



# Special Issue

March (Week 1)

## Contents

All about the controversy around the \$500 million MCC grant to Nepal .....	2
All about Finlandisation .....	4



## **All about the controversy around the \$500 million MCC grant to Nepal**

(Source: [The Hindu](#) )

**Context:** *On February 27, the Nepal parliament approved the Millennium Challenge Corporation Nepal Compact — a \$500-million grant from the United States for electricity transmission and road development projects, after five years of keeping it on hold. The grant was ratified with an imperative declaration attached to it.*

### **Details:**

- The declaration states that the U.S. grant is not part of the Indo-Pacific strategy and Nepal's Constitution would be above the provisions of the grant agreement.
- It also mentions that the grant will solely be perceived as an economic assistance. Political parties and civil society have been divided on the U.S. grant for various reasons.
- The grant agreement, which was tabled in the Parliament in Kathmandu on February 20, faced demonstrations against it, which turned violent, with riot police firing tear gas shells and using water cannons to disperse the protesters outside the parliament. Protestors also hurled stones at the police and several people reported injuries on both sides.

### **What is the Millennium Challenge Corporation?**

- The Millennium Challenge Corporation (MCC) is an independent U.S. foreign aid agency, which was established in 2004 by the country's Congress to offer "time-limited grants promoting economic growth, reducing poverty, and strengthening institutions," to low and lower-middle income countries through a selection process.
- While this is the current official definition of the aid body, MCC was proposed by the George Bush administration post the 9/11 terrorist attack, as a tool to counter global poverty and international terrorism, citing the rationale that poverty and terrorism are linked.
- MCC selects countries to award grants through a selection process, which involves evaluating the country's performance on 20 policy indicators ranging from control on corruption to government effectiveness.
- The MCC offers assistance in three forms. In the form of compacts, meaning large, five-year grants; concurrent compacts or "grants that promote cross-border economic integration", and threshold programs, which are smaller grants aimed at policy reform.
- The aid being offered to Nepal is in the form of a compact; the MCC has so far approved about 37 compacts for 29 countries, worth a total of over \$13 billion.

### **What is the MCC Nepal Compact?**

- In 2014, after meeting 16 of the 20 policy indicators on which MCC selects countries, Nepal had qualified for a compact, the agreement for which it later signed in 2017.
- Under the compact, the U.S. government, through MCC, would provide a grant of \$500 million to Nepal for energy transmission and road development projects, with the latter also chipping in \$130 million from its exchequer.
- The power project proposed in the compact is a 300-400 km long energy transmission line with a capacity of 400 kilovolt, along a power corridor starting from the northeast of Kathmandu and ending near Nepal's border with India.
- The project also involves building three power substations along the line. Besides, the grant money is also intended for a 'road maintenance project' which will upgrade roads on the east-west highway, spread across 300 kms.



- While the compact says the energy project is meant to augment power generation and economic growth for Nepal, it also states that it will facilitate cross-border electricity trade with India.
- Before the work on the projects can begin however, the bill has to be formally accepted or ratified in the country's parliament.
- Both the U.S. and Nepal governments have said that it is a 'no strings attached' grant, which would not have any conditions, or require repayment and interest payment. However, section 7.1 of the agreement says it will "prevail" over the domestic laws of Nepal and section 6.8 grants immunity to MCC staff in "all courts and tribunals of Nepal."
- The U.S. Embassy in Nepal described the compact this month as a "gift" from the American people and a "partnership" between the two countries that will "bring jobs and infrastructure to Nepal and improve the lives of Nepalis."

### **What is the dispute around the MCC grant?**

- As per the initial agreement, the compact should have come into effect by 2019, but skepticism, politics and now protests, made its course rocky.
- The U.S. had been increasing its pressure on Nepal to ratify the agreement, with the Biden administration's Assistant Secretary of State for South and Central Asia, Donald Lu, calling the Nepal Prime Minister Sher Bahadur Deuba on February 10, giving a deadline to ratify the MCC compact in parliament by February 28, or the U.S. would have to "review its ties with Nepal." There have been instances in the past where the U.S. has terminated such compacts with countries for different reasons.
- Nepali political parties have been divided on the MCC agreement over fears it would undermine Nepal's sovereignty by pulling it into the US's Indo-Pacific Strategy (IPS), which focuses on countering China-- a country Nepal has close ties with. The compact is also seen by some observers as America's answer to China's Belt and Road initiative, a road development program that the Nepal government signed in 2016.
- In May 2019, U.S. State Department's Assistant Secretary for South Asia, David J Ranz, on his visit to Nepal had said that MCC was an important part of the IPS. Besides, the US's November 2019 report clearly states that assistance under the MCC compact is a part of IPS.
- This further strengthened the skepticism of some of Nepal's parties, that the compact would go against its constitution, which binds the country to a strong principle of non-alignment.
- After Nepal received the call from the White House about the deadline, China said it opposes "coercive diplomacy and actions that pursue selfish agendas at the expense of Nepal's sovereignty and interests."
- The people of Nepal are also afraid that the MCC would make profits from the power project by exporting energy to India.
- Besides, the call that Donald Lu made to Nepal about meeting the ratification deadline, was made when he was in Australia to attend the Quad meeting.
- This has led to skepticism that the MCC agreement, involving cross-border energy trade with India, would also benefit the Quad, which has often spoken about making infrastructure partnerships in India's neighbourhood, including Nepal, Maldives and Sri Lanka.

