the U.S. has stepped up its engagement with Nepal.
- 5) Today, the U.S. believes that China has reached a point of relative parity since the start of Donald Trump's administration's "America First" agenda, leading to more prominent anti-Chinese rhetoric. The rival country continually focuses on the region and the neighbors of its peer competitor to prevent becoming a regional hegemon. Consequently, the U.S. and China's rivalry in Nepal, through various policies and programs, seems to weaken each other's influence.
- 6) As the U.S. tries to draw Nepal into its camp and China responds by pushing the U.S. away, the two countries engage in political manipulation, economic control, and ideological indoctrination, making it difficult for Nepal to maintain its political autonomy. Since the U.S. Indo-Pacific Strategy reflects the U.S. and China's global rivalry in Nepal, the rivalry between the U.S. and

China has been a bitter experience since the establishment of bilateral relations between them and Nepal.

- 7) China and the United States compete in various ways, such as forming new alliances or countering each other's influence in the region. Therefore, the U.S. is aggressively working to influence China's neighbors; in response, China is attempting to push Americans away from their neighbors. As a result, China has repeatedly responded to the U.S.'s MCC, SPP, and support for Tibetan refugee activities, while also stressing Nepal's commitment to the One China Policy. It echoes the famous saying by Thucydides from the fifth century BC, which states that the strong do what they have the power to do, and the weak accept what they must.
- 8) The use of propaganda and misinformation to sway public opinion has become a major concern in contemporary international relations, and the recent MCC controversy has shown that Nepal is no exception. Misleading narratives, actively spread through media outlets and political campaigns, turned a development project into a worldwide controversy, complicating bilateral relations. This situation highlights the need to improve institutional capacity to identify, counter, and mitigate such emerging forms of hybrid warfare.

Following courses of actions are suggested in accordance to the above findings.

Table 4. Recommendations and suggested course of action for strengthening U.S. Nepal strategic relations

| S.N. | Recommendations                                                                                                                             | Responsible Agencies                                                                                                                                                                                    | Suggested Actions                                                                                                                                                                                                                                                                                                                       |
|------|---------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1    | Strengthen strategic diplomatic engagement through Track I and Track II diplomacy to advocate Nepal's core interests in U.S. policy circles | <ul style="list-style-type: none"> <li>Ministry of Foreign Affairs (MoFA), in coordination with the Embassy of Nepal in Washington, D.C., and the Institute of Foreign Affairs (IFA), Nepal.</li> </ul> | Establish a high-level Nepal-U.S. Strategic Dialogue platform that brings together senior officials, think tanks, business leaders, and scholars from both countries to regularly discuss bilateral, regional, and global issues of mutual interest.                                                                                    |
| 2    | Nepal should reaffirm nonalignment and update foreign policy                                                                                | <ul style="list-style-type: none"> <li>Ministry of Foreign Affairs (MoFA)</li> <li>Institute of Foreign Affairs (IFA)</li> <li>Policy Research Institutes and Think Tanks</li> </ul>                    | U.S. is Nepal's historical friend and development partner. It is the first country to help with development aid and the second country to establish diplomatic relations and recognize Nepal's sovereignty. It has been supporting Nepal's democracy, human rights, peace process, and sustainable development. However, today, through |

| S.N. | Recommendations                                                                                                       | Responsible Agencies                                                                                                                                                               | Suggested Actions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|------|-----------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|      |                                                                                                                       |                                                                                                                                                                                    | Indo-Pacific strategy U.S. is more aggressive towards China. U.S. and India do not entertain China's growing influence in Nepal. Nepal should reaffirm its commitment to nonalignment, avoiding being drawn into US-China or US-India rivalries. For that, updating the Nepalese foreign policy document, providing diplomatic briefings, and institutionalizing the nonaligned and balanced foreign policy.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 3    | Balance U.S. interests and economic independence                                                                      | <ul style="list-style-type: none"> <li>• Ministry of Finance (MoF)</li> <li>• Ministry of Industry, Commerce, and Supplies (MoICS)</li> <li>• Nepal Investment Board</li> </ul>    | How much will U.S. rely on India to formulate its Nepal policy, and how strong a partnership will India have with U.S. against China? Similarly, what the United States will do to its relations with China will determine US-Nepal policy in the future. This is a challenging situation for Nepal to balance U.S. interest in Nepal. Thus, Nepal should enhance its ability to resist political and economic coercion from global powers. Prioritize trade and investment over political alignment, ensuring that economic engagements with the US, China, and India serve Nepal's national interests. Nepal needs to strengthen economic independence, strategic resource management, and diplomatic training. While welcoming U.S. development assistance, Nepal should ensure that aid programs align with national priorities and do not create geopolitical friction. For that, Nepal needs to develop a policy review and project selection framework. |
| 4    | Strategic Autonomy: Conduct regular policy reviews to ensure external influences do not undermine Nepal's sovereignty | <ul style="list-style-type: none"> <li>• Ministry of Foreign Affairs (MoFA)</li> <li>• National Security Council (NSC)</li> <li>• Think Tanks and Academic Institutions</li> </ul> | In an anarchical world system, survival is a primary need for the states; however, there is no upper limit of power maximization for great power; thus, power maximization will continue. Nepal should address the US's legislative concerns in light of China's                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

