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Nepal: Political Developments and Bilateral Relations with the United States

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Summary

Nepal has undergone a radical political transformation since 2006, when a 10-year armed struggle by Maoist insurgents, which claimed at least 13,000 lives, officially came to an end. The country's king stepped down in 2006, and two years later Nepal declared itself a republic, electing a Constituent Assembly in 2008 to write a new constitution, which is currently being drafted. Though the process of democratization has had setbacks and been marked by violence at times, Nepal has conducted reasonably peaceful elections, brought former insurgents into the political system, and in a broad sense, taken several large steps towards entrenching a functioning democracy.

This still-unfolding democratization process makes Nepal of interest to Congress and to U.S. foreign policymakers. A Congressional Nepal caucus has been newly formed, which should help further strengthen relations between the two countries, which 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 territorial integrity, and alleviating poverty and promoting development.

Nepal's status as a small, landlocked state situated between India and China also makes it important to foreign policymakers. Nepal's reliance on these two giant neighbors leads it to seek amicable relations with both, though ties with India have historically been closer. Some believe India is concerned a Maoist regime in Nepal could lend support to Maoist rebels in India. China, meanwhile, has taken several steps to pressure Nepal to repatriate, or at least constrain the activities of, refugees crossing the border from Tibet.

The place of Nepal's Maoists remains a delicate question that will do much to determine the fate of the nation's democracy. The group surprised many by peacefully challenging, and winning, the April 10, 2008, Constituent Assembly elections. During the civil war, the Maoists' stated aim had been to establish a peasant-led revolutionary communist regime, but once part of the political process, their objectives appear to have moderated. They have since lost control over government, and then returned as part of a coalition led by the Communist Party of Nepal United Marxist Leninist (CPN-UML).

Two key challenges presently face Nepal. The first is to complete the peace process, which would require a resolution of the difficult issue of how to integrate former Maoist fighters into the army, or into society. The second key challenge is completing the drafting of a constitution. This raises the question of establishing a new federal structure that would address grievances of groups that feel they have been underrepresented in the key institutions of the state, particularly in the Terai region bordering India.

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Nepal: Recent Developments

Nepal has undergone a radical transformation in recent years as the nation ended its civil war, abolished the monarchy, and established a multi-party democratic republic. The former Maoist insurgents are once again part of the government and the country is moving forward to try to formulate a new constitution for the new republic that takes into account regional groups' aspirations. While trends are positive at present, significant challenges remain to be overcome.

A February 2011 compromise that led to the election of a new government in Nepal has given many political observers some degree of cautious optimism that the country may be continuing on its path from a Hindu monarchy to a representative democracy. However, enormous challenges remain as the new government of Prime Minister Jhala Nath Khanal, of the Communist Party of Nepal United Marxist-Leninists (CPN UML), seeks to draft a constitution before a May 2011 deadline.

Before February 2011, Nepal had been in a political vacuum for seven months due to a deadlock in the Constituent Assembly, where no party or coalition was able to attain majority support. That logjam was loosened when Maoist candidate Prachanda withdrew from consideration for prime minister, and the Constituent Assembly (CA) first formed in 2008 to create a new government. They elected Khanal as prime minister, with backing from the Maoists, though the Maoists remained outside the government until March 2011.

Details of a "secret" deal between the CPN UML and the Maoists, which broke the political stalemate that had prevented the forming of a new government, have now emerged. Disagreements over the interpretation of the seven-point deal hindered the beginning of the new government in February 2011, but the entry of several Maoists into the government in March 2011 appears to indicate that another impasse has been averted. While Maoists have taken up several ministries including Peace and Reconstruction, they have not been given the Home Ministry. The Maoists will reportedly be given 11 ministries in total as part of the power sharing deal with the CPN-UML.[1] Prime Minister Khanal also reportedly agreed to consider all options with regard to the future disposition of the 19,000 former Maoist combatants. This potentially signals less resistance to the integration of Maoist forces into the army by the CPN-UML than they

NEPAL IN BRIEF

Population: 29.4 million

Area: 147,181 sq. km.; about the size and shape of Tennessee.

Geography: Relatively flat river plain of the Terai in the south, central hill region and mountainous Himalaya region of the north. Arable land accounts for 16% of the total area.

Capital: Kathmandu; 1.5 mil people

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: 66

Literacy: Total 48.6%; female 34.9%; male 62.7%

Per Capita income: $1,200 purchasing power parity

Unemployment: 46%

Gross Domestic Product Growth: 3.5%

GDP by Sector: Agriculture 33%, industry 15%, services 52%.

Labor by Sector: Agriculture 75%, industry 7%, services 18%.

