

The MCC Compact in Nepal: Potential Benefits, Complexities and Implementation Challenges

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ABSTRACT

This study examines the difficulties of Nepal's agreement with the Millennium Challenge Corporation (MCC). It incorporates a major financial commitment of both the US and the government of Nepal, with the prime focus on multiple areas. Yet, the implementation of MCC in Nepal has caused a number of controversies associated with national sovereignty, security, and its visible supremacy over the Nepalese constitution, effects on geopolitics, specially the United States' Indo-Pacific Strategy and China's growing influence in Nepal. This study encompasses a qualitative research design with secondary data sources. Descriptive analysis is used to examine and study the political, social, and strategic aspects causing implementation and opposition to the MCC agreement and analytical analysis is used to evaluate the datas and informations. This article studies on the balance of the possible benefits to Nepal and the obstacles faced by this global interconnection. Despite the ongoing heated debates, the MCC Compact has the potential to grant significant development benefits for Nepal if it is implemented with consideration for national sovereignty and peoples' sentiment.

KEYWORDS

MCC; sovereignty; Indo-pacific strategy; geopolitics; International Relations

INTRODUCTION

Two years after President Bush's proposal, MCC commenced its activities in March 2004. Since President Kennedy signed the Foreign Assistance Act of 1961, which divided aids into military and non-military categories and created the U.S. Agency for International Development (USAID), MCC represents arguably the most significant change in the US foreign aid policy (Tarnoff, 2010). MCC, in contrast to traditional aid organizations, is intended to target specifically those countries whose governments are judged to be most committed to upholding the rule of law, investing in their citizens, and fostering economic freedom as determined by a set of transparent and objective governance indicators (Hook, 2008).

Bush gave two justifications for this strategy. The initial funding from MCC would be better used because it would only go to the poorest nations with the finest governments. Secondly, it would incentivize good governance by basing aids on historical performance. President Bush stated that countries that eradicate corruption, uphold human rights, and follow the law will be eligible for MCC rewards (Sarah & Wiebe, 2016).

Many developing nations, including Nepal, depend significantly on international assistance to manage a variety of socio-economic issues. The limited local resources, political instability, and inadequate infrastructures poses threats to the ability to achieve sustainable development. Foreign aid plays an important role in filling this gap by financing main sectors. For instance: education, healthcare, and infrastructure.

Furthermore, international support oftenly includes technical expertise and initiatives that aim at building capacities, which builds good governance and enhances economic reforms. Nepal is among the very poorest countries in Asia, with a population that struggles to even make ends meet and earns less than \$3 per day. The nation does not possess adequate and proper infrastructure. Additionally, a decade-long political transition, Maoist insurgency, the devastating earthquake of 2015, COVID-19 pandemic, and rapid corruption deeply integrated in bureaucracy and regulation have all contributed in some proportions to the development of Nepal (Smith & Smith, 2022). As a result, Nepal's reliance on international assistance stays essential for addressing these multiple problems and achieving long-term development objectives and goals.

In the course of a 2017 AD event in Washington, DC, an agreement concerning the MCC compact, which aims to promote Nepal's development and end poverty, was signed. The agreement was signed by Jonathan Nash, the acting CEO of MCC, and Gyanendra Bahadur Karki, the finance minister of Nepal (Roka, 2022). This is the first time that the US deputy government has been able to assist in raising the standard of living for citizens of low-income nations through economic development.

The Belt and Road Initiative, Indo-Pacific Strategies, and MCC all aim to achieve similar goals. Countries that receive foreign loans and aid prioritize their sovereignty and independence. In terms of MCC, Nepal should not be included in the Indo-Pacific strategy (Chand, 2021). The Belt and Road Initiative (BRI) of China is a global infrastructure development program aimed to boost trade through investment, on contrast the US-led Indo-Pacific Strategy aims at maintaining an open and free Indo-Pacific region. Even though the projects are driven by different geopolitical objectives, both initiatives represent a tough competition to exert influence in South Asia (Chand, 2021). In such a scenario, Nepal must carefully manage its diplomatic ties to defend its sovereignty, especially in consideration of the MCC Compact and the discussions over its compatibility with these global objectives.

