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Nepal: Background and U.S. Relations

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Summary

The three-way contest for control of Nepal—among King Gyanendra, a coalition of seven parties seeking democracy for the country, and the Maoists—ended with the king relinquishing power to the democrats in April 2006 after large scale popular demonstrations against him. King Gyanendra's inability to subdue the Maoist insurgency and his repression of pro-democratic elements in the country undermined his legitimacy and led to his fall from power. The United States sought to assist the government of Nepal in its struggle against the Maoist armed insurgency and has promoted the democratic development of Nepal. It has also sought to promote stability in Nepal to keep it from becoming a destabilizing element in the region.

This shift of power from monarchy to democracy was followed in November 2006 by a peace agreement between the Maoists and the new government which led to the laying down of arms, a parliament that includes Maoists, and the scheduling of elections for a constituent assembly. The constituent assembly is to address the question of whether the king is to have a place in the future government of Nepal and, if so, to what extent. The constituent assembly is also expected to act on calls for Nepal to become a republic and redraw constituencies to more equitably represent the Nepali people, particularly in the Terai in southern Nepal, which experienced much unrest in 2007.

A landlocked Himalayan kingdom between India and China, Nepal ranks among the world's poorest countries. In 1990, following a democratization movement, it became a parliamentary democracy under a constitutional monarch. Although this led to a process of economic restructuring and market liberalization, the country's economic growth and reform effort was undercut by political instability and years of increasingly dire internal security challenges brought on by the civil war with the Maoists. Compounding the country's difficulties was the June 2001 tragedy in which ten members of the royal family, including King Birendra, were killed in an assassination-suicide, reportedly carried out by Crown Prince Dipendra.

Nepal has a long way to go before its democratic gains can be effectively consolidated. The need to more fully integrate the Maoists into the political process and ensure that they, or any splinter groups, do not resort to the force of arms or coercion in the lead-up to the constituent assembly elections remains a key challenge. In addition, mounting political tension over Madhesi calls for greater representation in the political process will demand attention. The Madhesis are an indigenous ethnic group that inhabit the lowlands of Nepal who feel they have not been fairly represented. Some Madhesi demonstrations have turned violent. The need to develop the economy and bring prosperity to the people will remain whatever the outcome of the constituent assembly election.

Contents

Overview 1
Recent Developments 1
New Unrest 3
The United Nations' Role 4
Political Setting 4
The King's Takeover 4
Maoist Reaction 5
The Context of the King's Takeover 5
Key Country Issues 6
Governance 6
Constitutional Crisis 7
Maoist Insurgency 8
Human Rights Concerns 9
The Economy 9
Geopolitics 10
U.S. Interests and Bilateral Relations 10
U.S. Assistance 10
Chronology of Recent Events 11

Figures

Figure 1. Map of Nepal 13

Tables

Table 1. U.S. Assistance to Nepal, FY2005-FY2007 11

Contacts

Author Information 14

Overview

Relations between the United States and Nepal have traditionally been friendly. U.S. policy objectives toward Nepal include supporting democratic institutions and economic liberalization, promoting peace and stability in South Asia, supporting Nepalese independence and territorial integrity, and alleviating poverty. The United States became Nepal's first bilateral aid donor in January 1951 and has since contributed more than $1.4 billion bilaterally and multilaterally to that country.

American foreign policy interests in Nepal have sought to strengthen democracy and to prevent the collapse of Nepal which, should it become a failed state, could provide a base of support for terrorists or insurgents in the region. Such a scenario could be destabilizing to the security dynamics of the region. The United States also seeks to promote democracy and civil society in Nepal and provide developmental assistance to its people.[1] Political instability and insurgency-related violence has undermined the country's economy.[2] U.S. government officials have asserted that further deterioration of Nepal's circumstances could destabilize the region, spur new tensions between India and China, and potentially create a new terrorist haven in South Asia.[3]

Recent Developments

On April 24, 2006, mounting popular resistance in support of the political parties led King Gyanendra to hand over power to the Seven Party Alliance. The seven parties have worked together through their alliance to promote a more democratic Nepal in the face of direct rule by the king. With this development, Nepal began a process that promises to end a period of intense political conflict between the king and the political parties, and armed struggle with the Maoists. In May 2006, six of the seven political parties formed a coalition government. On November 8, 2006, the Seven Party Alliance and the Maoists reached a peace agreement ending a decade-old insurgency that claimed some 13,000 lives. In it, the Maoists agreed to put down their arms and postpone a decision on the future disposition of the monarchy until after the election of a constituent assembly. Under the peace agreement, constituent assembly elections were to be held by the end of June 2007. The June election date slipped to November 2007 due to difficulties in preparing for the election. The Maoists favor the removal of the monarchy while the Nepali Congress Party favors a ceremonial role for the monarchy. Girija Prasad Koirala of the Nepali Congress Party is currently Prime Minister.