Key exports: Carpets, clothing, leather goods, jute goods, grain.

Export partners: India 65.6%, U.S. 8%, Bangladesh 6%, Germany 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 Factbook*; Reuters News; U.S. Departments of Commerce and State; World Bank; Asian Development Bank; Global Insight; *The Economist Intelligence Unit.*

[1] "4 Maoists Join Nepal's Cabinet," *Kyodo News*, March 4, 2011.

demonstrated before. It has also been reported that the two parties have agreed to lead the government by turns.[2] The agreement between the two parties was a positive step, but analysts note that the stability of the government will likely be tested by upcoming decisions that could expose widely differing interests between the two parties.

The government faces the challenge of completing the peace process that began in 2006 by drafting a constitution before a May 2011 deadline. The government may not meet that deadline, as it faces two large challenges as the deadline approaches: completion of the peace process and crafting a new federal structure as part of the new constitution. The CA may well decide to extend the deadline once again should the government not finish its work in time. Political parties and militant groups representing the Madhes minority of the southern Terai region have put the government on notice that the new constitution and federal structure must take into account their political aspirations and concerns.

A New Government ... Finally

After 16 unsuccessful votes over approximately seven months, the Constituent Assembly finally elected a new government in the 17th round of voting in February 2011. This was made possible by the withdrawal of the Maoist candidate Prachanda, who had previously led the Maoist insurgency. The Maoists made a deal with the Communist Party of Nepal Marxist Leninists (CPN UML) to do this and support the CPN UML candidate Prime Minister Khanal. As a result, Khanal received 368 votes out of 601 in the CA to defeat the Nepali Congress candidate. The Nepali Congress candidate, Ram Chandra Poudel, received 122 votes while Deputy Prime Minister Gachedar, representing a Madhes coalition, received 67 votes.[3] The Marxist Leninists previously supported a Maoist government in 2008 but subsequently withdrew support due to a disagreement over control of the army, which led Maoist leader Prachanda to relinquish the prime ministership.[4]

Conclusion of the Peace Process and Integration of Maoist Fighters

One of the key provisions of the 2006 peace agreement that ended a decade-long guerrilla struggle and brought the Maoists off the battlefield and into the political process was a provision which has led to great debate over how and to what extent former Maoist fighters will be integrated into the Army of Nepal. The departure of the United Nations Mission in Nepal (UNMIN) monitoring group in January 2011, which was overseeing caches of arms and the cantonments of former Maoist fighters, led the former caretaker government to set up the Special Committee for the Supervision, Integration, and Rehabilitation of Maoist Fighters to take over the U.N.'s oversight function. UNMIN had been monitoring the situation since January 2007. A key positive development came in January 2011, when Maoist leaders formally relinquished control of their 19,000-member army to a government committee. Despite this, details of how the fighters will be reintegrated into society or integrated into the army of Nepal, and in what numbers, remain to be resolved. The Maoists have held to the view that all former combatants should be integrated into the Army of Nepal. Other political parties have held the view that Maoist numbers should be kept to 6,000 to 8,000 and that the rest should be assisted in their reintegration into

[2] "Nepal's Maoists Decide to Join the Government," *Kyodo News*, March 7, 2011.

[3] "Khanal Elected PM," *The Times of India*, February 4, 2011.

[4] Kiran Chapagain & Jim Yardley, "Nepal's New Premier Aims for Constitution," *International Herald Tribune*, February 5, 2011.

private life.[5] It is estimated that about 13,000 to 14,000 of the 19,000 combatants are still in the cantonments.[6] Just how this will be resolved remains to be seen. Forward movement in this area would be viewed as a positive factor that should help move the constitution process forward.[7]

Federalism and the Madhes and Tharu of the Terai

The likely contentious nature of a new federal structure may lead the government and constitution drafting committees to defer the issue of a new federal system to a later date, at which time the polity of Nepal may be better able to absorb the shock of potential opposition to a new structure. The main regionally based socio-political cleavage in Nepali society is between the Madhes people of the Terai and "hill" people. The Madhes of the Terai region that spans the southern border with India are not pleased with the political status quo, which divides their region and, from their perspective, gives the "hill people" a disproportionate say in government. One of the key cleavages in Nepali society is between the lowlanders of the Terai plain and the hill people of higher elevations and, in general, higher caste status. Any redistricting that does not unify the Terai into one administrative unit, where the Madhes would clearly dominate, is not likely to be well received by Madhes groups. The Madhes are reportedly displeased by their marginalization from the ruling coalition and have warned that there would be "fire in the plains and the hills" if the new constitution fails to address their aspirations.[8] There are several Madhes political parties as well as armed groups in the Terai that have resorted to violence to promote their cause in the past. The Tharu group, which is also located predominantly in the Terai, opposes its inclusion within "One Madhes" where it would be a minority relative to the Madhes, and instead favors its own administrative district. A new development in the 17th round of voting to form a new government was the unsuccessful entry of Bijay Kumar Gachedhar to contest the prime ministership on behalf of an alliance of four Madhes political parties.[9]