Research Questions

Targeted at investigating the complexities of MCC agreement in Nepal, determine the potential benefits of MCC in Nepal, and at exploring if there are any implementation barriers of MCC in Nepal, the study sets out to answer the following research questions:

1. What are the complexities of MCC agreement in Nepal?
2. What are the potential benefits of MCC in Nepal?
3. How do geopolitical tensions impact the implementation of MCC in Nepal?

LITERATURE REVIEW

Even though there are adequate literatures that highlight the economic prospective, infrastructure development, governance of foreign development aids and a few studies on the MCC compact, there is a limited discussion on MCC compact in Nepal. Since the implementation of MCC in Nepal is still at its initial phase this article attempts to provide a foundational overview of the MCC compact, the anticipated benefits of MCC to Nepal, the implementation issues and challenges, and the wider implications for Nepal's future growth. This particular framework will function as the foundation for a comprehensive literature assessment and analysis on the socio-economic landscape of Nepal.

The literature review for this article is organized into four broad categories. The first category explores the concept of MCC compact and its applicability in the development of Nepal. Similarly, the second category looks into the potential advantages that MCC could shower Nepal with particularly in the sectors of infrastructure development and economic

growth. Similarly, the third category focuses on the ongoing discussion and debate of MCC in Nepal. The last category examines the geopolitics, especially the relationship with China and how its involvement in the development of Nepal influences public perceptions and the implementation of MCC. This classification presents a chronological essence of the literature on MCC in Nepal and is consistent with the goals of the study.

1. Concept of MCC compact

C. Tarnoff, (2010) briefly talks about MCC in relation to both economy and politics as, the MCC is based on the idea that economic development is most successful when it is connected to free market economy and democratic values and policies, and governments are committed to undertaking reform measures to accomplish such goals. According to Tarnoff, MCC differs fundamentally from other US aid approaches.

According to R. Sarah and F. Weibe (2016) the MCC is a relatively small agency that collaborates exclusively with low- and lower-middle-income countries that are comparatively well-governed and show a commitment to just governance. The agency focuses on addressing

key constraints to growth by identifying projects that are economically viable and efficient (Sarah & Weibe, 2016).

According to A. Adhikari (2022) , The Millennium Challenge Corporation was formed by the United States Congress in January 2004 and presents itself as an unique and independent foreign assistance agency attempting to combat global poverty (Adhikari, 2022). The author describes MCC as a mission-driven and purposeful in its objective, implying that its structure and operating approach differ from traditional assistance approach. The United States had the intention to bring in a new approach to foreign assistance, which focused on global poverty through aid distribution.

2. Potential gains from MCC compact

As asserted by B. Frist (2024), the MCC, was initially framed to help the developing countries take advantage of the economic offers, reduce poverty, and improve the standards of living. This effort aimed on uplifting country-led approaches, focusing on the responsibilities of developing nations to implement reforms and policies that ensure sustainable development. The strategy also encourages accountability measures, with the objective of achieving long-term development. By granting development aid, the policy emphasizes the United States' role as a compassionate leader, leveraging its huge resources to help and uplift the developing countries (Frist, 2024).

According to N.M Brown (2019), The Millennium Challenge Corporation (MCC) offers economic aid to developing nations that excel in three areas: equitable governance, human development, and economic freedom. To present, the MCC Board has approved 29 agreements worth more than \$13 billion. MCC conducts two sorts of evaluations. Impact evaluations require significant resources and focus on changes caused by project interventions in comparison to the original ERR. Performance evaluations, on the other hand, merely assess whether the project followed the original scope, raising questions about program design, results, and management as considerations rather than findings. MCC has a reputation for making considerable use of evaluation, having performed 32 impact evaluations and 51 performance reviews as of August 2019 (Brown, 2019).

As per R. K. Shah (2023), the MCC is an ambitious and autonomous US foreign aid structure that works in co-ordination with the developing countries to combat poverty through economic development. By focusing on excellent policies, nation ownership, and results, MCC, which was founded by the US Congress in January 2004 with strong

bipartisan support, is changing the conversation about how to provide the most sensible US foreign assistance (Shah, 2023). The author asserts that by focusing on three fundamental principles including promoting sound policies, encouraging recipient-country ownership of programs, and giving priority to measurable outcomes, the MCC represents a shift in the way that the US views foreign aid. MCC which aims to reduce poverty in developing nations through economic development is portrayed by the author as a progressive organization within US foreign aid.