[1] *FY 2006, Congressional Budget Justification for Foreign Operations,* Department of State, released February 15, 2005.

[2] Binod Bhattarai and Edward Luce, "Nepal's New Premier Unmoved by Clamor at Parliament's Gates," *Financial Times,* November 21, 2002.

[3] Such concerns were expressed in May 2003 by the U.S. Deputy Assistant Secretary of State for South Asia, Donald Camp (Campbell Spencer, "Nepal Rebels' Patience 'Wearing Thin,'" *Washington Times,* May 3, 2003. See also Bertil Litner, "Nepal's Maoists Prepare For Final Offensive," *Jane's Intelligence Review,* October 2002).

NEPAL IN BRIEF

Population: 29 mil; *growth rate* 2.132%
Area: 147,181 sq. km. about the size and shape of Tennessee
Capital: Kathmandu 1.5 mil
Ethnic/Caste Groups: Brahman, Chetri, Newar, Gurung, Magar, Tamang, Rai, Limbu, Sherpa, Tharu, et al.
Language: Nepali (official); about 12 others
Religion: Hindu 80.6%; Buddhist 10.7%; Muslim 4.2%
Life Expectancy at Birth: 61.8
Literacy: total 45.2%; female 27.6%; male 62.7%
Per Capita income: $322
Gross Domestic Product Growth: 2.5%
Population distribution: Rural 85.8%, with 49% of the population in the Terai region, 44% in the hills and 7% in mountainous regions of Nepal

Sources: CIA World Fact book 2007; Reuters News; U.S. Departments of Commerce and State; World Bank; Asian Development Bank; Global Insight.

The Seven Party Alliance that opposed the king in April includes the following parties as listed below. The Maoists are not part of the Seven Party Alliance though they have worked with the alliance in recent months.

- The Nepali Congress (NC)
- Communist Party of Nepal Unified Marxist Leninist CPN (UML)
- Nepali Congress (Democratic) or NC (D)
- Nepal Sadbhavana Party (Anandi Devi) or NSP (A)
- Jana Morcha Nepal
- Samyukta Baam Morcha (United Left Front) or ULF
- Nepal Workers and Peasants Party (NWPP)

The six party government includes all of the Seven Party Alliance members except the NWPP. The royalist Rashtriya Prajatantra Party (RPP), the third-largest party in parliament, did not oppose the king's direct rule and is outside the government.

According to one source, the "Maoists appear to be the most organized political force in the country" and the seven party alliance has "a history of bickering among themselves, a weakness that both the Maoists and the royalists would be quick to exploit."[4] For these reasons, as well as mounting protests in the south, Nepal has yet to consolidate the significant moves towards peace and democracy that have transpired over the past year. There is also growing concern that the constituent assembly election be held as soon as possible.

A poor security situation, particularly in rural areas, has hindered voter registration which was to have been completed by May 2007 for the scheduled June election. Unrest in the Terai, including demands for greater political representation in parliament, remains unresolved. The Maoists have stated that the failure to hold the constituent assembly election in June ended the basis for their participation in the government. A commission looking into the delineation of constituencies has also recommended the expansion of the number of constituencies from the planned 425 in the interim constitution to a total of 496.[5]

[4] "Country Report Nepal," *The Economist Intelligence Unit*, November, 2006.

[5] "Country Report Nepal," *The Economist Intelligence Unit*, May 2007.

On January 15, 2007, 83 Maoist parliamentarians, out of a total of 330 Members of Parliament, assumed their seats in accordance with the terms of the November peace agreement. The Nepali Congress has 85 seats while the CPN (UML) has 83 seats.[6] This led to further hope that the Maoists are serious in their decision to set aside their armed struggle for power and will now seek power through democratic means.[7] Maoist leader Prachanda, who has not taken a seat in parliament, addressed a Maoist rally in February 2007 and called for Nepal to become a republic. He also expressed concern that the constituent assembly elections may be delayed: "If the elections are delayed beyond the deadline, we should straight away declare Nepal a federal democratic republic."[8] Under the previously negotiated agreement, it is up to the constituent assembly to decide the fate of the king and disposition of the government. In a poll released in February 2007, 43.2% of Nepalis surveyed believed there was no place for the monarchy in Nepal while nearly 45% said there should be a place for the monarchy.[9] Under the Comprehensive Peace Agreement of November 2006, the political parties and the Maoists agreed that the Maoists would retire to cantonments and secure their arms under lock and key. These Maoist arms have been monitored by United Nations personnel, though the Maoists retain the keys to the arms stores.[10]