The Maoists, the Coalition, and the Political Crisis of 2009

In May 2009, former Prime Minister Pushpa Kamal Dahal, better known by his *nom de guerre* Prachanda, resigned over a dispute related to his call for the dismissal of the former Chief of Army Staff Rookmangud Katawal. Prachanda, leader of the Communist Party of Nepal-Maoist (CPN-M), sought the dismissal of Katawal, who has since retired over the issue of integrating former Maoist fighters into the Army of Nepal, which Katawal resisted.[10] At the core of the political crisis of May 2009 was the dispute between the Maoists and the Army over the integration of some 19,000 Maoist fighters into the Army of Nepal.[11] Debate on this has focused on the numbers of fighters to be integrated (with the Maoists wanting all fighters integrated and the other political parties favoring far fewer), and whether Maoist forces will be integrated as whole units or attached to existing Army of Nepal units. The Nepali Congress (NC) has opposed Maoist plans to integrate their forces into the Nepali Army. Instead, the NC advocates that they should be placed into an industrial security force, the police, or other sectors.[12] Some estimates

[5] "Nepal Govt Takes Formal Control of Maoist Army," *The Times of India,* January 23, 2011.

[6] "Nepal Fitful Peace Process," Update Briefing, Asia Briefing, No. 120, *International Crisis Group,* April 7, 2011.

[7] Kiran Chapagain & Jim Yardley, "Nepal Takes Command of Ex-Rebels," *The New York Times,* January 23, 2011.

[8] Khanal Elected PM of Nepal," *The Times of India,* February 4, 2011.

[9] "Nepal Set for a Four Way Fight in PM Poll," *The Times of India,* February 3, 2011.

[10] "Nepal Politics: Paralysed by Prachanda," *The Economist Intelligence Unit,* November 10, 2009.

[11] "Country Report Nepal," *The Economist Intelligence Unit,* November 2009.

[12] "UNMIN Not Impartial," *Kantipur,* October 13, 2008.

place the number of former Maoist fighters in cantonment at 19,000 or more.[13] The Nepal Army is thought to number approximately 95,000 soldiers that are divided into six regional divisions.[14]

Prachanda's CPN-M government was replaced by a 22-party coalition. This loose coalition has proven unwieldy in the actual functioning of government.[15] The CPN-M also obstructed the sitting of parliament, held general strikes, and threatened to launch a popular movement against the government.[16] The Maoists created a crisis by preventing the passage of the national budget, introduced to parliament in July 2009, although it was passed in late November 2009.[17] The CPN-M was also reportedly resentful of what it perceived as interference by India in the Kutawal affair.[18] This background provides a context for assessing the stability of the current government, which once again includes these two communist parties.

Historical Context to the Present Political Situation

Religion has long been an important factor for Nepal's 29.3 million inhabitants, where 81% of the population is Hindu and 11% of the population is Buddhist. Nepali is the official language, though there are over 100 regional and indigenous languages spoken in Nepal. The main geographic division in the country is between the low-lying and agriculturally productive Terai region, found adjacent to the southern border with India, and the more mountainous parts of the country.

Nepal 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 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.

In February 1996, the leaders of the underground CPN-M launched a "People's War" in the mid-western 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 ran a parallel government, established their own tax

[13] "Prachanda's First Interview as Nepal Prime Minister," *BBC News,* September 3, 2008.

[14] "Army Integration to Lead to Violence," *BBC News,* October 3, 2008.

[15] "Disgruntled Nepal MPs Threaten to Withdraw Support," *Indo-Asian News Service,* September 5, 2009.

[16] "Country Report Nepal," *The Economist Intelligence Unit,* November 2009.

[17] "Maoists Finally Allow Parliament to Pass Nepalese Budget," Global Insight, November 26, 2009.

