

ISAS Working Paper

No. 295 – 28 May 2018

Institute of South Asian Studies
National University of Singapore
29 Heng Mui Keng Terrace
#08-06 (Block B)
Singapore 119620
Tel: (65) 6516 4239 Fax: (65) 6776 7505
www.isas.nus.edu.sg
<http://southasiandiaspora.org>



Nepal in 2018: The Post-Conflict Situation and the State of Reconstruction¹

Nishchal N Pandey²

After decades of political instability, marked by low economic growth and massive unemployment, Nepal finally has a constitution and an elected majority government. Not only was the decade-long conflict devastating for the country's economy, the earthquake of 2015 ravaged whatever was left in terms of old temples, stupas and palace squares that used to attract tourists from all over the world. Much needs to be done in the country and there is sudden hope because all three tiers of the state now have elected representatives. However, the deeper malaise of nepotism, corruption and mal-functioning constitutional bodies need to be corrected before anything concrete can actually be done. Political and ethnic polarisation can also tear apart the fragile political stability, which is why the leadership needs to be accommodative and tolerant to divergent viewpoints. The road ahead offers a new chance for Nepal.

¹ The Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS), is dedicated to research on contemporary South Asia. It seeks to promote understanding of this vital region of the world, and to communicate knowledge and insights about it to policy makers, the business community, academia and civil society in Singapore and beyond. As part of this ongoing process, ISAS has launched a series of commemorative essays on each of the eight South Asian countries to coincide with their respective national days. The objective is to present a snapshot of the successes and challenges of the countries in South Asia, a sub-optimally integrated region with a globalising aspiration. This eighth essay focuses on Nepal which celebrates its Republic Day on 29 May 2018.

² Dr Nishchal N Pandey is Director of Kathmandu-based Centre for South Asian Studies and an Honorary Fellow of ISAS. He was also Executive Director of Institute of Foreign Affairs under the Ministry of Foreign Affairs of the Nepal Government. He can be reached at nina@ntc.net.np. The author bears full responsibility for the facts cited and opinions expressed in this paper.

Introduction

Nepal can be termed the oldest sovereign nation state in South Asia. Never colonised in its history, it established diplomatic relations with Great Britain when most of the countries in the region were yet to be independent. It established diplomatic relations with the United States (US) before it did with its neighbours, India and China. Nepal has been twice elected member of the United Nations Security Council. It was the first country in the region to establish diplomatic relations with Israel. Nepal's head of state was accorded the singular honour of being the first in South Asia to address a joint session of the US Congress on 28 April 1960.

After the unification of Nepal, from 22 to 24 principalities or kingdoms, by King Prithvi Narayan Shah (1723-1775 AD) and till the advent of the Rana oligarchy, Nepal followed an expansionist military policy. However, after the historic year-long visit of the Rana Prime Minister Jung Bahadur to Britain and France in 1850-51, there was a close alignment of Nepal's domestic and foreign policy with the dictates of British India. The enlistment of Gorkha soldiers in the British Army, and the fact that Nepalese soldiers fought for Britain in World War I and II under the command of the sons of the Rana Prime Minister(s), solidified Nepal-Britain relations. This ensured Nepal's territorial integrity – it remained distinct from other princely states within the British Raj – and guaranteed the Himalayan frontier as the strategic buffer with China. Post-independent India endeavoured to inherit this legacy of close relationship with the Himalayan kingdom. However, confronted with modern aspirations of democratic change, societal pressures, wide contacts with the outside world, and economic and demographic compulsions, Indo-Nepal relations fluctuated, being more sensitive to circumstances than Britain's overbearing relationship with Nepal during the colonial era.

This paper will not analyse the historical evolution of Nepal or engage in any debate on political developments since 1950 when democracy was first instituted. Democratic experiments were nipped at the bud each time they began to take root, thwarted either by internal and external causes or by mal-governance under the democratic leadership itself. Instead, this paper will focus on newer conflict risks being confronted in parallel to multiple

security challenges. It will also delve into the connectivity projects – rail, road and optical fibre links – being planned with India and China.

