

CRS Report for Congress

Nepal: Political Developments and Bilateral Relations with the United States

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Summary

With its recent fundamental political shift from monarchy to republic, the Federal Democratic Republic of Nepal has entered a new phase in its political development. Peace is being consolidated and elections have been held. That said, much ground remains to be covered to fully consolidate these gains. Some observers are concerned that widespread violence may return if the Communist Party of Nepal - Maoist (CPN-M), the group which waged a 10-year armed struggle against the former government of Nepal, feels its political agenda has been thwarted by political opposition in the Constituent Assembly.

The Constituent Assembly elections of April 10, 2008, were a key step toward consolidating peace in Nepal and enhancing Nepal's democratic process. The Constituent Assembly has been elected to form the structure of the new government of Nepal. It will also be confronted with the need to address economic development and ethnic issues. The Maoists will likely lead this process as they have the largest representation in the Constituent Assembly.

As violence associated with the former Maoist insurgency has abated, inter-communal tensions have mounted and at times become violent. This has been particularly acute in the Terai region where the Madhesi live. The Madhesi, or plains folk, seek autonomy to free themselves from what they feel is domination by Pahadis from the more mountainous parts of northern Nepal. 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.

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. American foreign policy in Nepal has sought to strengthen democracy and to prevent the collapse of Nepal which, should it become a failed state, could undermine regional stability. The United States had previously provided support in Nepal's struggle against the Maoists. U.S. policy towards the Maoists, who remain on two of three U.S. terrorist lists, appears to be dependant on the continued participation of the Maoists in the democratic process.

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.

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Nepal: Political Developments and Bilateral Relations with the United States

Nepal: Recent Developments

The Communist Party of Nepal - Maoist (CPN-M), the group which waged an armed struggle against the former government of Nepal, won what was a three-way power struggle with the monarchy and a collection of democratic parties with their electoral victory in the April 10, 2008 Constituent Assembly election. Over 60% of Nepali voters cast ballots in the election that had been twice delayed. What was surprising to many observers was that the Maoists won power through the democratic process. The Maoists had previously waged a 10-year insurrection between 1996 and 2006 that claimed an estimated 13,340 lives.¹ During this period their stated aim was to establish a peasant-led revolutionary communist regime.²

Now that they are in control of the democratically elected Constituent Assembly, Nepal's legislature, the Maoists are confronted by a number of pressing issues, including the drafting of a new constitution, mounting ethnic demands particularly with the Madhesis of the Terai region, and the need to revitalize Nepal's economy. Some have speculated that the Maoists won the election because many Nepalis viewed

NEPAL IN BRIEF

Population: 29.5 mil; *growth rate* 2.1%

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: 61

Literacy: Total 45.2%; female 27.6%; male 62.7%

Per Capita income: \$387

Unemployment: 42%

Gross Domestic Product Growth: 2.6%

GDP by Sector: Agriculture 38%, industry 20%, services 42%.

Labor by Sector: Agriculture 76%, industry 6%, services 18%.

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

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* 2007; Reuters News; U.S. Departments of Commerce and State; World Bank; Asian Development Bank; Global Insight.

¹ See Ali Riaz and Subho Basu, *Paradise Lost? State Failure in Nepal*, (New York: Lexington Books Division of Rowman and Littlefield, 2007) for historical background relating to the current political situation in Nepal.

² "Nepal Country Profile 2008," *The Economist Intelligence Unit*, 2008.

that as the best way to keep them from returning to their violent struggle for power.³ Addressing issues contributing to political instability and achieving a peaceful transition to stable democracy are viewed by observers as key to providing the basis for economic growth. The Maoists will likely focus on how to retain control of the next government as the Constituent Assembly (CA) determines its form. Uncertainty remains over how well Nepal will negotiate this political transition in the months ahead.

Some analysts have expressed concern that the Maoists could once again resort to widespread violence if they view their influence as curtailed too much by democratic political opposition. Although the Maoists have the most seats in parliament, they do not have an outright majority. This makes them to an extent reliant on smaller coalition partners. The fact that the Maoists were not able to place one of their own in the office of the president demonstrates that there are limits to their power in the current configuration of government. The Communist Party of Nepal Maoist (CPN-M) has been supported by the Communist Party of Nepal United Marxist-Leninist (CPN-UML) and the Madhesi Peoples Rights Forum (MPRF) in the CA. (See box below.) The Nepali Congress (NC) is the main opposition party. The Economist Intelligence Unit has described the CPN-M as having “established its political pre-eminence while falling short of outright dominance.”⁴ The Maoist government has received criticism in Nepal for not having made progress on drafting a new constitution.⁵

Historical Context to the Present Political Situation

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.