The U.N. has expressed concern over reports that Maoists have attacked the gatherings of other political parties and have been interfering with the creation of voter lists.[11] Maoists reportedly seized recently prepared electoral rolls in the towns of Salyantar and Khalde.[12] The Election Commission has stated that the voter list, which is being revised for the upcoming Constituent Assembly election, has expanded by 15%.[13]

New Unrest

The most recent threat to the political stability of Nepal stems from a number of groups representing Madhesis of the Terai region in southern Nepal. Madhesis are culturally and ethnically close to peoples of northern India. There have been allegations from inside Nepal that Hindu radicals may have had a role in the violence in the Terai.[14] Two Maoist splinter groups are thought to be fomenting violence in the Terai by attacking police stations and sponsoring strikes while other groups unrelated to the Maoists have also been using violent means, such as blockade of customs stations and transport strikes, to attract attention to their cause and put pressure on the government to address their concerns. Madhesis have complained about their under representation in parliament, the government, police, and army as well as economic discrimination against them.[15] The Madhesis, or plains folk, seek autonomy to free themselves from what they feel is domination by Pahadis from the more mountainous parts of northern Nepal.

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[6] "Nepal: Maoists Take Seats in Parliament," *Stratfor*, January 16, 2007.

[7] Charles Haviland, "Nepal - Rocky Path to Democracy," *BBC News*, January 16, 2007.

[8] "Maoist Leader Warns on Nepal Poll," *BBC News*, February 13, 2007.

[9] "Nepalis Unsure About the Purpose of Upcoming Elections," *Agence France Presse*, February 6, 2007.

[10] "Nepal Outlook for 2007-2008: Domestic Politics," *Economist Intelligence Unit*, November 3, 2006.

[11] "Maoist Leader Warns on Nepal Poll," *BBC News*, February 13, 2007.

[12] "Nepalese Maoists Said Obstructing Election Work Near Kathmandu," *BBC News*, February 9, 2007.

[13] "15 Per Cent More Voters for Nepal Con. Assembly Polls," *Asia Pulse*, February 8, 2007.

[14] "BJP Has No Role in Terai Violence: Yashwant Sinha," *Indo-Asian News Service*, July 25, 2007.

[15] "Violence in the Terai and the Madhesi Movement," *U.S. Institute for Peace*, July 17, 2007.

The United Nations' Role

Formal assistance from the United Nations was requested by the Nepalese government in July 2006. Following this, the U.N. dispatched a pre-assessment mission that helped the seven party alliance and the Maoists to resolve differences on the issue of arms management. The U.N. has monitored the cantonment of combatants and the caching of arms as specified under the peace agreement.[16] The Security Council established the U.N. Political Mission in Nepal (UNMIN) through Resolution 1740 in January 2007. Under Resolution 1740, UNMIN will undertake the following tasks:

- Monitor the management of arms and armed personnel of both sides;
- Assist the parties through the Joint Monitoring Coordinating Committee in implementing their agreement;
- Assist in the monitoring of the cease fire;
- Provide technical support for the planning, preparation and conduct of the election of a Constituent Assembly; and
- Provide a small team of election monitors.[17]

The U.N. will reportedly send 186 unarmed military observers to carry out the mission. By way of comparison, the Maoist force has been reported to number between 7,000 and 35,000.[18]

Political Setting

Nepal appears to be emerging from a political struggle between monarchists, the political parties, and Maoists, all of whom have been vying for control of the country. The Madhesis of the Terai have added a new dimension to Nepal's struggle for political stability. The Maoists have set aside the military path to power, at least for the time being, and are now seeking to gain power through a constituent assembly. In this way they seek to achieve politically what they have been unable to gain on the battlefield.[19]

The King's Takeover

After seizing direct power in February 2005 King Gyanendra exerted control over democratic elements, but made little progress in the struggle against the Maoists. The king reportedly thought he could take advantage of a split in the Maoist leadership and disarray amongst democrats to seize control and use the Royal Nepal Army to defeat the Maoists.[20] The seizure of power by the king appears to have been aimed as much, if not more so, at asserting the king's control over democrats. Many observers felt that a military solution to the conflict with the Maoists was not

[16] "Nepal Monitor: The National Online Journal," at http://www.nepalmonitor.com/2007.

