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Short Term Policy Brief 67

The Changing Politics of Nepal

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Executive Summary

- China’s influence in Nepal is growing. Its investments are increasing; more Chinese tourists are visiting Nepal and more Nepalese are travelling to China for studies. However, its influence remains secondary to that of India. More important are Nepalese attempts to play a “China card” to counter Indian influence.

- China’s main point of influence would appear to be in relation to Tibetan refugees, which have declined in number in recent years. However, whether this is primarily because of Chinese pressure, or whether it reflects a Nepalese desire to garner goodwill with China is less clear-cut.

- China clearly resents Western, and particularly US, politicians visiting Nepal and criticising China. At the same time, some Nepalese are concerned that Nepal’s own interests are secondary to Nepal’s utility as a stick to beat China.

- Nepal’s politics remains in flux; neither of the main political parties wants an election to be held while their opponents control the government. The most likely path forward would be for a well-respected member of civil society to become prime minister and oversee elections though for now there is no domestic consensus on this.

- India has a much greater influence on Nepalese politics and economics. At periods during which India’s control appears to be on the wane, Indian commentators frequently focus on China’s influence.

- The EU and its Member States have less leverage over developments in Nepal than India and China. While there is goodwill towards European support for Nepal’s post-conflict development, there are concerns that focussing on the rights of specific communities may work to entrench or exacerbate divisions within the country.
In recent months Nepal’s political situation has been nebulous. The Federal Democratic Republican Alliance (FDRA) government led by the prime minister, Baburam Bhattarai, is a coalition of Maoists and parties representing Madhesis (people from the southern plains of Nepal). The constitution has lapsed and there is no elected parliament. The last election was held in 2008; the parliament converted itself into a Constituent Assembly charged with drafting a new constitution within two years. Since then Nepal has had a succession of governments. The Constituent Assembly was dissolved in May 2012.

The constitution itself remains unfinished largely because of disputes over the nature of federalism to be introduced. An election was scheduled for 22 November 2012 but this was not held: some opposition parties blamed the government for unilaterally delaying the election, but the electoral commission argued that in the absence of a constitution there were no workable provisions to enable a vote. Nepal’s political parties agreed to hold elections for a new Constituent Assembly within six months of 22 November. However, the interim constitution does not have provisions for the election of a second Constituent Assembly. This means that the president will have to amend the interim constitution.

At present, the opposition Nepali Congress (NC) and the Unified Marxist Leninist (UML) party are unwilling to agree to an election unless they are leading the government. The FDRA instead wants them to join their government, led by Bhattarai. The NC and UML believe that the FDRA’s reluctance to accept a new prime minister demonstrates that it does not intend to hold an election. The Maoists believe that if the NC’s Sushil Koirala becomes prime minister, he will not hold elections. All parties fear elections run while their opponents are in government and are fearful of public reaction following the prolonged infighting in Kathmandu. The political stalemate has impacted upon policy-making. In recent years budgets have been passed late, reducing funds for development projects. The absence of parliament also means that the judiciary is understaffed since new appointments cannot be made.

There is increased scepticism over whether a general election can be held before May 2013. The main political parties have become more blasé about breaking the president’s deadlines as more deadlines have been missed. The president’s attempts to get the parties to form a consensus government have failed. The only plausible solution appears to be some form of interim government, led by a trusted non-political individual from civil society. On 3 January Bhattarai indicated that he would stand down if a neutral government were to take over. He suggested that Daman Nath Dungana (a lawyer and former speaker of parliament) or Devendra Raj Pandy (a former civil servant and finance minister, and now civil society activist) would be suitable neutral replacements. For now the Nepali Congress and UML rejected the proposal but in time this may well be the way forward. In the longer-term, Nepalese politics is recalibrating into a leftist-grouping led by the UCPN and a centrist-grouping led by the Nepali Congress.

Over the past few years, China appears to have encouraged Nepal to take a more hard-line approach towards Tibetan refugees. The number of Tibetan refugees arriving in Dharamsala, India has fallen sharply: between 2004 and 2007 12,000 refugees arrived but between 2008 and 2011 this figure fell to just 2,500. This partly reflects restrictions inside Tibet and along the Chinese border with Nepal following the 2008 riots in Lhasa.
However, Nepal has also been accused of cracking down on Tibetan refugees. According to diplomatic cables from the US released by Wikileaks, Chinese security forces have bribed Nepalese police to return Tibetans. Some reports suggest that Chinese security forces operate on the Nepalese side of the border. Previously, under an informal agreement with the UNHCR, Nepal had allowed Tibetans to pass through Nepal en route to India. Western criticism of Nepal’s treatment of Tibetans has increased in recent years and the US has been particularly vocal on Nepal’s need to respect the rights of Tibetan refugees. However, although there have been a few well-publicised instances in which refugees have been returned, there is little concrete evidence that this reflects a coherent policy.