[18] "India: Government Faces Daunting Regional Agenda," *Oxford Analytica,* May 26, 2009.

system, burned land records, and redistributed seized property and food to the poor, in 45 districts.[19] The insurgency was waged, in part, through torture, killings, and bombings targeting police, the military, and public officials. A number of bank robberies, combined with "revolutionary tax" revenue, made the Nepali Maoists one of the wealthiest rebel groups in Asia.[20]

The Kathmandu government faced additional turmoil in June 2001, when Crown Prince Dipendra shot and killed his parents, King Birendra and Queen Aishwarya; seven other members of the royal family; and himself, reportedly after a disagreement over whom he should marry. This incident did much to undermine the legitimacy of the monarchy. King Gyanendra, the former king's brother, was crowned on June 4, 2001, and he appointed a commission to investigate the assassinations. 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 11th government in as many years.

Constitutional Crisis

During the summer of 2002, the government of Nepal was thrown into a constitutional crisis that interfered with its ability to effectively combat the Maoist insurgency. The crisis began in late May, when King Gyanendra dissolved parliament and unilaterally declared a three-month extension of emergency rule, which had expired on May 24, 2002. 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 2002, 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.[21]

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 2002 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.[22] After further deliberation, however, Nepal's cabinet concluded that the security situation was too risky to hold elections. On October 3, 2002, the cabinet asked King Gyanendra to postpone the national elections for one year.[23] The next day, the king dismissed the prime minister, disbanded his cabinet, and assumed executive powers.

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

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

[21] "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.

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

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

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 opposition 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. This move proved to be the beginning of the end of the power of the monarchy in Nepal.

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 (RNA) to defeat the Maoists.[24] 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 democratic forces. Many observers felt that a military solution to the conflict with the Maoists was not achievable and that a concerted effort by the king and the democrats was needed to establish a unified front to defeat the Maoists.[25]

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. Although 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.[26]

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.[27] 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.[28] The former crown prince was unpopular with Nepalis "for his drunken antics and playboy lifestyle."[29]

Maoist Reaction

From February 13 to 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.[30] This led to clashes between Maoists and the RNA and brought trade by road to a

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

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

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

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

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

[29] Charles Haviland, "Ousted Nepal Prince Leaves Nation," *BBC News,* July 2, 2008.

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

standstill. The army organized armed convoys, which allowed limited trade to continue.[31] The Maoists had earlier cut off land routes to Kathmandu in August 2004.[32] During the week-long blockade in 2004, prices of some basic foods more than doubled and fuel was rationed.[33] This increase in food prices reportedly recurred in the 2005 blockade. By blockading Kathmandu, the Maoists successfully increased pressure on the king's government and demonstrated their power.

Democratic Uprising

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. This followed weeks of violent protests and demonstrations against direct royal rule in Nepal. The Seven Party Alliance that opposed the king in April included the parties as listed below:

- 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 Maoists were not part of the Seven Party Alliance, though they worked with the alliance to oppose the monarchy. This was made possible by the king's political crackdown on the democrats. The seven parties worked together through their alliance to promote a more democratic Nepal in the face of direct rule by the king. 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 over 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 but Constituent Assembly elections were eventually held in April 2008.

Government, Politics, and Regional Tensions

Structure of Government

The structure of the current 601-seat legislature is a mixed member system with 240 members elected from single member constituencies and 335 members elected on a proportional basis from party lists. A further 26 members are nominated by the cabinet to represent ethnic and indigenous groups. Administratively, the country is divided into 75 districts.[34]

Key Political Parties in Nepal

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

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

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

[34] "Nepal," CIA World Factbook, October, 2008 and Department of State Background Notes "Nepal," 2008.

The CPN-M, with 220 seats and 36.6% of seats, is the largest party in the Constituent Assembly. The 110 seats for the NC represent 18.3% of the CA, while the 103 seats belonging to the CPN-UML represent 17.1%. The 52 seats of the MPRF represent 8.7%, and the 20 seats of the TMDP represent 3.3%. Twenty other parties and independents, all with less than 2% of the CA seats, account for the balance.[35]

Communist Party of Nepal—Maoist (CPN-M)
The Nepali Congress (NC)
Communist Party of Nepal—United Marxist Leninist (CPN-UML)
The Madhesi Peoples Rights Forum (MPRF)
The Terai Madhes Democratic Party (TMDP)
The Sadhbavana Party
The Rastriya Prajatantra Party

In accordance with the interim constitution, legislative powers passed from the previous parliament to the CA after its election in April 2008. The prime minister is selected by a vote of the CA.[36]

The Nepal Army

The Nepal Army, which fought a protracted counterinsurgency war against the Maoists from 1996 to 2006, has remained largely outside politics. Some view the acquiescence of the former Royal Nepal Army in the transformation of Nepal from a monarchy into a republic as predicated on a tacit agreement that its position would not be directly challenged in this process.[37] Prachanda's decision to seek the removal of senior military leadership and integrate former Maoist fighters may have been perceived as overstepping this tacit agreement.[38] The army could possibly become more political should a plan to integrate former Maoist fighters into the Army of Nepal be viewed by the army as a threat to its position.