[17] "Security Council Establishes UN Political Mission in Nepal," United Nations Security Council SC/8942, Department of Public Information, News and Media Division, New York, January 23, 2007.

[18] "New Hope for Nepal," *The Japan Times*, February 3, 2007. United States Department of State, Office of the Coordinator for Counter-terrorism, *Country Reports on Terrorism 2005*, released April 2006.

[19] "Nepal: Responding to the Royal Coup," *International Crisis Group*, February 24, 2005.

[20] Chitra Tiwari, "India Delivers Arms to Nepal," *The Washington Times*, May 14, 2005.

achievable and that a concerted effort by the king and the democrats was needed to establish a unified front to defeat the Maoists.[21]

When the king assumed power he stated that he would take steps to reinstate a constitutional democracy within 100 days, which he then failed to do. While some political prisoners were released by the king, hundreds of others remained under arrest and restrictions on civil liberties, such as public assembly and freedom of the press, remained in place. A U.N. Office of the High Commissioner of Human Rights team was established in Nepal in April 2005 to monitor the observance of human rights and international humanitarian law.[22]

By moving against the democrats, who under different circumstances could have worked with the king against the Maoists, the king strengthened the position of the Maoists. By some estimates almost half of the RNA was occupied with palace security, civil administration, and efforts to restrict communications and civil rights.[23] The king's legitimacy with the people was weakened due to the circumstances under which he assumed the throne, the way he seized direct rule, and due to poor popular perceptions of his son, Prince Paras Shah.[24]

Maoist Reaction

From February 13-27, 2005, the Maoists reacted to the king's actions by blockading major highways linking the country's 75 districts, as well as international road links to India and China.[25] This led to clashes between Maoists and the RNA and reportedly brought trade by road to a standstill. The army organized armed convoys which allowed limited trade to continue.[26] The Maoists had earlier cut off land routes to Kathmandu in August 2004.[27] During the week-long blockade in 2004, prices of some basic foods more than doubled and fuel was rationed.[28] This increase in food prices reportedly recurred in the 2005 blockade. By blockading Kathmandu, the Maoists successfully increased pressure on the king's government.

The Context of the King's Takeover

The security situation in Nepal deteriorated after the collapse of the ceasefire between the Maoists and the government on August 27, 2003. The Maoists favored drafting a new constitution that would abolish the monarchy. The king opposed such a move and wanted the Maoists to relinquish their weapons. Accommodation between the king and democratic elements had been thought to be key to creating the unified front necessary to defeat the Maoists. With his direct assumption of powers, and arrest of opposition democratic elements, the king decided to try to defeat the Maoists on his own.

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[21] "US Envoy Warns Political Crisis in Nepal Could Benefit Maoists," *BBC News*, May 24, 2005.

[22] "UN High Commissioner for Human Rights Appoints Chief for Nepal Monitoring Operation," *M2 Presswire,* April 29, 2005.

[23] S.D. Muni, "Thy Hand, Great Monarch!" *The Hindustan Times*, February 8, 2005.

[24] *Nepal: A Country Report*, The Economist Intelligence Unit, February 2005. John Lancaster, "King Claims Absolute Authority in Nepal," *The Washington Post*, February 2, 2005.

[25] "Maoist Blockade Creates Chaos in Nepal," *Hindustan Times*, February 22, 2005.

[26] "Nepal Rebels Attack Highway Convoy," *Reuters*, February 20, 2005.

[27] "Maoist Rebels Cut off Kathmandu," *ABC Radio Australia*, August 8, 2004.

[28] "Bombs on the Tennis Courts, No Petrol in the Pumps," *The Economist*, August 28, 2004.

Programs associated with the United States have been threatened by the Maoists in the past.[29] The U.S. Agency for International Development and Save the Children both operate in Nepal. In the past, Maoist leader Prachanda has stated that "we will ensure that no American citizens—tourists or officials—except those who come to the battlefield with the Nepal Army would be caused any harm by the Maoist militia."[30] Despite such reassurances, in 2003 the U.S. government identified the Maoists as a threat to American national security, froze Maoists' assets, and warned Americans in Nepal of "the possibility of an increased threat to Americans and American-affiliated organizations from Maoist insurgents."[31]

Key Country Issues

Governance

Nepal, the world's only officially Hindu country, has been an independent kingdom since 1768. Never colonized, the country was almost totally isolated from outside influence until the early 1950s. A transition from strict rule by the king to constitutional monarchy began in 1959, when then-King Mahendra issued a new constitution and held the country's first democratic elections. In 1960, however, the king declared the parliamentary system a failure, dismissed the fledgling government, suspended the constitution, and established a partyless system of rule under the monarchy. Although officially banned, political parties continued to exist and to agitate for a return to constitutional democracy.