³ “Nepal’s Election: A Peaceful Revolution?” *International Crisis Group*, July 3, 2008.

⁴ “Nepal Country Profile 2008,” *The Economist Intelligence Unit*, 2008.

⁵ “Govt Focusing on Statute Writing,” *The Katmandu Post*, October 13, 2008.

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 system, burned land records, and redistributed seized property and food to the poor, in 45 districts.⁶ 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.⁷

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 eleventh 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, 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, 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

⁶ Aniket Alam, “Abductions, a Political Message by Maoists?” *The Hindu*, January 23, 2005.

⁷ Bertil Litner, “Nepal’s Maoists Prepare For Final Offensive,” *Jane’s Intelligence Review*, October 2002.

elections two years ahead of schedule when much of the country was under either rebel or army control.⁸

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.⁹ 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.¹⁰ The next day, the king dismissed the prime minister, disbanded his cabinet, and assumed executive powers.

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.¹¹ 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

⁸ "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.

⁹ Binaj Gurubacharya, "Nepal to Hold Elections in Stages," *Associated Press Newswire*, September 28, 2002.

¹⁰ Gopal Sharma, "Nepal Cabinet Seeks to Put Off Elections by a Year," *Reuters News*, October 3, 2002.

¹¹ Chitra Tiwari, "India Delivers Arms to Nepal," *The Washington Times*, May 14, 2005.

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.¹²

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.¹³

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.¹⁴ 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.¹⁵ The former Crown prince was unpopular with Nepalis "for his drunken antics and playboy lifestyle."¹⁶

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.¹⁷ This led to clashes between Maoists and the RNA and brought trade by road to a standstill. The army organized armed convoys which allowed limited trade to continue.¹⁸ The Maoists had earlier cut off land routes to Kathmandu in August 2004.¹⁹ During the week-long blockade in 2004, prices of some basic foods more than doubled and fuel was rationed.²⁰ 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.

¹² "US Envoy Warns Political Crisis Could Benefit Maoists," *BBC News*, May 24, 2005.

¹³ "UN High Commissioner for Human Rights Appoints Chief for Nepal Monitoring Operation," *M2 Presswire*, April 29, 2005.

¹⁴ S.D. Muni, "Thy Hand, Great Monarch!" *The Hindustan Times*, February 8, 2005.

¹⁵ *Nepal: A Country Report*, The Economist Intelligence Unit, February 2005. John Lancaster, "King Claims Absolute Authority in Nepal," *The Washington Post*, February 2, 2005.

¹⁶ Charles Haviland, "Ousted Nepal Prince Leaves Nation," *BBC News*, July 2, 2008.

¹⁷ "Maoist Blockade Creates Chaos in Nepal," *Hindustan Times*, February 22, 2005.

¹⁸ "Nepal Rebels Attack Highway Convoy," *Reuters*, February 20, 2005.

¹⁹ "Maoist Rebels Cut off Kathmandu," *ABC Radio Australia*, August 8, 2004.

²⁰ "Bombs on the Tennis Courts, No Petrol in the Pumps," *The Economist*, August 28, 2004.

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 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 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 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.²¹

²¹ "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 represents 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.²²

The current government includes President Ram Baran Yadav of the Nepali Congress Party and Prime Minister Pushpa Kamal Dahal — also known by his Maoist nom de guerre Prachanda — as head of government. The president was elected by the Constituent Assembly on July 21, 2008, while the prime minister was elected on August 18, 2008. 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. The CA is to develop a new constitution within a two-and-a-half-year time-frame during which it will also perform legislative functions.²³ Former Prime Minister and Nepali Congress leader Girija Koirala accused the Maoists of “hatching a conspiracy to end parliamentary democracy.” Koirala has stated his concern that the Maoists’ communist model of a new socialist political system represents a significant challenge to parliamentary democracy.²⁴

Key Political Parties in Nepal

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

The Nepal Army

The Nepal Army, which fought a protracted counterinsurgency war against the Maoists from 1996 to 2006, has remained largely outside politics but could become a key actor should the Maoists once again turn to violence as a means of achieving their objectives. The 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.²⁵ Some estimates place the number of former Maoist fighters in cantonment at 20,000 or more.²⁶ The Nepal Army is thought to number approximately 95,000 soldiers that are divided into six regional divisions. NC President Koirala has warned that a movement would be launched if attempts are made to integrate former Maoist fighters into the Nepal Army.²⁷ Vice

²² “Nepal Country Profile 2008,” *The Economist Intelligence Unit*, 2008.

²³ “Nepal,” National Democratic Institute, [<http://www.ndi.org>].