According to T.L Gunaruwan (2024), The economic growth and development levels in MCC beneficiary countries were higher. However, it was determined that MCC grants did not successfully develop growth and development in the recipient countries because the Difference-in-Difference (DDD) estimate does not reveal systematically significant growth and development differentials (Gunaruwan, 2024).

3. Perspectives and debates of MCC in Nepal

H. Roka (2022) states that in Nepal, the Millennium Challenge Compact's terms were haphazardly accepted over time, irrespective of its long-term consequences. Legal issues arise when countries receiving MCC grants are forced to comply with MCC regulations aimed at ensuring that projects will not be hindered by changes in national laws. Another backlog aspect is that it requires India gives its approval before the MCC project to be implemented (Roka, 2022).

However, according to M. Miele (2023) asserts that China's expansionist intentions in Nepal are severely affected by the growing US-Indian partnership. China adopts a debt-laden, domestic strategy and the United States and India promote a democratic, cooperative, and fruitful approach, Nepal is leading a dramatic change in Himalayan diplomacy (Miele, 2023). The author contrasts China's plan to execute debt-ridden domestic policies with the democracy, cooperative strategy promoted by the US and India. While China's approach possibly referring to projects like the Belt and Road Initiative (BRI) may be seen as more exploitative or potentially harmful in the long run due to the risks of excessive debt, this dichotomy may suggest that the United States and India are advocating a more cooperative and sustainable model for Nepal's development.

T.L Gunaruwan (2023) .came up to a conclusion that MCC grants differ from other international donor programs, leading to the observation that they have not significantly boosted economic growth in recipient countries. it has been behind the observation made in the present study, if confirmed through future research as well (Gunaruwan, 2023).

4. Geo-political tensions of MCC compact

According to J. E. Davies (2018), China accuses the United States for maintaining capitalist power systems, arguing that they aggravate global inequality and hinder emerging economies' development possibilities. China asserts that by presenting itself as a counterbalance, it can contribute to the establishment of a new geopolitical order based on South-South cooperation and equitable ties between developing countries (Davies, 2018). Davies' interpretation offers another dimension of geopolitical complexity to the MCC, indicating that it goes beyond economic support and instead plays into greater power dynamics between the United States and China.

According to Adhikari, A. (2022) MCC in Nepal faces geopolitical concerns due to the country's strategic location between two significant powers, the United States and China. With the United States, which dominated the unipolar world after the Cold War, up against a new competitor in the People's Republic of China, both nations are establishing themselves in global politics through diverse approaches. The US pushes the Indo-Pacific

Strategy (IPS) and the MCC, whereas China builds the BRI. The collision of regional and global interests poses significant challenges to Nepal's national security (Adhikari, 2022).

According to Chand H.P. (2021), Nepal's unique geopolitical position has made it a key area of interest for both regional and global powers seeking to advance their strategic goals. Its involvement in the United States' Millennium Challenge Corporation (MCC) and China's Belt and Road Initiative (BRI) highlights its growing importance on the international stage. As China and the United States compete for influence, Nepal finds itself in a delicate position, striving to balance its relationships with both powers in an increasingly complex global environment.

K Prasai (2023) states, the Belt and Road Initiative (BRI) is emerging as a worldwide phenomenon with the potential to influence many countries, including Nepal. China's continued emphasis on capitalist principles may have a wide range of effects, from highly beneficial to noticeably detrimental. Concurrently, the rivalry between the US and China may have a dual impact on Nepal, increasing its negotiating power while jeopardizing its stability and sovereignty. This rivalry may lead China to view Nepal as strategically important, resulting in significant investment (Prasai, 2023).

Research gap and novelty of this study

There are a pile of studies covering the concept of MCC, the core features of MCC, the probable developmental consequences of MCC, the strategical challenges of MCC and so on but mostly only on the grounds of economic side and the governmental or political improvements post MCC. However, there is an obvious gap as there are very less researches concerning MCC in Nepal, the impact of MCC as foreign aid in Nepal, the complex position of MCC with the sovereignty and governance of Nepal. In particular, many studies fail to interact with the impact of MCC in the sovereignty of Nepal and the geo political competition between China and the United States, which is highly influential in deciding the foreign relations of Nepal with both the countries, this dynamics has also not been thoroughly researched.