The former head of the Army of Nepal, General Katawal, opposed integration, which was a condition of the November 2006 Peace Agreement that ended the 10-year civil war with the Maoists.[39] One estimate of the cost of the war estimates the number killed at 16,274, with 5,640 injured and 70,425 displaced during the conflict.[40] Opponents of integration contend that the Maoists have not returned land confiscated during the civil war nor have they dismantled their militant youth wing, which many Nepalis fear could be used by the Maoists to further escalate violence to achieve political ends. The CPN-UML, who were the CPN-M's main political allies, pulled out of the CPN-M government in response to Prachanda's decision to dismiss General Katawal in May 2009. The President of Nepal, Ram Baran Yadav, of the Nepali Congress Party, reversed Prachanda's decision and reinstated General Kutawal at the time.

Inter-Communal Strife and Regional Tension

As violence associated with the former Maoist insurgency abated, inter-communal tensions have mounted and at times become violent. This has been particularly acute in the Terai region along Nepal's southern border with India, where the Madhes live. An estimated 45% to 49% of the country's population lives in the Terai region. The Madhes seek autonomy to free themselves from what they feel is domination by Pahadis from the more mountainous parts of northern Nepal. The Madhes also have closer ties to India than other Nepali groups. Other ethnic groups in the Terai have opposed regional autonomy. There appear to be a number of armed groups fighting

[35] "Nepal Country Profile 2008," *The Economist Intelligence Unit,* 2008.

[36] "NC Prez: Maoists Targeting Democracy," *The Katmandu Post,* September 27, 2008.

[37] "Nepal: Constitution Making at Stake in Negotiations," *Oxford Analytica,* May 14, 2009.

[38] "Nepal's Future: In Whose Hands?" *International Crisis Group,* August 13, 2009.

[39] "Peace Deal Ends Nepal's Civil War," *BBC News,* November 21, 2006.

[40] "Peoples War Shed More Blood Than Imagined," *Times of India,* September 23, 2009.

a low-intensity struggle for autonomy in the region as well as various political parties and factions.

The Madhes have added a new regional, ethnic, and linguistic dimension to Nepal's struggle for political stability. There have been allegations from inside Nepal that Hindu radicals may have had a role in the violence in the Terai. The Madhes have complained about their underrepresentation in parliament, the government, the police, and the army, as well as economic discrimination against them. Calls for self-determination through the creation of a Madhes Autonomous Region, as well as the implementation of proportional representation in government, were sought by Madhes groups as a way of reversing what they viewed as their traditional marginalization within Nepal's political structure. Agitation for such measures lessened when the interim government agreed to an eight-point plan which recognized autonomous regions and promised to incorporate provisions for fair representation in the new constitution and to conduct army recruiting on a proportional basis from various ethnic groups.[41]

A decision by the Supreme Court directing Vice President Paramananda Jha to retake his oath in Nepali (he originally took the oath in his native Hindi, which is more widely spoken in the Terai) led to widespread strikes in the Terai in August 2009.[42] The CPN-UML government subsequently added nine cabinet ministers, bringing the total number of ministers to 42. Eight of the nine added in September were Madhes, in an apparent attempt to placate Madhes over the controversy.[43]

The Madhesi have added a new regional dimension to Nepal's struggle for political stability. A new threat to the political stability of Nepal has emerged from a number of groups representing Madhesi in southern Nepal. The MPRF, TMDP, Sadbhavana Party, and the Dalit Janajati Party represent Madhesis and command 85 seats in the CA. The new president and vice president are also Madhesi. 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.[44] Madhesi have complained about their underrepresentation in parliament, the government, police, and army as well as economic discrimination against them.[45]

Human Rights Concerns

Over the years both the Maoists and security forces have committed numerous human rights violations. That said, some progress in the areas of human rights and political freedoms have been achieved since the early 1990s. The king's dismissal of government in 2005 led to many abuses and curtailments of civil rights. This setback was reversed by the reinstatement of parliament in 2006. Trafficking in women and children and indentured domestic work remain problems in Nepal.[46] Nepal also suffers from widespread corruption. Nepal ranked 146 out of 178 countries in the 2010 Global Corruption Perceptions Index by Transparency International.[47]

The Tibetan community in Nepal has, according to Human Rights Watch, been subject to numerous abuses at the hands of Nepali authorities as Nepal has reportedly come under pressure

[41] "Nepal: Internal Affairs," *Jane's Sentinel,* June 10, 2009.