In February 1990, student groups and the major political parties launched the Movement for the Restoration of Democracy. The centrist Nepali Congress (NC) party joined with the leftist parties to hold peaceful demonstrations in Nepal's few urban centers. In April 1990, after more than 50 people were killed when police fired on a crowd of demonstrators, then-King Birendra turned power over to an interim government. This government drafted a constitution in November 1990 establishing Nepal as a parliamentary democracy with a constitutional monarch as head of state. The king at that time retained limited powers, including the right to declare a state of emergency with the approval of a two-thirds majority of parliament.

The Kathmandu government faced additional turmoil in June 2001, when Crown Prince Dipendra reportedly shot and killed his parents, King Birendra and Queen Aishwarya, seven other members of the royal family, and himself after a disagreement over whom he should marry. King Gyanendra, the former king's brother, was crowned on June 4 and he appointed a commission to investigate the assassination. By mid-June, the country began returning to normal following rioting and widespread refusal to believe official accounts of the massacre. In July 2001, Prime Minister Girija Prasad Koirala stepped down amid fears of continuing instability and his government's failure to deal with the growing Maoist insurgency. He was replaced by NC leader Sher Bahadur Deuba, who then became the head of Nepal's eleventh government in as many years.

[29] Kedar Man Singh, "Nepal's Maoist Rebels Say They Will Not Carry Out Political Killings," *Agence France Presse*, October 22, 2003.

[30] Kedar Man Singh, "Nepal Maoists Say Americans Safe," *Agence France Presse*, October 27, 2003.

[31] "United States Declares Nepalese Maoists a National Security Threat, Freezes Assets," *Agence France Presse*, October 31, 2003.

Constitutional Crisis

During the summer of 2002, the government of Nepal was thrown into a constitutional crisis that, many argue, interfered with its ability to effectively combat the Maoist insurgency. The crisis began in late May, when King Gyanendra, at the request of the prime minister, dissolved parliament and unilaterally declared a three-month extension of emergency rule, which had expired on May 24. The prime minister, who also scheduled early elections for November 2002, reportedly took such action after his centrist Nepali Congress party refused to support his plan to extend emergency rule. Following the prime minister's actions, 56 former members of parliament filed a lawsuit against him, claiming there was no constitutional precedent for the dissolution of parliament during emergency rule. In August, the Supreme Court rejected this lawsuit. Although opponents of the prime minister agreed to accept the verdict, they emphasized the difficulty of holding free and fair elections two years ahead of schedule when much of the country was under either rebel or army control.[32]

Meanwhile, these events effectively split the Nepali Congress into two factions. First, the Nepali Congress Party (NC), led by former Prime Minister Koirala, expelled Deuba from the party for three years for his unilateral actions. Then, in mid-June, Prime Minister Deuba called an NC convention that overturned his expulsion and elected him, rather than Koirala, as NC president. Supporters of Koirala, however, argued that the NC convention led by Deuba, who was an expelled party member at the time, was invalid. In September, Nepal's Election Commission ruled that Koirala was the president of the NC, and, therefore, his faction was authorized to use the party's name and emblems in the November elections. In accordance with the Election Commission's ruling that allowed it one week to apply under a new party name, the Deuba-led faction registered as the Nepali Congress (Democratic) party on September 23.[33] Given that almost 60% of Nepal is illiterate, use of the NC emblems could be a significant advantage for the Koirala faction in future elections. On the other hand, some observers speculate that the ruling party split may benefit the Nepal Communist Party-United Marxist and Leninist (NCP-UML) party, the country's second largest.[34]

Although the prime minister pledged that there would be no emergency rule during the scheduled November 2002 elections, Maoist attacks and threatened strikes prompted the government to consider various measures to prevent a Maoist disruption of the polls. The government discussed imposing a partial state of emergency in areas most affected by the insurgency. However, opposition parties, which urged the government to open a dialogue with the Maoists, argued that by curbing civil liberties, emergency rule would inhibit free and fair elections. As an alternative, the government announced in September that it would hold the elections in six stages over two months, starting in mid-November, so that government troops could be transferred around the country to protect voters and candidates.[35] After further deliberation, however, Nepal's cabinet concluded that the security situation was too risky to hold elections. On October 3, the cabinet asked King Gyanendra to postpone the national elections for one year.[36] The next day, the king dismissed the prime minister, disbanded his cabinet, and assumed executive powers.