Nonetheless, Nepal’s attitude towards Tibetans has clearly become less welcoming in recent decades. Following the 1959 annexation of Tibet by the People’s Republic of China, Nepal welcomed Tibetan refugees (around 20,000 Tibetans currently live in Nepal). In 1989 it stopped accepting additional refugees (prompting the 1990 agreement with the UNHCR allowing transit to India). In 1998 Nepal stopped issuing “refugee identity certificates” to Tibetans, barring many Tibetans from attending school, applying for jobs or opening bank accounts. And in 2010 Nepal confiscated hundreds of ballot boxes during the election for the Tibetan prime minister in exile.

This shift clearly coincides with an increase in Chinese assistance for Nepal. In 2007 China began construction of a railway connecting Lhasa with the Nepalese border town of Khasa. In 2011 China pledged US$20m (EUR 15m) in military assistance, and in 2012, during a visit by Chinese Premier Wen Jiabao, China pledged US$119m (EUR 89m) in aid. China has promised to provide assistance in the construction of a “dry port” on the border and, in April, Nepal cleared a Chinese firm to construct a US$1.6bn (EUR 1.2bn) hydro-electric plant (see below). There are also increased numbers of Chinese tourists; namely, Chinese volunteers teaching Mandarin and Nepalese students studying in China.

In the absence of detailed evidence relating to Tibetans being repatriated to China, some commentators believe that Western criticism of Nepal risks confounding the situation. China is obviously sensitive towards the issue of Tibet; its ambassador to Nepal in 2011 said that Nepal was “turning into a playground for anti-China activities”. The postponement (from December 2011 to January 2012) of Wen Jiabao’s visit to Nepal was interpreted as a means of putting pressure on Nepal to maintain a hard line on Tibetans. China’s concerns with the issue of Tibet stem not just from concern at foreign interference in China’s domestic politics, but at an increasing recognition of Tibet’s importance as the source of many of China’s rivers.

Aside from pressurising Nepal over Tibet, China’s role in the domestic politics has been relatively restrained. Of greater relevance has been the decision by various Nepalese politicians, ranging in recent years from the former king to Maoist leader Pushpa Kamal Dahal, to play the “China card”, to counter Indian influence. Generally, China has rebuffed such manoeuvres. However, in recent years, as Nepal has become beset by political uncertainty, China appears to have attempted to deepen its understanding of, and contact with, Nepal. While this was initially focussed on combatting Tibetan expression, of late this has shifted into concerns about Nepal’s domestic political trajectory particularly in relation to the controversial issue of federalism.

According to reports, a senior Chinese official recently relayed concerns about the dangers that a federal system could pose to Nepal, stating that China would prefer a unitary Nepal. If a federal

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1 For instance, King Gyanendra turned to China for arms during the civil war after the US, UK and India refused to supply arms.
system were adopted, according to this official, it should not be ethnically based. This statement has been interpreted in several ways:

- China may be concerned at the prospect of having to engage multiple power centres along its border;
- China may fear that “ethnic” states in the north could be used as bases for Tibetan unrest;
- China may perceive that politicians from indigenous groups would be pro-Western;
- China may feel that ethnically-based federalism could increase the power of Madhesis (people that live in the Terai lowlands of Southern Nepal). China may perceive the Madhesis to be pro-Indian;
- Alternatively, the official may simply have been reflecting China’s own preference for a unitary government or indeed have been misquoted or misunderstood.

China’s intervention (whether intended or not, this is how it has been interpreted in Nepal) risks polarising Nepal between those that support unitary government and those that are opposed, most notably the Prachanda-led Maoists and marginalised social groups such as the Madhesis and Janjatis. India, meanwhile, is more sanguine about the introduction of a federal system in Nepal, given its own history of linguistic-based federalism.

Nepal has long felt the need to balance the interests of its two giant neighbours. Nepal’s unifying king described Nepal as “a yam between two boulders”. While there is currently some concern over China’s growing influence, this needs to be seen in a context within which many Nepalese believe that India has designs to take over the country or to guide its policies. Following its independence in 1947 India took over the British role of directing most of Nepal’s political and economic development. India trained Nepalese troops and Indian military personnel were stationed along Nepal’s northern border from 1951 to 1969.

While arguments that Indian intelligence agencies were involved in the royal palace massacre of 2001 may appear conspiratorial, they are widely believed in Nepal. Events such as the 1989-1990 Indian blockade of India are not forgotten (this blockade related to a dispute over transit and trade treaties, but many Nepalese believe India was irked by Nepal’s 1988 decision to purchase Chinese weapons). India also blockaded Nepal in 1962. Compared to this, many are sanguine about China’s role.