[42] "Madhesi Parties Call Terai Bandh," *Plus News Pakistan,* August 31, 2009.

[43] "Terai Party Keeps Hindi Flag Flying in Nepal," *The Times of India,* September 3, 2009.

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

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

[46] "Background Note: Nepal," *Department of State,* June 2008.

[47] "Zero Tolerance on Graft Must for MDGs: UN," *The Katmandu Post,* October 20, 2008.

from China to quell any protests in Nepal over Chinese rule in Tibet. Nepali authorities reportedly made an estimated 8,350 arrests of Tibetans, out of an estimated total population of some 20,000 Tibetan refugees, exiles, and asylum seekers, during the period between March 10 and July 18, 2008. Nepal is a key transit route for Tibetans seeking to reach India. Human Rights Watch accused the government of Nepal of unnecessary and excessive use of force, arbitrary arrest, sexual assault of women during arrest, arbitrary and preventative detention and beatings of Tibetans in detention, and unlawful threats to deport Tibetans to China.[48] Nepal Home Ministry Spokesman Modraj Dotel stated in March 2008 that "We have given the Tibetans refugee status and allow them to carry out culture events. However, they do not have the right for political activities ... we will not allow any anti-China activities in Nepal and will stop it."[49]

The Economy

Nepal is one of the world's poorest nations. Average per capita income in Nepal is $427 with 55% of the population living on $1.25 per day or less. Inflation is estimated to be 8.4% and an estimated 75% of the people are engaged in agriculture.[50] This insulates Nepal to a large degree from international economic factors, though tourism remains vulnerable to global economic downturns. Major crops include rice, wheat, maize, jute, sugarcane, and potatoes. Nearly a quarter of the national budget is externally funded through foreign aid. Nepal's GDP is expected to grow by 3.5% to 4% in 2011.[51]

Political instability and insurgency-related violence of recent years has undermined the country's economy. Political uncertainty and 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, including those from Nepal's famed Gurkha soldiers serving in the British and Indian armies. Nepal also has substantial hydropower potential. Government efforts to increase foreign trade and investment have been impeded by political instability, corruption, the resistance of vested interests, the small size of the economy, its remote and landlocked location, the lack of technological development, and frequent natural disasters, including floods and landslides.

Nepal's infrastructure is poor and it has few commercially exploitable resources other than hydro power and cement grade limestone deposits. Nepal also suffers from low rates of investment and domestic savings. Firewood supplies an estimated 76% of total energy consumed in Nepal and is used for heating and cooking. Nepal's key export partners include most significantly India, as well as the United States and Germany. While India remains Nepal's key trading partner, Nepal has made an effort to develop trade relations with Sri Lanka and Pakistan.[52]

Relations with the United States

According to the State Department Background Notes on Nepal,

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[48] "Nepal: Abuse Against Tibetans Protesting China's Tibet Crackdown," *Human Rights Watch,* July 24, 2008.

[49] "Human Rights Watch Urges Nepal to Stop Crackdown on Tibetan Protestors," *International Herald Tribune,* March 20, 2008.

[50] "Nepal Background Notes," State Department, December 20, 2010.

[51] "Country Report: Nepal," *The Economist Intelligence Unit,* February 2011.

[52] *The Economist Intelligence Unit*, "Nepal: Country Report," August 2009.

> U.S. policy objectives toward Nepal center on helping Nepal build a peaceful, prosperous, and democratic society. Since 1951, the United States has provided more than $1.2 billion in bilateral development assistance to Nepal. In recent years, annual bilateral U.S. assistance through the U.S. Agency for International Development and the Department of State has averaged $54 million.

Nepal is the United States' 161st-largest goods trade partner, with two-way trade totaling $86 million in 2009.[53] Promotion of democracy and regional stability are key U.S. interests in Nepal.

The United States seeks to promote democracy and civil society in Nepal and provide developmental assistance to its people. The United States has viewed the Maoists' past plans to institute a one-party republic, collectivize agriculture, re-educate "class enemies" and export revolution as undermining regional stability as well as the promotion of democracy and development for Nepal.[54] The extent to which the CPN-M remains committed to these goals is unclear.