The existing studies act as a foundational study to this research and hence this study attempts to fill up the knowledge gaps by analyzing the numerous issues surrounding MCC compact in Nepal. Unlike most of the studies that have explored MCC as a broader concept, this research aims to narrow it down it to Nepal and different aspects associated to it. It also aims to broaden the scope of this research by adding the variables which can be seen unexplored in other studies. This study will also provide new perspectives including the contemporary debates and discussions about foreign aids and the strategic position of MCC in South Asia. Furthermore, the influential stand of both China and the United States will be examined and analysed to see the potential dominance, leverage and authority of both the countries.

RESEARCH METHODS

Research Organization and Time Period

This research is conducted by Shyam Prasad Phuyel at Tribhuvan University. The analysis is based on secondary data collected from various academic and institutional resources. The data covers the period from 2017 AD to 2024 AD.

Data Sources and Empirical Basis

The study primarily utilizes secondary data, sourced from journals' articles, government publications, reports by national and international organizations, prior studies relating to

MCC and other media sources. All these sources provide an empirical basis for understanding the implementation of MCC in Nepal.

Population Structure and Sampling

Since the research is based on secondary data, there is no direct involvement of population and sampling in this research. However, the data includes a variety of perspectives from various stakeholders including government institutions and entities, academic scholars, policy analysts and other international organizations.

Sample Size and Adjustments

No sampling was employed as this research is based on secondary data. The sample however includes all the relevant data available in the reviewed sources. Adjustments were made to focus on the most relevant and high-quality studies, with a careful selection of data points to mostly align with the objectives of this research.

Data collection Methods

The data for this research was collected through extensive literature review with a prime focus on the qualitative documents such as academic journal articles, books, reports from governmental and non-governmental organization, and other scholarly sources. Content analysis was performed to examine these texts focusing on themes related to the impact and influence of MCC on the national security, economy and governance of Nepal.

Methods of Data Analysis

This study adopts a qualitative research design, with an emphasis on the collecting and analysis of textual data rather than quantitative measures. The qualitative approach is particularly suitable for the topic at hand matter since it provides for a thorough evaluation of the intricate and varied features of Millennium Challenge Corporation (MCC) implementation in Nepal. Exploratory research design has been employed to explore the issue. The exploratory character of this research is essential for diving into a topic with little previous literature and data. This approach allows you the flexibility to modify and enhance the study topic as new insights develop. By examining different aspects of the MCC this study aims to identify the key factors influencing its implementation. The open-ended nature of the research approach makes it easier to conduct a thorough and intricate assessment of the MCC's impact on Nepal. A descriptive research design enhances the exploratory approach by permitting a comprehensive analysis of the data gathered. The descriptive design facilitates the process of identifying potential future directions, assessing the current stage of MCC implementation, and taking note of the historical background. This study will use descriptive analysis to examine the problems observed and found during the implementation process and analytical approach will be taken to precisely evaluate the information obtained. The research is based on secondary data, which acts as the basis for the analysis, primary data is only used at very few instances. The acquired data is arranged and manually analysed to allow for systematic evaluation.

To summarize, this research uses a qualitative, exploratory, analytical and descriptive technique to examine MCC's implementation in Nepal. The study's use of secondary data, together with its vast broadness and detailed analysis, enables a thorough understanding of the factors impacting MCC's performance and the implications for Nepal's future. The findings of this study are intended to add to a broader discussion on development aid, governance, and the role of international agreements in affecting national development programs.

RESULTS AND DISCUSSION

US Justification of MCC Nepal Project

The Millennium Challenge Compact (MCC) between Nepal and the United States outlines the terms under which the MCC will provide up to \$500 million in assistance to the Government of Nepal, which will contribute an additional \$130 million for a program aimed at reducing poverty through economic growth in the country (US Embassy Nepal, 2022).

The MCC Compact is primarily viewed as a major investment in Nepal's economic development and poverty reduction efforts. By allocating \$500 million to essential infrastructure projects like road maintenance and electricity transmission, the US seeks to tackle key obstacles that impede Nepal's economic progress (Timalsina, 2021). These initiatives are anticipated to improve connectivity and energy distribution, creating a more favorable environment for businesses and enhancing access to vital services for the Nepalese people. Additionally, the MCC initiative is framed as a way to strengthen the bilateral relationship between the United States and Nepal. This partnership is regarded as a reflection of the US's dedication to supporting Nepal's socio-economic advancement and stability (Kharel, 2022).