In economic relations, too, there is a clear tilt towards India. Two-thirds of Nepal’s trade is with India; just 10% with China. This reflects the close relationship between India and Nepal, as well as the easier logistics of trade with India than China. In the 1950s India helped build up Nepal’s infrastructure, including better access between India and Nepal. Under the 1950 India-Nepal Treaty of Peace and Friendship, citizens of both nations are treated equally in matters of business, jobs and property ownership. This dependence on India has made anti-Indian sentiment a basis for Nepalese nationalism. Many Nepalese work or study in India although the numbers are deeply contested. The lowest estimate of Nepalese refugees is 589,050, the figure provided by Nepal’s 2001 census. Most surveys suggest a figure in the range of 2m-3m. The highest estimates, generally given by Indian commentators, are in the field of 12m.

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2 Many development agencies have concentrated their efforts on marginalised ethnic groups. Within Nepal there is a debate over the extent to which this focus on ethnicity has worked to strengthen ethnic identities within Nepal in recent years.
At times, and notably in the mid-1990s under the “Gujral Doctrine”, India has taken steps to improve its image in its smaller neighbours, including Nepal. India is proud to have developed most of Nepal’s infrastructure in the 1950s. In part because of a perceived increase in Chinese influence, India is again reverting to a policy of “non-reciprocity”. In October 2011 India provided Nepal with a US$250m (EUR 187m) concessional line of credit for infrastructure projects. The agreement was signed in tandem with a bilateral investment promotion and protection agreement.

China and Nepal are currently negotiating a similar investment agreement. The Chinese deal goes further than the India deal, however, and seeks to protect prior investment, and to ensure full protection and security for Chinese investments. While Nepal has objected to some elements of the deal, given its need for investment it seems likely to acquiesce soon. China has also increased its development assistance and expressed an interest in developing Pokhara airport. China pledged US$750m (EUR 562m) assistance to Nepal during Wen Jiabao’s visit to Kathmandu on 14 January 2012. He also suggested that China might spend more than US$5bn (EUR 3.4bn) on infrastructure development in Nepal. Meanwhile more Chinese tourists are visiting Nepal, and more Nepalese students are being educated in China.

Chinese investments in Nepal are also growing. In February 2012 a Chinese firm, China Three Gorges International, was awarded the US$1.6bn (EUR 1.2bn) West Seti hydropower project, in the far west of Nepal. Under the agreement, Three Gorges will own 75% of the 750mw project, with the remainder owned by the Nepal Electricity Authority. The project is intended to begin in 2014 and be completed by 2019. The primary consumer will be Nepal, although any surplus may be exported to India. Nepal faces a severe power shortage and this is the largest single investment project in Nepal. However, while Chinese interest in Nepal is clearly growing, for now Indian investment remains far more substantial.

Nepal did not put the West Seti bid out to tender, leading to complaints about irregularities. Eventually, after Three Gorges threatened to pull out, a parliamentary committee approved the project. Among the changes recommended by the committee were that Three Gorges stake was diluted with a 10% stake given to local residents and a 14% stake given to domestic industrialists and other residents. The project had originally been awarded to an Australian company, Snowy Mountain Engineering Corporation in 1997. This contract was cancelled in 2011 on the grounds that the project had not started. While it is estimated to have hydropower capacity of 43,000mw, actual production is around just 650mw. Indian-run projects such as Upper Karnali and Arun III have stalled, in part because of protests by Maoist cadres.

Both India and China stress their non-interference in the internal affairs of Nepal. China has stated its interest in working with India to develop Nepal on a trilateral basis. China’s ambassador has stated that “China is also willing to work with India to jointly support Nepal to realize stability and prosperity, and promotes mutual beneficial cooperation among our three countries”. While these statements may be partly rhetorical, they also serve to undermine the image of Nepal as a hot-bed of competition between its neighbours.

While the UK and the US have some influence in Nepal, this is dwarfed by that of India and China. Nepal is a significant recipient of support from the UK’s Department for International Development (DfID). DfID has pledged £331m (EUR 400m) between 2011 and 2015. The UK has pledged to create 230,000 jobs through private-sector development, build or upgrade more than 4,200km of roads, improve sanitation for 110,000 people and help 4m Nepalese to cope better with natural disasters and the impact of climate change. The UK has also contributed US$5.7m (EUR 4.3m) to the Nepal Peace Trust Fund to implement the 2006 peace accord and support grass-root peace initiatives.

IS87 The Changing Politics of Nepal

Gareth Price
British leverage has also stemmed from the continued use of Nepalese soldiers in its Gurkha regiments.