²⁴ “NC Prez: Maoists Targeting Democracy,” *The Katmandu Post*, September 27, 2008.

²⁵ “UNMIN Not Impartial,” *Kantipur*, October 13, 2008.

²⁶ “Prachanda’s First Interview as Nepal Prime Minister,” *BBC News*, September 3, 2008.

²⁷ “Nepal Ex-Ruling Party Warns Against Integration of Army, Maoists,” *BBC News*, (continued...)

President of the NC Ram Chandra Poudel has stated that “If the rebel army is integrated [into the regular Nepal Army] the country will once again see conflict.”²⁸

Intercommunal Strife and Regional Tension

As violence associated with the former Maoist insurgency has abated, intercommunal tensions have mounted and at times become violent. This has been particularly acute in the Terai region where the Madhesi live. An estimated 49% of the country’s population live in the Terai region. The Madhesi, or plains folk, seek autonomy to free themselves from what they feel is domination by Pahadis from the more mountainous parts of northern Nepal. The Madhesi also have closer ties to India than other regions of Nepal. Madhesi have pressed for regional autonomy for the Terai region where most Madhesi live. Other ethnic groups in the Terai have opposed this.²⁹ By some estimates there are 12 to 14 armed groups fighting a low-intensity struggle for autonomy in the region.³⁰ It has been estimated that over 200 were killed as the result of Madhesi agitation for autonomy over the past year.³¹ In September 2008, fourteen armed groups reportedly met in the neighboring Indian state of Bihar to discuss forming a unified armed movement to promote Madhesi interests.³²

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 Madhesi and command 85 seats in the CA. The new president and vice president are also Madhesi. Madhesi 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.³³ Madhesi have complained about their underrepresentation in parliament, the government, police, and army as well as economic discrimination against them.³⁴

²⁷ (...continued)

October 14, 2008.

²⁸ “Army Integration to Lead to Violence,” *BBC News*, October 3, 2008.

²⁹ “Nepal Country Report,” *The Economist Intelligence Unit*, August, 2008.

³⁰ “Bomb Blast Kills Three in Southeast Nepal,” *Reuters*, October 14, 2008 and Terai Group Sets tough terms for talks,” *The Katmandu Post*, October 13, 2008..

³¹ “Madhesi Issue Should be Resolved Through Peaceful Means,” *The Press Trust of India*, October 5, 2008.

³² “Nepal’s Armed Groups Begin unity Talks in Bihar,” *Indo-Asian News Service*, September 28, 2008.

³³ “BJP Has No Role in Terai Violence: Yashwant Sinha,” *Indo-Asian News Service*, July 25, 2007.

³⁴ “Violence in the Terai and the Madhesi Movement,” *U.S. Institute for Peace*, July 17, 2007.

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.³⁵ Nepal also suffers from widespread corruption. Nepal ranked 131 out of 180 countries in the 2008 Global Corruption Perceptions Index by Transparency International.³⁶

The U.S. State Department Country Report on Human Rights in Nepal released in March 2008 focused on events in 2007 states that

... the Maoists and its subsidiary organization, the Young Communist League, as well as members of other small, often ethnically based armed groups, committed numerous grave human rights abuses. In addition, the Madhesi, an historically disenfranchised group, staged a mass political movement, marked by frequent periods of violence.³⁷

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 by 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, beatings in detention, and unlawful threats to deport Tibetans to China.³⁸ 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."³⁹ (See below for more information on Nepal-China relations.)

³⁵ "Background Note: Nepal," *Department of State*, June 2008.

³⁶ "Zero Tolerance on Graft Must for MDGs: UN," *The Katmandu Post*, October 20, 2008.

³⁷ U.S. State Department, Bureau of Democracy, Human Rights, and Labor, Nepal Country Report on Human Rights Practices 2005, released March, 2007.

³⁸ "Nepal: Abuse Against Tibetans Protesting China's Tibet Crackdown," *Human Rights Watch*, July 24, 2008.

³⁹ "Human Rights Watch Urges Nepal to Stop Crackdown on Tibetan Protestors," *International Herald Tribune*, March 20, 2008.

The Economy

Nepal is one of the poorest countries in the world. Political instability and insurgency-related violence of recent years has undermined the country's economy. Over 76% of its inhabitants earn a living through agriculture while only 16% of the land is arable. Major crops include rice, wheat, maize, jute, sugarcane, and potatoes. 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. 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. Nearly a quarter of the national budget is externally funded through foreign aid. Real economic growth averaged 3.5% between fiscal years 2002/03 and 2005/06. Growth in 2006/07 is estimated by the Economist Intelligence Unit to be 2.6%. Remittances have increased in importance as a source of foreign exchange as tourism has depended on an uncertain political situation in recent years.⁴⁰ Nepal's key export partners include most significantly India (70%), the United States (8.9%), and Germany (4.1%).