Through such significant developmental assistance, the US not only builds goodwill but also reinforces diplomatic relations, which are essential for maintaining geopolitical stability in the region. The selection procedure for qualifying countries by the Millennium Challenge Corporation (MCC) is carefully crafted to guarantee that assistance is given to countries that exhibit a strong dedication to development and governance. Three key factors determine the outcome of this approach. First and foremost, enforcing justice, which includes upholding the rule of law, promoting legitimate government, and conducting an uphill struggle against corruption.

These components are essential because they promote a just and stable political climate, which is necessary for long-term growth. In order to promote an informed and healthy population, it is also important to invest in people by offering sufficient healthcare, education, and other necessities. This standard highlights the role that human capital has in promoting social stability and economic progress. The emphasis is ultimately on economic freedom, which encourages entrepreneurship and enterprise as well as open markets and sustainable budgets. This strategy is to establish a dynamic and dynamic economic environment that promotes investment, fosters innovation, and guarantees long-term economic resilience. (Timalsina, 2021). MCC makes sure that its assistance goes to nations that are most likely to make good use of it and promote inclusive, sustainable development by enforcing these strict standards.

Disputes Concerning MCC

The Millennium Challenge Corporation (MCC) has sparked considerable debate, especially concerning its agreements with developing countries. Conflicts frequently emerge over issues related to national sovereignty, the stipulations tied to the funding, and the clarity of the decision-making processes. Critics contend that MCC compacts often prioritize U.S. strategical interests over the genuine development needs of the recipient nations, leading to political struggles and public dissatisfaction in numerous countries (Mawdsley, 2007). The disputes draw attention to the complex interplays that exist between foreign aid, international relations, and national politics along with sovereignty, and they halt the discussion about MCC's contribution to global development.

The MCC agreement in Nepal has resulted in heated debate and controversies since its signing. The \$500 million compact, that aims to fund vital infrastructure projects such as

been praised for its will to help the development of Nepal but attacked for perceived threats to national sovereignty. The Millennium Challenge Corporation (MCC) deal in Nepal has become an explosive subject, creating a complicated web of conflicts and debates. MCC's links with the United States' Indo-Pacific Strategy is a major source of disagreement among lawmakers and the general public. Many opponents say that the provisions of the MCC compact, which state that the agreement will take precedence over Nepalese legislation in the event of a dispute, jeopardize Nepal's sovereignty (Roka, 2022). This has resulted in a split political landscape, with sections supporting and strongly opposing the agreement.

MCC is also viewed as a strategic countermeasure to China's Belt and Road Initiative (BRI), which complicates matters further. The US intends to use the MCC as a platform to fight China's influence in the area, which has raised concerns about Nepal becoming embroiled in a geopolitical tussle between two global powerful competitors (Chand, 2021). The BRI has already established China as a major contributor in Nepal's infrastructure development, with plans that are in tune with China's regional goals. The United States, via MCC, seeks to expand its own influence by offering a counter to China's investment model, which is often seen as leaving developing countries saddled with hefty debt burdens. The critics claim that the implementation of MCC may commercialise Nepal's natural resources with the label of development assistance and grants. There have been concerns that the US may treat any interruptions or other forms of noncompliance as a basis for the conversion of the grant into a loan so as to put Nepal on a track leading to a debt trap akin to that of countries that have faced this predicament due to financial and economic arrangements with the US. (Roka, 2022). Moreover, there are concerned that the provisions of MCC may sidestep Nepal's court system and government control in ways that will undermine the legal sovereignty and judicial independence of Nepal.

The inclusion of military components in the Indo-Pacific Strategy, to which MCC relates, confuses the situation even further. Critics claim that this policy is intended to oppose China's influence, and that by cooperating with it, Nepal risks jeopardizing its diplomatic relations with China, a key regional partner (Adhikari, 2022). Beijing is extremely vocal about its discontent, arguing that if Nepal signs the MCC, it will endanger the BRI, which Nepal and China co-launched in 2017.