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[32] "Parties React to Court Ruling Backing PM's Right to Dissolve Parliament," BBC Monitoring South Asia, August 7, 2002; Shusham Shrestha, "Nepal PM's Foes Begrudgingly Accept Court Approval of Early Elections," *Agence France-Presse*, August 7, 2002.

[33] "Nepal's Embattled PM Forms New Political Party," *Reuters News*, September 23, 2002.

[34] Kedar Man Singh, "Nepal Says PM is not Head of Ruling Party, Hands Title to Foe," *Agence France-Presse*, September 17, 2002; "Nepal Poll Panel Rejects PM as Head of Ruling Party," *Reuters News*, September 17, 2002.

[35] Binaj Gurubacharya, "Nepal to Hold Elections in Stages," *Associated Press Newswire*, September 28, 2002.

[36] Gopal Sharma, "Nepal Cabinet Seeks to Put Off Elections by a Year," *Reuters News*, October 3, 2002.

Maoist Insurgency

In February 1996, the leaders of the underground Communist Party of Nepal (Maoist) launched a "People's War" in the midwestern region of Nepal, with the aim of replacing the constitutional monarchy with a one-party Communist regime. The uprising appears to have been fueled by widespread perceptions of government corruption and failure to improve the quality of life of citizens, including providing access to cultivable land. The Maoists have run a parallel government, setting up their own tax system, burning land records, and redistributing seized property and food to the poor, in 45 districts.[37] The insurgency was waged, in part, through torture, killings, and bombings targeting police and public officials. A string of bank robberies, combined with "revolutionary tax" revenue, made the Nepali Maoists among the wealthiest rebel groups in Asia, with up to $128 million in net receipts.[38]

Shortly after Prime Minister Deuba took office in July 2001, the Nepali government and the Maoists announced a truce and began peace talks the following month. After three rounds of promising discussions, talks broke down over the Maoists' demand that the monarchy be eliminated. On November 23, 2001, the Maoists broke the cease-fire with coordinated attacks on army and police posts. Three days later, King Gyanendra declared a state of emergency, which allowed the Royal Nepal Army (RNA), then at a strength of 53,000, to join the police in fighting the insurgents. The poorly trained, largely ceremonial RNA, however, was unable to stem the increasing Maoist violence. The state of emergency was extended for three months in February and again in May 2002. The government also passed the Terrorist and Disruptive Activities (Control and Punishment) Bill in April, which replaced an anti-terrorism ordinance issued at the time of the first declaration of emergency.[39]

After the state of emergency expired on August 28, 2002, the Maoists again stepped up their attacks. During the first week of September, Maoist bombings and battles with police officers and soldiers left more than 300 people dead. On September 16, a general strike called by the Maoists shut down much of the country. November clashes in areas to the west of Kathmandu involved rebel attacks on police stations and administrative headquarters and caused at least 200 deaths, including some 60 security personnel.[40] Along with this accelerated pace of violence, there were reports that sizeable Nepali army units had undergone anti-terrorist training in India, while Maoists may have established a presence in nearby Indian states such as Bihar. Intelligence reports also suggested that, in return for arms and training, Maoist forces provide bases to rebel groups fighting New Delhi's rule in India's northeastern Assam state.[41] A cease fire was reached in January 2003. Fighting resumed in August 2003 as the cease fire agreement collapsed.

The Maoists' message has in the past called for "American imperialism" and the "dirty Yankee" to "go home." The Maoists' Chief Negotiator, and Chairman of the "People's Government," Baburam Bhattarai, once reportedly threatened the United States with "another Vietnam" if the United States expanded its aid to Nepal.[42] Bhattarai also once sent a letter to the U.S. Ambassador

[37] Aniket Alam, "Abductions, a Political Message by Maoists?" *The Hindu*, January 23, 2005.

[38] Bertil Litner, "Nepal's Maoists Prepare For Final Offensive," *Jane's Intelligence Review*, October 2002.

[39] Binaj Gurubacharya, "Nepal Parliament Approves Anti-Terrorism Bill," *Associated Press* Newswire, April 4, 2002.

[40] Kedar Man Singh, "Nepal Considers New Emergency After 300 Dead in Maoist Unrest," *Agence France-Presse*, September 11, 2002; Binaj Gurubacharya, "General Strike Shuts Most of Nepal," *Washington Post*, September 16, 2002; "Upsurge in Nepal Violence," *BBC News*, November 15, 2002; Sushil Sharma, "Nepal Rebels 'Suffer Heavy Casualties,'" *BBC News*, November 23, 2002.