External Relations

Relations with the United States

The United States seeks to promote democracy and civil society in Nepal and provide developmental assistance to its people. The United States became Nepal's first bilateral aid donor in January 1951 and has since contributed more than \$1 billion in bilateral development assistance to the country.⁴¹ 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

⁴⁰ "Nepal Country Profile 2008," *The Economist Intelligence Unit*, 2008.

⁴¹ *FY 2006, Congressional Budget Justification for Foreign Operations*, Department of State, released February 15, 2005.

Nepal.⁴² The United States is now presented with the situation of having to develop a relationship with a democratically elected group that it recently opposed.

The United States has been described as taking “quiet steps to reorient its policy” towards Nepal.⁴³ Prime Minister Dahal traveled to the United States in September 2008 to attend the United Nations General Assembly. During his eight-day visit in the United States he met with a number of foreign leaders, including President Bush, whom he reportedly met only briefly.⁴⁴ Dahal reportedly asked President Bush for support and assistance. Dahal also met with U.S. Assistant Secretary of State Richard Boucher and expressed his concern that his Maoist organization remained on the U.S. list of terrorist groups.⁴⁵ Deputy Assistant Secretary of State for South and Central Asian Affairs Evan Feigenbaum explained in May 2008 that while the Maoists were included on the Terrorist Exclusion List and the Specially Designated List, they were not on the Foreign Terrorist Organization (FTO) list. The FTO has a more stringent set of requirements than the other two lists. Feigenbaum added that “... the degree to which we can work with parties in Nepal will depend very directly on the degree to which they continue to embrace the political process and abandon violence.”⁴⁶ In October 2008 it was reported that while the United States would support the elected government of Nepal it would not change its policy towards the CPN-M. That said, travel bans on Maoist leaders were relaxed and a dialogue had been established with Maoists by the Fall of 2008.⁴⁷

U.S. Foreign Assistance. In recent years, U.S. attention to Nepal has focused on issues related to the past Maoist insurgency, though non-military assistance has been far greater. The United States provided former Nepali governments with light weaponry and other military assistance to help the previous government of Nepal in its former fight against the Maoists.⁴⁸ U.S. assistance to Nepal has also focused on 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.”⁴⁹ For further

⁴² “Christina Rocca Delivers Remarks at the Institute of Foreign Affairs,” *Federal Document Clearing House*, May 10, 2005.

⁴³ “Nepal’s New Political Landscape,” *International Crisis Group*, July 3, 2008.

⁴⁴ “Visit Successful,” *The Katmandu Post*, October 1, 2008.

⁴⁵ “Nepal’s Maoist PM Speaks on UN Visit,” *BBC News*, September 30, 2008.

⁴⁶ “U.S. — Nepal Relations,” U.S. Department of State, Washington, DC, May 29, 2008.

⁴⁷ “US Not to Relax Policy on Maoists,” *The Katmandu Post*, October 14, 2008.

⁴⁸ Jahn Lancaster, “King Claims Absolute Authority in Nepal,” *The Washington Post*, February 2, 2005.

⁴⁹ “Nepal,” in U.S. Department of State, South and Central Asia, Budget Justification Document, 2007.

details of U.S. assistance programs to Nepal see the U.S. Agency for International Development's website.⁵⁰

U.S. Assistance to Nepal, FY2006-FY2009

(In U.S. \$ thousands)

Account	FY2006	FY2007	FY2008 estimate	FY2009 request
CSH	18,613	18,090	19,891	13,667
DA	8,393	10,447	9,136	-
ESF	4,950	11,250	9,423	13,015
IMET	644	793	752	800
INCLE	0	0	30	10,000
NADR	0	840	1,141	700
P.L. 480 Title II	1,213	6,056	0	-
Total	33,813	47,476	40,373	38,182

Note: See CRS Report RL31362, *U.S. Foreign Aid to East and South Asia*, 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.

India

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. A significant percentage of all foreign investment in Nepal is thought to come 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.⁵¹ New Delhi has viewed Nepali instability as a potential catalyst for the destabilization of India's own troubled northeastern states.⁵² Maoist success in Nepal may also have a negative impact on India's own Maoist problem, which has increased in recent years.⁵³ It has been reported that India will support a Maoist-led government in

⁵⁰ "Nepal," U.S. Agency for International Development, May 4, 2008, [http://nepal.usaid.gov/].

⁵¹ "India Pledged to Support Nepal in Rebel Fight," *Reuters News*, August 23, 2002.