MCC will also have important implications on the foreign policy and domestic governance of Nepal. MCC on the other hand is debated in terms of whether it is actually part of Indo-Pacific Strategy which makes doubt and skepticism on MCC (Pokharel, 2024). Furthermore, analogies to other nations, such as Afghanistan, where similar US agreements have resulted in tragic results raise fears that Nepal would face similar consequences.

Benefits of MCC in Nepal

The geographical condition of Nepal has been treated as a yam squeezed in between two boulders because of its strategic location in between two giant Asian countries I.e. China and India, both having their geo political interests in Nepal. Nepal's location is strategically important and therefore faces considerable challenges as well as complex phenomena within and outside the country.

Over the years, foreign aid has played a significant role in the development of emerging and under developed nations. This assistance often comes in the form of grants, low-interest loans and support during humanitarian crises and natural disasters (Bjørnskov, 2010). As one of the least developed nations, Nepal receives bilateral and multilateral aids from different nations and organizations. The primary source of deficit funding for LDCs

worldwide is foreign aid. Because their citizens have relatively modest incomes, the least developed countries are less able to deploy their resources .

Nepal is a small and developing country relying its huge functions on aids, grants and loans for foreign countries. Foreign aid is regarded as a key source to bridge the gap between government income and expenditure in Nepal (Bista, 2006). The Millennium Challenge Corporation (MCC) aims to reduce poverty through economic growth. The public/private Board of Directors is chaired by Secretary of State Mike Pompeo, with Secretary of Treasury Steven T. Mnuchin serving as vice chair. Other members include U.S. Trade Representative Robert E. Lightizer, USAID Administrator Mark Green, the MCC's CEO, and four private sector representatives (Hook, 2008). MCC funds two types of programs: Compact Programs and Threshold Programs. MCC's efforts to sponsor these projects make a substantial contribution to economic development and poverty reduction in partner nations.

MCC has its goal to deliver a \$500 million grant to Nepal, which will be complemented by a \$130 million contribution from the Nepalese government, for a total project fund of \$630 million. \$500 million will be dedicated to the energy industry, with \$130 million going to the road sector (Poudyal, 2022). The Government of Nepal and MCC has performed extensive investigations, which highlighted energy and transportation as crucial sectors where the funding may have the greatest impact.

The MCC Nepal intends to improve the supply and reliability of power for homes and organizations, bringing major benefits to the country through energy improvement. MCC also aims to protect the road condition and minimize transportation costs, which are significant for stimulating investment, driving economic growth, and relieving poverty in Nepal. It also aims to promote cross-border electricity commerce between Nepal and India, hence increasing regional cooperation and economic integration.

As stated in Sections 1.1 and 1.2, the goal of the MCC Compact with Nepal is to reduce poverty by promoting economic growth and concentrating on important infrastructure projects. The main objective of the Compact is to encourage good governance and increase economic freedom and investment in Nepal. In particular, it aims to boost power trade and enhance Nepal's energy grid's dependability in order to increase electricity consumption. In order to provide improved connectivity and ongoing infrastructure development, it also aims to maintain road quality throughout the strategic road network (Poudyal., 2022). These programs aim to raise living conditions, stimulate economic growth, and aid in Nepal's overall development.

As per the compact, Nepal benefits greatly from MCC Electricity Transmission Project. The objective of this project is to build transmission lines, including a high-voltage backbone and a cross-border connection with India, in order to improve the availability and dependability of energy within Nepal. In addition, the project entails the construction of three substations, providing technical support to enhance the sustainability of the electricity sector, and guaranteeing adherence to social, environmental, and engineering requirements. The combined goal of these initiatives is to increase home electricity supply, hence promoting Nepal's economic development and energy security. Nepal is said to have been benefitted greatly from the Millennium Challenge Corporation's (MCC) Electricity Transmission Project. The objective of this project is to build transmission lines, including a high-voltage backbone and a cross-border connection with India, in order to improve the availability and dependability of energy within Nepal. In addition, the project entails the construction of three substations, providing technical support to enhance the sustainability of the electricity sector, and guaranteeing adherence to social, environmental, and engineering requirements (Gautam, 2023). The combined goal of these initiatives is to

increase home electricity supply, hence promoting Nepal's economic development and energy security.