[41] R. Bedi, "Maoist Battle to Control Nepal," *Jane's Terrorism and Security Monitor*, November 2002.

[42] Thomas Bell, "Maoist Army Wins Hearts and Minds in West Nepal," *The Globe and Mail*, September 18, 2003.

in Kathmandu which called on the United States to stop "interfering" in the internal affairs of Nepal.[43]

Human Rights Concerns

The U.S. State Department Country Report on Human Rights in Nepal released in March 2007 focused on events in 2006 and stated that security forces members as well as the Maoists "committed numerous grave human rights abuses during the year. Arbitrary and unlawful use of lethal force, including torture, as well as disappearances, occurred frequently...." The report added that there had been some improvement in the human rights situation since the political transition in April 2006.[44]

Amnesty International has expressed concern about the unrest in the Terai in early 2007. It is "gravely concerned" that the protesters, members of the Madhesis community that are demanding proportional representation, may be subject to "the possible use of excessive force by the police." Amnesty also pointed out that the protestors have attacked busses, lorries, and journalists. Amnesty has called for an investigation into these events.[45]

Human rights groups warned in the aftermath of the king's early 2005 take over that Nepal was "plunging deeper into a massive human rights crisis" with "arbitrary arrests, censorship, and general repression" with "suspended fundamental constitutional rights including the freedom of assembly." Political developments since the king's handover of power have raised hopes that the human rights situation in Nepal will improve.

The Economy

Nepal is one of the poorest countries in the world. Up to 90% of its inhabitants earn a living through agriculture, which accounts for a significant percentage of the country's gross domestic product. Only 20% of the land is arable. Major crops include rice, wheat, maize, jute, sugarcane, and potatoes. Continued reliance on subsistence farming could keep Nepal poor for many years to come. Though the industrial base is small, Nepal produces carpets, garments, and, increasingly textiles, which now account for a majority of merchandise exports. Other major revenue sources are tourism and remittances from Nepal's famed Gurkha soldiers serving in the British and Indian armies. Government efforts to increase foreign trade and investment have been impeded by political instability, the resistance of vested interests, the small size of the economy and its remoteness, the lack of infrastructure and technological development, and frequent natural disasters, including floods and landslides.

Hydroelectric potential may be Nepal's most attractive asset in the eyes of investors. Nepal and India have completed several joint irrigation-hydroelectric projects and, in 2001, the Kathmandu government implemented a hydropower policy that opened the entire sector to private investment. A number of factors, including lack of capital, high transportation costs, environmental and social impact concerns, and political impediments, continue to hamper Nepal's hydropower potential, leaving only 15% of the country's population with access to electricity. Nepal's tourist industry has traditionally been an important part of the economy and a key source of foreign exchange.

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[43] Binaj Gurubacharya, "Maoist Rebel Leader Asks U.S., China, India to Stop Interfering in Nepal," *Associated Press*, September 25, 2003.

[44] U.S. State Department, Bureau of Democracy, Human Rights, and Labor, Nepal Country Report on Human Rights Practices 2005, released March, 2007.

[45] "Nepal: Amnesty International Urges Investigation into Killings," *Amnesty International*, January 31, 2007.

Past government efforts to revive the industry include opening up more mountain peaks to expeditions, reducing visa fees and easing visa procedures.

Geopolitics

Nepal has been described as a yam between two boulders. Nepal's geopolitical status as a small, landlocked buffer state situated between two Asian giants—India and China—has severely constrained its foreign policy and trade options. Although Nepal has sought to maintain friendly relations with both neighbors, its cultural, linguistic, religious, and economic ties with India historically have been much closer than those with China. Despite this, recent moves by the king have strained relations with New Delhi and opened the prospect of closer relations with China. Nepal is heavily dependent on India as the primary source of imports, the main market for exports, and for access to the sea through the major port of Calcutta. Moreover, the Himalayan mountain range along Nepal's northern border limits access to China, whereas the 500-mile southern border with India is relatively open. India, which has always considered Nepal a strategic link in its northern border defenses, has supported Kathmandu's efforts against the Maoist guerrillas.[46] New Delhi has viewed Nepali instability as a potential catalyst for the destabilization of India's own troubled northeastern states.[47] Maoist success in Nepal may also have a negative impact on India's Maoist problem.[48]

At the same time, the Nepali leadership has long resented Indian economic influence and has sought to establish a more independent foreign policy. Kathmandu has at times "played the China card" in seeking to counterbalance what it considers undue pressure from India. In recent years, Beijing has contributed significant economic aid to Nepal and has pledged "political and moral" support for Nepal's fight against the Maoist insurgency, which it denounces as misusing the ideas of Chairman Mao Zedong. Some observers have noted that Nepal's stability is important to China, given that it serves as a buffer between China and India.[49] The United States apparently supported India in taking a leading role in the situation in Nepal in the wake of the February 2005 takeover by the king.[50]