U.S. Foreign Assistance

U.S. assistance to Nepal has sought to help Nepal "cement recent gains in peace and security" and assist Nepal in its transition to democracy,[55] including strengthening Nepal's democratic institutions. Economic Support Funds (ESF), Development Assistance (DA), and Child Survival and Health (CSH) programs have sought to enhance stability and security while seeking to strengthen governance and protect human rights. International Military Education and Training (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."[56] For further details of U.S. assistance programs to Nepal see the U.S. Agency for International Development's website.[57]

Table 1. U.S. Assistance to Nepal, FY2006-FY2010

(In U.S. $ thousands)

Account	FY2006	FY2007	FY2008	FY2009 est.	FY2010 request
CSH	18,613	18,090	19,891	22,200	24,400
DA	8,393	10,447	9,136	—	—
ESF	4,950	11,250	16,423	22,151	26,015
FMF			—	—	1,100
IMET	644	793	869	800	1,200
INCLE	0	0	30	330	3,700
NADR	0	840	1,242	700	1,300
P.L. 480 Title II	1,213	6,056	18,833	—	—
Total	33,813	47,476	66,424	46,181	57,715

[53] Office of the U.S. Trade Representative, "Nepal," http://www.ustr.gov/countries-regions/south-central-asia/nepal.

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

[55] "FY 2010 Congressional Budget Justification for Foreign Operations," Department of State, May/November, 2009.

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

[57] "Nepal," U.S. Agency for International Development, May 4, 2008, http://nepal.usaid.gov/.

Source: FY2010 Congressional Budget Justification for Foreign Operations, Department of State, May/November, 2009.

Note: See CRS Report RL31362, *U.S. Foreign Aid to East and South Asia: Selected Recipients*, by Thomas Lum. (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. U.S. Department of State, South and Central Asia, Budget Justification Document, FY2008.

Geopolitical Setting

Nepal is a landlocked geopolitical buffer state, like Bhutan, that is caught between the two Asian giants, India and China. India and China fought a border war in 1962 in the mountains near Nepal, which led to ongoing territorial disputes. Tensions along the border have mounted from time to time with concomitant troop buildups, as was the case in December 2007, when India moved some 6,000 troops to reinforce the India-Bhutan-China border in the area of Bhutan and Arunachal Pradesh to the east of Nepal.[58]

Nepal is heavily dependent on India as the primary source of imports, its main market for exports, and for access to the sea through the port of Calcutta. A significant percentage of all foreign investment in Nepal also comes from India. 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 has considered Nepal a strategic link in its northern border defenses. New Delhi has viewed Nepali instability as a potential catalyst for the destabilization of India's own troubled northeastern states. It is feared by some that Maoist success in Nepal may have a negative impact on India's own Maoist problem, which has increased in recent years.

Some sectors of the Nepali leadership have long resented Indian economic influence and have sought to establish a more independent foreign policy, which could draw Nepal closer to China. Kathmandu has at times "played the China card" in seeking to counterbalance what it considers undue pressure from India. Beijing has contributed economic aid to Nepal. Nepal borders Tibet, whose spiritual leader, the Dalai Lama, has sought a degree of autonomy from Beijing for the Tibetan regions within China.[56] Contrary to historical precedent, former Prime Minister Prachanda made his first trip abroad as prime minister to China. Observers in India believe that China targeted the Maoists as the political faction with whom China can best gain political favor. That said, China appears to still be pressing the CPN-UML government to reach agreement on issues related to Tibetan refugees and border management.[59]

India

India and Nepal share many cultural and religious traditions, particularly in the Terai region, and have a tradition of close cooperation in the area of defense and foreign affairs. The election of a Maoist-backed government may be viewed by Delhi as something of a setback given the sometimes tense relations between the Maoists and the government of India. During her January 2011 visit to Nepal, Indian Foreign Secretary Nirumpama Rao met with leaders of all the main political parties, including the Maoists. It was reported that she asked Maoist leader Prachanda about the Maoists' "anti-India" stance and that she was told that the Maoists believe that it is time to look at "certain historical issues like treaties [the 1950 India-Nepal Treaty of Peace and

[58] "India: Rumblings on the Border with China," *STRATFOR*, December 13, 2007.

[59] Pranab Dhai Samanta, "China Warms Up to Nepal Again as Maoists Stoke Anti-India Fires," *The Financial Express*, September 6, 2009.