Implementation Challenges and Strategies

The challenges presented by the Millennium Challenge Corporation (MCC) Compact in Nepal draw attention to how difficult it is to strike a balance between international collaborations and national security concerns. When U.S. officials connected the Compact to the Indo-Pacific Strategy (IPS), which was once seen as an economic endeavor, it sparked a heated discussion. This relationship raised concerns among different political groups that Nepal's sovereignty could be jeopardized by MCC. These concerns were greatly heightened by the media, which in turn sparked a lot of public and political discussion. The resulting political divisions in Nepal, which range from outright rejection to conditional acceptance with adjustments, highlight how difficult it is to balance domestic concerns with those of international agreements (Kharel, 2022). The establishment of a research committee and the subsequent parliamentary ratification subject to particular requirements demonstrate the complex procedure involved in negotiating agreements of this nature and guaranteeing their compatibility with the nation's strategic agenda (Kharel, 2022). These incidents highlight the wider effects of foreign alliances on national security as well as the necessity of openness and communication in these kinds of arrangements.

There have been a number of controversies surrounding both the program implementation agreement and the compact. US Assistant Secretary of State for South Asia David J. Ranz described MCC as an Indo-Pacific Strategy effort, which sparked the beginning of this dispute (Bhattarai, 2022). The parliamentary ratification procedure of the MCC agreement was complicated by the emergence of a dispute that led to political divisions. The then-finance minister, Yubaraj Khatiwada, registered it with the parliament for approval, but it was never brought up for debate in the House of Representatives. The MCC issue caused division among the task team of the ruling administration, which included former foreign minister Pradeep Gyawali, former home minister Bhim Rawal, and former prime minister Jhala Nath Khanal (Adhikari, 2022).

Despite being eventually approved by the parliament, the Millennium Challenge Corporation (MCC) Compact's effect on Nepal's national security and sovereignty highlights the unresolved issues that have become roadblocks to its operation. Concerns have not entirely been satisfied despite the MCC headquarters' clarification that the Compact respects Nepal's constitution, is not a component of the Indo-Pacific Strategy, and guarantees that intellectual property rights belong to the Nepali government (Adhikari, 2022). The main concern is that Nepal is thought to be at risk of losing its sovereignty if MCC links it to more expansive geopolitical plans, especially American ones. Questions concerning who oversees the audit procedures and whether the Compact might supersede national laws serve to intensify this fear. Notwithstanding MCC's clear declaration that Nepali law will always take precedence, mistrust endures due to worries that unstated provisions or unanticipated events could undermine Nepal's independence.

Despite the fact that the Nepalese Parliament passed the MCC Compact, many interpretations in the Nepali discourse have made it difficult for the MCC Compact to be implemented. Since many academics and political groups see the MCC as a possible danger to Nepal's autonomy, the issue of sovereignty presents a significant barrier. Resistant sentiment has been fueled by concerns that the Compact may restrict Nepal's authority in some sectors, especially by those who think that joining MCC will weaken the nation's sovereignty in making decisions. Concerns about sovereignty have not been the

only difficulties brought about by MCC's geopolitical implications. Due to its advantageous location between China and India, there are concerns that MCC may strengthen the regional influence of global powers and complicate Nepal's foreign policy (Adhikari, 2024). This concern has polarized the atmosphere, with some stakeholders claiming that Nepal could become implicated in larger geopolitical disputes as a result of MCC, further delayed its implementation.

Hence, many of the challenges that MCC agreement must overcome have generated a great deal of discussion inside the nation. The compact's possible effects on national sovereignty are one of the main concerns, as many believe that its provisions could restrict Nepal's independence in making decisions, particularly when it comes to the country's infrastructure and economic strategies. Concerns have also been raised over national security, with critics claiming that the pact may leave Nepal vulnerable to outside influence or strategic weaknesses. The MCC compact's apparent supremacy over the Nepalese constitution is another important problem that raises concerns about the compact's potential to supersede national laws and weaken the nation's judicial system. Furthermore, mistrust and resistance have been increased by the overall lack of awareness and comprehension of the accord among Nepalese individuals. The lack of information has resulted in misunderstandings and mistrust, making the implementation process more difficult. To mitigate these concerns, the government must involve the public and communicate openly.