U.S. Interests and Bilateral Relations

U.S. Assistance

In recent years U.S. attention to Nepal has focused on issues related to the Maoist insurgency, though non-military assistance has been far greater. The United States has in the past provided Nepal with light weaponry and other military assistance to assist Nepal in its fight against the Maoists.[51] U.S. assistance to Nepal has been focused on strengthening Nepal's democratic institutions. Economic Support Funds (ESF), Development Assistance (DA), and Child Survival and Health (CSH) programs seek to enhance stability and security while seeking to strengthen

[46] "India Pledged to Support Nepal in Rebel Fight," *Reuters News*, August 23, 2002.

[47] Mandavi Mehta and Nisala Rodrigo, "Nepal Update," South Asia Monitor 53, Center for Strategic and International Studies, December 1, 2002.

[48] CRS Report RL32259, *Terrorism in South Asia*, by K. Alan Kronstadt and Bruce Vaughn.

[49] Philip Pan, "China Backs Nepal Over Maoist Rebels; Move Reflects Beijing's Growing Interest in Fostering Stability, Not Revolution," *Washington Post*, July 14, 2002.

[50] "U.S. Wants India to Play a Leading Role in Nepal," *Press Trust of India*, February 22, 2005.

[51] Jahn Lancaster, "King Claims Absolute Authority in Nepal," *The Washington Post*, February 2, 2005.

governance and protect human rights. IMET programs have sought to develop Nepal's military's ability to conduct operations while "following the rules of engagement that respect the rule of law, international human rights standards, and democratic values."[52] U.S. assistance to Nepal will reportedly continue even with the Maoists in the interim government under the terms of a one-year license to the Agency for International Development.[53]

Table 1. U.S. Assistance to Nepal, FY2005-FY2007

(In U.S. $ thousands)

Act.	FY2006 actual	FY2007 est	FY2008 request
CSH	18,613	-	17,985
DA	8,393	-	4,000
ESF	4,950	-	-
IMET	644	-	790
NADR	0	-	1,150
INCLE	0		2,700
P.L. 480 Title II	1,213	-	0
Transition initiatives	1,769	-	0
Total	35,582		26,625

Source: U.S. Department of State, South and Central Asia, Budget Justification Document, FY2008.

Note: (CSH)Child Survival and Health, (DA) Development Assistance, (ESF) Economic Support Fund, (FMF) Foreign military Financing, (IMET) International Military Education and Training, (NADR) Nonproliferation, Antiterrorism, Demining, and Related Programs, (INCLE) International Narcotics Control and Law Enforcement.

The United States has viewed the Maoists' past plans to institute a one-party republic, collectivize agriculture, reeducate class enemies and export revolution as undermining regional stability as well as the promotion of democracy and development for Nepal.[54]

Chronology of Recent Events[55]

February 2005	King Gyanendra dismisses the government, declares a state of emergency, and assumes direct rule.
November 2005	Maoists and political parties agree on a plan to restore democracy.
April 2006	Opposition demonstrations force the king to reinstate parliament and abandon direct rule. The Maoists declare a cease-fire.
May 2006	Parliament cuts the king's political power and the government begins talks with the Maoists.
June 2006	Prime Minister Koirala and Maoist leader Prachanda agree to bring Maoists into an interim government.
September 2006	The king loses his power over the armed forces.

[52] "Nepal," in U.S. Department of State, South and Central Asia, Budget Justification Document, 2007.

[53] "US to Continue Assistance Even After Maoists Join Interim Government," http://www.Nepalnews.com.

[54] "Christina Rocca Delivers Remarks at the Institute of Foreign Affairs," *Federal Document Clearing House*, May 10, 2005.

[55] This chronology is largely drawn from "Timeline: Nepal," *BBC News*, January 16, 2007.

February 2005	King Gyanendra dismisses the government, declares a state of emergency, and assumes direct rule.
November 2006	A peace agreement between the government and the Maoists ends the 10-year insurgency. The Maoists are to join a transitional government and their weapons are to be monitored by the United Nations.
2007	Unrest in the Terai mounts.
January 2007	Maoists enter the government under a temporary constitution.
November 2007	Elections for a constituent assembly are to be held.

Figure 1. Map of Nepal

Source: Adapted by CRS from Magellan Geographix.

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