⁵² Mandavi Mehta and Nisala Rodrigo, "Nepal Update," *South Asia Monitor* 53, Center for Strategic and International Studies, December 1, 2002.

⁵³ CRS Report RL32259, *Terrorism in South Asia*, by Alan Kronstadt and Bruce Vaughn.

Nepal and that the Maoists may demand a review of Nepal's treaties with India including the 1950 Treaty of Peace and Friendship.⁵⁴

While leftists in India welcomed the electoral outcome of the April 2008 CA election, the opposition Hindu right was reportedly "seething" over the result and viewed the Indian government as "derelict of its duties [and] violative of its oath of office to safeguard the country's interests...." It is thought by some observers that much of this concern stems from a fear by some in India that China's power in the region would grow as a result of the outcome of the CA election.⁵⁵

China

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. Beijing has contributed economic aid to Nepal. Observers have noted that Nepal's stability is important to China, given that it serves as a buffer between China and India. Nepal also borders Tibet, whose spiritual leader the Dalai Lama has sought a degree of autonomy from Beijing for the Tibetan regions within China.⁵⁶ Unrest in Tibet manifested itself most recently in March 2008 through a series of demonstrations marking the 1959 failed Tibetan uprising against Chinese rule.⁵⁷ It was reported in September 2008 that China had approved RS 100 million in military assistance to Nepal during a visit to China by Nepal's Minister for Defense Ram Bahadur Thapa.⁵⁸ It appears that Nepal will continue with a one China policy and continue to take a hard line on Tibetan refugees as the CPN-M and other major parties will likely be reluctant to offend China.⁵⁹

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 an estimated 100,000 Bhutanese of Nepali background, many of whom it views as having settled in Bhutan illegally. This Nepali minority group are 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

⁵⁴ Krishna Pokharel, "Nepal's Maoists Soften Tone," *The Wall Street Journal*, May 2, 2008.

⁵⁵ "Nepal's New Political Landscape," *International Crisis Group*, July 3, 2008.

⁵⁶ Philip Pan, "China Backs Nepal Over Maoist Rebels; Move Reflects Beijing's Growing Interest in Fostering Stability, Not Revolution," *Washington Post*, July 14, 2002.

⁵⁷ See CRS Report RL34445, *Tibet: Problems, Prospects, and U.S. Policy*, by Kerry Dumbaugh for further information.

⁵⁸ Prerana Marasini, "Nepal to Get Chinese Military Aid," *The Hindu*, September 28, 2008. As of October 2008 one U.S. dollar was equal to approximately 77 Nepal rupees.

⁵⁹ "Nepal's New Political Landscape," *International Crisis Group*, July 3, 2008.

Nepalis' own culture. The program was aimed at assimilating the Lhotshampa by having them adopt the Bhutanese language Dzongkha, as well as the Bhutan's Buddhist religion and its cultural dress. This tension led to unrest in the south of Bhutan in the early 1990s. There are some 107,000 Lhotshampa in seven refugee camps in Nepal. The United States agreed to take some 60,000 of the Nepali Bhutanese refugees beginning in 2008.⁶⁰ Only about 25,000 of the Lhotshampa refugees in Nepal have thus far registered for resettlement in third countries and only 10,000 are expected to be resettled by the end of 2008.⁶¹ Some of the Lhotshampa have reportedly been denied citizenship by Bhutan.⁶²

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 peace agreement.⁶³ 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; 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.⁶⁴ UNMIN's mission has been extended until January 23, 2009, to allow for continued monitoring of former Maoist rebels and their arms. The NC has voiced its criticism of UNMIN, claiming that it has refrained from criticizing violence perpetrated by the Young Communist League and the lack of movement by the Maoists in returning private property confiscated during the Maoist insurrection.⁶⁵

⁶⁰ "Bhutan: Country Report," *The Economist Intelligence Unit*, February 2008.

⁶¹ "First of 60,000 Refugees From Bhutan Arrive in U.S.," *CNN Asia*, March 25, 2008.

⁶² "Voting on the King's Orders," *The Economist*, March 29, 2008.

⁶³ "Nepal Monitor: The National Online Journal," at [<http://www.nepalmonitor.com/2007>].

⁶⁴ "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.

⁶⁵ "UNMIN Not Impartial," *Kantipur*, October 13, 2008.

Chronology⁶⁶

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 ten-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.

⁶⁶ This chronology is drawn from "Timeline: Nepal," *BBC News*, January 16, 2007 as well as *Economist Intelligence Unit* reports and other sources.

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Figure 1. Map of Nepal



Adapted by CRS from Magellan Geographix.