### **How has the pact played out in Nepal politics?**

- Nepal has been witnessing bouts of political instability after the 2017 national election, when the leader of the Communist Party of Nepal (UML), K.P Oli and Pushpa Kumar Dahal (Prachanda) of Communist Party of Nepal (Maoist) formed a coalition government, with Mr. Oli as the Prime Minister.
- This Government had a power sharing agreement under which Mr. Oli and Mr. Prachanda would assume the post of Prime Minister for two equal periods of time.
- This agreement did not work out and as a result, the country's parliament was dissolved twice -- first, in December 2020 and then in May 2021, with fresh elections scheduled for November 2022.
- In July 2021, however, the Supreme Court of Nepal, ordered that the parliament be reinstated with Mr. Oli's rival Sher Bahadur Deuba of the Nepali Congress as the Prime Minister. In this political backdrop,



the MCC compact became politicised by parties as a device to strengthen their positions in the upcoming elections.

- While the two communist parties in the leading coalition, including Mr. Prachanda's party have been against the MCC compact, the PM's party is endorsing it.

### **All about Finlandisation**

(Source: [The Hindu](#) )

**Context:** *Understanding the foreign policy concept coined from the nature of the relationship between Finland and the erstwhile Soviet Union.*

#### **Details:**

- Soon after Russia's revanchist assault on Ukrainian sovereignty precipitated by the threat of Ukraine joining NATO, its foreign affairs spokesperson, Maria Zakharova, came out with the following statement: "Finland and Sweden should not base their security on damaging the security of other countries and their accession to NATO can have detrimental consequences and face some military and political consequences".
- Sweden and Finland responded to Moscow's veiled threats with the Finnish government brushing down Moscow's dictum saying that they have heard such words before and that they don't see this as Moscow threatening them while the Swedish Prime Minister said, "It is Sweden that itself independently decides on our security policy". There seems to be a stark contrast in how both these nations have decided to respond to Moscow.
- The origin of Finlandisation within this dynamic can be broadly traced back to the Cold War when Finland did not join NATO and enjoyed years of a relatively non-interfering stance from Moscow as a result of the Finno-Soviet Treaty of 1948.
- Moscow was, of course, deeply concerned with developments in Finland and did not want them to sway towards Moscow's ideological adversaries.
- While a claim can be made that Moscow did influence Finland's domestic and foreign policy, it nonetheless 'allowed' them to maintain their sovereignty and didn't actively interfere in their affairs.
- Relations turned sour during the infamous Night Frost Crisis of 1958 when Moscow refused to accept a social democrat, Karl-August Fagerholm, as the Prime Minister of Finland.
- It was only in 1959, three years after Urho Kekkonen, heading the Agrarian government, became the President, did relations between the two nations begin to thaw. His presidency is largely seen to signal the beginning of full-scale Finlandisation in a bid to appease the Soviets.
- Before Kekkonen, President Juho Kusti Paasikivi followed a more docile approach to neutrality. This 'neutrality' of course meant that they would not take steps that wouldn't be in the best interest of the Soviets and work as a more democratic form of a satellite state.
- The trouble, however, did not stop there. The Social Democrats felt that Kekkonen did not support the government during the Night Frost crisis and thus, alongside the Conservatives, fielded a candidate against him.
- This was viewed by Moscow as potential German interference — part of a larger international ploy at work aimed at strengthening German influence in the region. For reasons which can only be debated without much proof, the candidate stepped back, and Kekkonen went on to win the next election, and then a few more, eventually ending his 26-year long presidency in 1982.
- While the term 'Finlandisation' can largely be seen to mean that a smaller power bows down in front of a larger power to safeguard its titular independence, we need to be careful when applying the same



principle to other countries. In the current context, the Finlandisation of Ukraine (from any side of the power aisle) makes little sense.

- For one, Moscow has already stormed an assault on the sovereignty of Ukraine, and from what seems to be a likely result, would be looking to balkanise the region in the event of peace talks failing and then successfully crushing Ukrainian defences.
- Secondly, the current geopolitical reality is starkly different. We see a dwindling Russia, an ascending China, and a U.S. which, while still being militarily strong, is not the ultimate hegemon that it once was. We also don't see any similar incursive tendencies from a European country. \
- At best, the situation with Moscow could be described as maintenance of status quo which of course includes the West not trying to actively shimmy their way in. From the American standpoint, an all-out Finlandisation of Ukraine (towards Washington) would have resulted in exactly what we see unfolding right now.
- The post-Cold War geopolitical climate has not just been one of maintenance of the status quo of America's hegemony (only recently challenged by China) but also proxy wars being fought around the world.
- China's ascension has shifted the dynamics and bent the game in its favour. Looking at Taiwan, we see how unlikely a Finlandisation of it from an American perspective is going to work.
- If the Americans are not coming to help the Ukrainians by lending them military support and are only trying to help through the imposition of economic sanctions on Moscow, what hope can the Taiwanese have that, if China decides to get a little more adventurous, the Americans will show up to help them.
- Nuclear weapons change everything. Washington isn't militarily intervening in Ukraine because it would mean two nuclear powers coming at loggerheads and one does not have to think too hard to imagine how that would play out.
- Changing centres of power, coupled with seemingly reactionary non-rational political leaders at the helm of affairs, nations either considering developing their own nuclear weapons programme or vying to enter security alliances, and actors with revanchist tendencies only make the international security climate more tumultuous and more prone to such acts of brute force assault on one nation's sovereignty by another.