Friendship] … in a new manner."[60] Some in Nepal view the treaty as granting India a disproportionate say in Nepalese affairs. Just how far the Maoists' desire to revisit the 1950 treaty will go as a partner in the CPN-UML government remains to be seen. During a recent visit to Nepal, Rao stated after a meeting with Prime Minister Madhav Kumar that India would give priority to implementing a 34-point agreement with Nepal that includes enhanced cooperation between the two nations' security agencies and border security.[61]

China

China has several key interests in Nepal. China has an interest in keeping Nepal from becoming a location from which Tibetan activists can promote the cause of Tibet. China has become more successful in recent years in convincing Nepal to restrict the exile Tibetan community there. Reportedly responding to Chinese pressure, the government of Nepal in March 2011 prevented the estimated 20,000 Tibetans in exile in Nepal from voting for a new political head of the exiled Tibetan community.[62] China has in recent years made significant inroads in developing ties with South Asian states. Some view this as predominantly economically driven while others, particularly in strategic circles in New Delhi, increasingly view Chinese activity with geopolitical concern. There have been reports of Chinese agents crossing the porous India-Nepal border for the purpose of infiltrating Tibetan exile groups in India and monitoring the activities of the Dalai Lama and his associates.[63] In March 2011, China announced that it will seek to further strengthen its relations with the South Asia Association of Regional Cooperation (SAARC). China became an observer in SAARC in 2005.[64]

Bhutan

Nepal's relationship with Bhutan is largely defined by tensions over ethnic Nepalis who are in Bhutan or who have fled Bhutan. The government of Bhutan has been experiencing problems with Bhutanese of Nepali background, many of whom it views as having settled in Bhutan illegally. This Nepali minority group is known as the Lhotshampa. They are a Nepali-speaking Hindu people that inhabit Bhutan's southwest. Many Lhotshampa left Bhutan as a result of attempts over recent decades to integrate them into mainstream Bhutanese culture. Such attempts at assimilation have been viewed as a threat to the ethnic Nepalis' own culture. The program was aimed at assimilating the Lhotshampa by having them adopt the Bhutanese language, Dzongkha, as well as Bhutan's Buddhist religion and its cultural dress. This tension led to unrest in the south of Bhutan in the early 1990s.

The United Nations

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 coalition and the Maoists to resolve differences on the issue of arms management. The U.N. monitored the cantonment of combatants and the caching of arms as specified under the

[60] Prashant Jha, "Rao Concludes Nepal Visit," *The Hindu*, January 21, 2011.

[61] "India Ready to Implement 34 Point Agreement with Nepal," *Asian News International*, September 15, 2009.

[62] "Landmark Poll," *The Nation*, March 21, 2011.

[63] Bhipin Chand Agarwal, "Three Suspected Chinese Spies Arrested at Indo-Nepal Border," *The Times of India*, January 19, 2011.

[64] "China to Strengthen Cooperation with SAARC," *Xinhua*, March 1, 2011.

peace agreement.[65] The Security Council established the U.N. Political Mission in Nepal (UNMIN) through Resolution 1740 in January 2007. Under Resolution 1740, UNMIN was tasked to monitor the management of arms and armed personnel of both sides; to assist the parties through the Joint Monitoring Coordinating Committee in implementing their agreement; to assist in the monitoring of the cease fire; to provide technical support for the planning, preparation and conduct of the election of a Constituent Assembly; and to provide a small team of election monitors.[66] UNMIN oversees the cantonment of former rebel fighters and the storage of their weapons.[67] UNMIN's mission was extended until January 2011.[68]

Chronology[69]

June 2001	Crown Prince Dipendra kills his father King Birendra and nine other members of the Royal Family, including his mother, sister, and brother. Dipendra also kills himself. Dipendra's brother Gyanendra becomes king.
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.
September 2006	The king's power over the armed forces is taken away.
November 2006	A peace agreement between the government and the Maoists ends the 10-year insurgency. The Maoists agree to join a transitional government and have their weapons monitored by the United Nations.
January 2007	Unrest in the Terai mounts.
April 2007	The Maoists join an interim government headed by Nepali Congress Leader Koirala.
April 2008	Constituent Assembly elections are held.
May 2008	The monarchy is formally abolished and Nepal becomes a republic.
July 2008	Ram Baran Yadav of the Nepali Congress becomes president.
August 2008	A Maoist led government takes office.
May 2009	Former Prime Minister Prachanda resigns over dispute with Chief of Army.
	A 22-member Coalition government replaces Maoists.
January 2011	UNMIN Leaves Nepal.
February 2011	A CPN-UML led government is elected by the CA with CPN-M support. Jhala Nath Kanal is named prime minister.

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

[66] "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.

[67] "Nepal: A Political Crisis and Indo-Chinese Tensions," *STRATFOR*, May 4, 2009.

[68] "UNMIN Not Impartial," *Kantipur*, October 13, 2008.

[69] This chronology is drawn from "Timeline: Nepal," *BBC News*, January 16, 2007, as well as from *Economist Intelligence Unit* reports and other sources.

Figure 1. Map of Nepal

Source: Adapted by CRS from Magellan Geographix.

Author Information

Bruce Vaughn
Specialist in Asian Affairs

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