| S.N. | Recommendations                                  | Responsible Agencies                                                                                                                                                                                             | Suggested Actions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|------|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|      |                                                  |                                                                                                                                                                                                                  | and India's security concerns. Our leadership should not let anyone decide what's good for Nepal and what's not. Nepal should assert its strategic autonomy. Requirements are policy review, diplomatic consultations, and think-tank engagements for policy discourse.                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 5    | Reducing India's Influence on US-Nepal Relations | <ul style="list-style-type: none"> <li>• Ministry of Foreign Affairs (MoFA)</li> <li>• Office of the Prime Minister and Council of Ministers (OPMCM)</li> <li>• Nepalese Embassy in the United States</li> </ul> | As regional power India factors are the most influential factors in US-Nepal policy. To reduce India's domination on US-Nepal policy. Nepal should develop relations through multiple channels and enhance the diplomatic capacity to convince U.S., the superpower country, to have its own independent policy with Nepal. Establish direct, high-level diplomatic engagement with the U.S. to shape Nepal policy independently from Indian influence. For that increase, state visits, regular dialogues with U.S. counterparts, and the establishment of the Nepal-U.S. Strategic Dialogue Mechanism.                                                                                                                                     |
| 6    | Enhancing Proactive Diplomacy with the US        | <ul style="list-style-type: none"> <li>• Ministry of Foreign Affairs (MoFA)</li> <li>• Nepalese Embassy in the United States</li> <li>• Nepal's Permanent Mission to the United Nations</li> </ul>               | Since the Panchayat regime, the state visits from Nepal have not done similarly to U.S. trend of congregation, while the formation of a new government also stopped. Similarly, most of U.S. officials visit Nepal through India; thus, Nepal should enhance the proactive diplomacy to correct U.S. foreign policy behaviors with Nepal. To correct U.S. diplomatic behavior that overly depends on India by enhancing direct Nepal-U.S. engagement. To implement it, host U.S. officials directly in Nepal and engage in diplomatic outreach. Engage in constructive dialogue with U.S. regarding their legislative concerns, ensuring Nepal's sovereignty is respected. For that increase the diplomatic negotiations and policy reviews. |



| S.N. | Recommendations                                                                                                                                                                                       | Responsible Agencies                                                                                                                                                                                                                              | Suggested Actions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7.   | Nepal should adopt a proactive, transparent, and evidence-based public diplomacy to counter disinformation and enhance bilateral relations, especially with the United States and neighboring powers. | <ul style="list-style-type: none"> <li>Ministry of Foreign Affairs (MoFA).</li> <li>Ministry of Communication and Information Technology (MoCIT).</li> <li>National Security Council (NSC)</li> <li>Institute of Foreign Affairs (IFA)</li> </ul> | To ensure transparency on MCC implementation, Nepal should establish a central information portal for verified updates, emphasizing its non-military nature. Civil society, think tanks, and universities must lead public dialogues to counter misinformation. Track 1.5 and Track 2 diplomacy with India, China, and U.S. can reinforce Nepal's sovereign choices. Media monitoring and MIL integration are also essential.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 8.   | Institutionalizing the 'Third Neighbor' Policy with the US                                                                                                                                            | <ul style="list-style-type: none"> <li>Ministry of Foreign Affairs (MoFA)</li> <li>Ministry of Industry, Commerce, and Supplies (MoICS)</li> <li>Nepalese Parliament and Policy Research Institutions</li> </ul>                                  | Nepal's geopolitical location prevents it from joining any alliance and becoming pro-India, pro-China, or pro-US. Thus, Nepal should follow nonalignment and a balanced foreign policy for focusing on its economic and social development. Nepal should make country specific foreign policy and need to bring it's into Nepal's foreign policy framework. Nepal should define U.S. as a third neighbor and developed the relations as Ronald Reagan said Nepal is a neighbor that is located on the next corner of the earth. Expand diplomatic engagement with U.S. beyond the traditional state-to-state relations to include economic diplomacy, people-to-people ties, and parliamentary diplomacy. Develop Nepal-U.S. relations under a 'third neighbor' policy approach, focusing on trade, investment, and people-to-people relations rather than geopolitical alignments. For that policy framework development, formal diplomatic recognition of the 'third neighbor' concept. |

## Conflict of Interest

The author declares that there is no conflict of interest regarding the publication of this research.

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## Author's Bio

### Dron Prasad Lamichhane

He holds an MPhil degree and is currently pursuing his PhD at the Department of International Relations and Diplomacy, Tribhuvan University. He is affiliated with the Institute of Foreign Affairs (IFA) in Kathmandu and has been serving as a lecturer at various colleges in Kathmandu. Additionally, he possesses experience in the media sector and has actively contributed writings on contemporary issues concerning domestic politics, international relations, foreign policy, and global affairs. His research interests encompass US-Nepal relations, US-Nepal policies, China-India factors, neighborhood policy, power transitions, and the implications of great power rivalries for Nepal.