The US government has provided more than US$1m (EUR 0.75m) to the ministry of peace and reconstruction and the UK has pledged an additional US$20m (EUR 15m) to support the Nepal Peace Trust Fund (NPTF) and the UN Peace Fund for Nepal over the next four years. (In February 2007, following the Comprehensive Peace Agreement of November 2006, the government of Nepal established the Nepal Peace Trust Fund. The following month, the UN Peace Fund for Nepal was set up to allow the UN system to support activities of relevance to the peace process. The UN Peace Fund is intended to focus on tasks that cannot be funded or implemented through existing government mechanisms and to ensure coherence between donors. Both funds share the same governance structure.)

**Governance Structure***


The US has also signed a Trade and Investment Framework Agreement with Nepal and, in September 2012, it removed the Maoists from its list of terrorist organisations. Both the US and UK have stressed the need to improve the investment climate in Nepal while the US has particularly stressed the benefits for Nepal of greater regional connectivity. However the US is also happy, by and large, for India to take the lead role in the smaller countries of South Asia.

Other donors to the NPTF include Norway, Switzerland, Finland, Denmark, Germany and the EU. In total, donors have contributed around US$50m (EUR 37.5m) to the NPTF, while the government of Nepal has contributed around US$100m (EUR 75m) to the fund which is intended to implement programmes under the 2006 Comprehensive Peace Accord. The largest item of expenditure relates to the rehabilitation of former combatants. However, of late most donors have halted disbursements to the NPTF owing to the domestic political situation. Given the disparity between...
commitments and disbursements, complex reporting of disbursements by the NPTF with overlapping accounting periods, and the tendency of donors to state their overall commitment rather than disbursements, and often combining development assistance with support for the NPTF and UN Peace Fund, it is difficult to rank overall disbursements to the NPTF. Similarly, Nepal’s finance ministry divides overall development assistance between grants and loans, and bilateral and multilateral disbursements but does not list individual donor countries/agencies.

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** Source: [http://mptf.undp.org/factsheet/fund/npf00](http://mptf.undp.org/factsheet/fund/npf00)

Indian concerns about Chinese influence in Nepal are not dissimilar to concerns about Chinese influence in Bhutan. In the case of Bhutan, India is even more influential: Bhutan’s economy has boomed on the back of hydro-electricity sales to India, from projects constructed by India. From 1949 to 2007 Bhutan agreed to be guided by the advice of India in relation to foreign policy; in the 2007 friendship treaty, this was revised so that the two countries “shall cooperate closely with each other on issues relating to their national interests. Neither government shall allow the use of its territory for activities harmful to the national security and interest of the other”.

While there was widespread Indian concern of some deepening of Bhutan’s relations with China following a meeting between the Chinese premier, Wen Jiabao, and Bhutan’s prime minister, Jigme Yoser Thinley, in mid-2012, this would only mark a slight dilution of Indian dominance over Bhutan. For now Bhutan does not even have diplomatic relations with China. It is widely believed that India scuppered Bhutan’s attempts to forge diplomatic relations in 2012. Like Nepal, Bhutan does not allow the Dalai Lama to enter.

**Policy Recommendations**

- Recognise that Nepal’s politics remains in flux; even if short-term challenges regarding constitutional issues can be surmounted, there is no consensus regarding the future trajectory of the country;
• Reports of Chinese influence in Nepal relate primarily to developments within Nepal; the greater the turmoil, the greater the focus, particularly from India and the US, on Chinese activities. The longer that Nepal remains in political turmoil, the greater is likely to be the focus on Chinese “interference”. Given that Nepalese politics are undergoing a period of realignment, this is likely to be the case.

• China’s main concern regarding Nepal relates to Tibetan refugees rather than political influence per se. Given Nepal’s recurrent attempts to use China to balance Indian influence, whatever party is in power in Kathmandu is unlikely to take steps to irk China particularly in relation to Tibetans.

• China is concerned that the issue of Tibetan refugees can be used as an entry-point for foreign (Western) intervention in its external affairs. However, the under-lying relevance of Tibet is that it is the source of most of China’s water.

• The EU and its Member States have less leverage over developments in Nepal than India and China. While there is goodwill towards European support for Nepal’s post-conflict development, there are concerns that focussing on the rights of specific communities may work to entrench or exacerbate divisions within the country.

• Increased Western “intervention” in Nepal is likely to encourage greater Chinese “intervention”. While the US government is keen for Nepal to remain in India’s sphere of influence, China resents frequent comments by US politicians visiting Nepal regarding Tibet. There is a broader concern within Nepal that the interests of Nepal are secondary to Nepal’s utility as a stick to beat China.