Geopolitical Tensions of MCC in Nepal

Nepal is situated not only at the crossroads of two major nations, but also in the heart of the Himalayas, an incredible mountain range that borders the Indo-Subcontinent from the Tibet-Chinese region. Nepal's placement between the two nations of China and India has provided Nepal a unique buffer status held by only a few countries globally. Nepal has limited influence in global politics on its own, nevertheless it delivers significant strategic leverage to others (Lamichhane, 2023). Given its placement between Asia's two emerging, rival, and competing nations, Western powers have to establish a geopolitical balance in the region. The US strategic entry into Nepal, as well as the heated rivalry between China's BRI and the US' MCC initiatives, indicate these two countries' expanding competitiveness in global politics, putting Nepal at the center of strategic considerations.

Viewing on the background, following World War I, the United States established itself as a global leader. Germany rebounded from defeat and renewed its efforts to control the world system. The enormous power struggle eventually concluded in the outbreak of World War II. The Cold War ended in 1991, which was a pivotal moment. Following the collapse of the Soviet Union, the United States became the sole superpower. Political analysts welcomed the emergence of a "unipolar world" (Smith & Khanal, 2019). In 1947, the United States established diplomatic ties with Nepal. During the Cold War, the US recognized the vulnerability of the South Asian region to communism, highlighting China's communist revolution. The US had a strong geostrategic interest in Nepal as a prospective colony to monitor China.

Nepal's role as a buffer state between China and India has required an exacting balance. China perceives recent US participation in Nepal as a challenge to its regional power, disrupting the geopolitical picture. The Belt and Road Initiative (BRI) is another significant achievement in China-Nepal relations. The BRI's consequences are projected to have an impact on Nepal, India, and China's trilateral dynamics. China's use of soft power in Nepal is becoming more readily apparent. In contrast, the Millennium Challenge Corporation (MCC) is viewed as a geopolitical measure to fight China's regional dominant position. Given the shift in power of the United States to the Asia-Pacific region, along with

the bipolar strategic rivalry between the United States and China, the United States is heavily participating in efforts to exert pressure on China's neighbors. Likewise, China is displacing American power from its neighbors. So, the United States' strategic exploration into Nepal, as well as the heated rivalry between China's BRI and the United States' MCC projects, represent the two countries' expanding competitiveness in global affairs (Bhattarai & Lamichhane, 2024). These terms vividly depict attempts at geopolitical struggles and counter-struggles.

China is concerned about the United States' maintained high-level visits, and its reservations regarding the Indo-Pacific Strategic and State Partnership programmes have already been published by the press and addressed by Nepali parliamentarians in the parliaments (K.C and Bhattarai, 2022). On the reverse side, the United States believes China's BRI is both economic and geopolitical. The BRI is a subsection of China's larger agenda for increasing its worldwide influence. They additionally claim that one of the main purposes of the BRI is to export Chinese development and impact particularly in poor countries.

Henceforth, it can be seen that Nepal acts as the epicentre of the complex geopolitical rivalry between US and China, both having their own interests in this nation using their initiatives to exert their interests like MCC and BRI. Impacted by both Nepal faces pressured to align with one power over the another. But Nepal's unique status as a buffer state allows it to remain neutral while benefiting from both parties. By accepting an equivalent distance strategy, Nepal may benefit from both the BRI and the MCC's development assistance and aid to infrastructure, promoting its economic growth while avoiding regional disputes.¹ To maintain its neutrality, Nepal should pursue a foreign policy based on mutual respect while avoiding visible affiliation with either state.

CONCLUSION

To summarize, the MCC deal in Nepal represents a complex relationship of opportunities and problems. While the compact has the potential to significantly improve Nepal's infrastructure, particularly with regard to electricity and transportation, and drives economic growth, it also raises serious concerns about national sovereignty, security, and the broader geopolitical consequences. The challenging debate over MCC emphasizes the significance of open communication, educated public participation, and thorough evaluation of Nepal's strategic priorities. As Nepal negotiates its place in the changing global surroundings, balancing the positive effects of international help with the maintenance of national autonomy is vital. Finally, this study underlines that the effective execution of MCC in Nepal is dependent on addressing these complicated issues through conversation, negotiation, and a commitment to the country's long-term development goals.

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