Seven Constitutions in Seven Decades

In the seven decades of constitutional development up to the recent federal democratic, republican constitution promulgated in 2016, Nepal has been through seven constitutional experiments. There has been a perennial struggle for the people to be granted the right to draft their own constitution – a dream they finally realised after the elections to the Second Constituent Assembly in 2016.

Nepal has had 19 prime ministers in 20 years – nine in the last 10 years. Such gross instability at the political level has had repercussions in the bureaucratic, academic, diplomatic and economic realms. After the political change of 2006-07, when the peace process with the Maoist rebels was initiated, culminating with the abrogation of the Constitution of the Kingdom of Nepal (1990), the country has entered a phase of relative peace and functioning democracy. However, there are still ethnic divisions and assertions of racial, linguistic and religious identity. Besides, there are newer militant groups, such as the Communist Party of Nepal (Maoist), led by Netra Bikram Chand (also known as Comrade Biplav), that still espouse a continuation of the people's war.

Nepal cannot build a sustainable polity and strengthen democracy without a workable constitution abided by everyone. There can be no democracy in the absence of democratic institutions. Therefore, Nepal will not have a vibrant economy or a stable democracy unless it focuses on strengthening vital institutions of the state and provides good governance. The current aim should be to stabilise the polity, build a healthy political culture and ensure that all segments of the population, primarily the Madhesi groups in southern Terai, have a buy-in into the present constitution. Only then can Nepal really give attention to reconstruction of the earthquake-ravaged infrastructure, attract foreign direct investment (FDI) and reinvigorate

the tourism industry. It is primarily due to labour disputes, power shortage, incessant *bandhs*³ and strikes, and endemic corruption at all levels that FDI is not forthcoming.

After the recently-concluded elections to all three tiers of the state, that is, central, provincial and local levels, and the implementation of a federal set-up for the first time in history, the government, led by Prime Minister K P Oli, must safeguard the nation from social, political and economic time bombs – they need to be defused soon. It was the same ills that felled the two majority governments in 1960 and 1991. They failed to remedy these ills, which led to their early demise. First and foremost, the current government needs to take concrete steps to overcome ethnic divisions and earnestly work towards greater unity in the country. Bringing the Upendra Yadav-led Federal Socialist Forum, a major Madheshi party, into the government would be a step in the right direction.

The recent merger of the CPN Maoist Centre and CPN (UML) points to political stability for Nepal. The two parties now possess high state positions such as the President, Vice-President, Prime Minister, Deputy Prime Minister and speakers of both houses of parliament, along with most of the chief ministers of the provinces. A strong leadership at the centre enables the country, still coming out of the ravages of the decade-long insurgency and equally devastating earthquake, to concentrate on economic and social progress. There are concerns, however, of how the present government, which is strong inside parliament, will deal with the issues of the conflict-era human rights violations by both sides. What will its policies be on international non-government organisations and civil society organisations, and on the freedom of expression?

The only alternative for the opposition Nepali Congress now is to form an anti-left grand alliance comprising all the centrist and rightist forces. Otherwise, its room for maneuver will diminish in the months ahead.

Second, there is a need to revitalise the state's weak institutions. Whether it is the police or the universities, embassies abroad or various government-owned corporations – and now even the judiciary – these institutions are plagued by political interference. The patronage systems of the various political parties have added to their inefficiency and fuelled nepotism

³ *Bandh* mean closure of business/operations.

and corruption. To restore the prestige of all these institutions and other high offices, the government needs to rise above petty, partisan interests and appoint high-calibre experts rather than party workers.

Third, the lack of bureaucratic support has been a major stumbling block for government-initiated reforms and programmes for the benefit of the people. This can only be corrected with a comprehensive civil service reform that only the present elected government can venture to implement.

Fourth, the snail's pace of reconstruction after the deadly 2015 earthquake has caused frustration among the people in the villages. The United Nations Educational, Scientific and Cultural organisation heritage sites that are crucial for the tourism industry are still suffering from a lack of speedy renovation while school buildings and health posts are yet to be rebuilt. Instead of just changing the Chief Executive Officer of the Nepal Reconstruction Authority, the Prime Minister has to be more hands-on and make sure that foreign assistance received for reconstruction is fully utilised.

The current Oli-led government has set ambitious targets of double-digit growth, becoming a middle-income country in five years, having two international airports in three years and a 15-bedded hospital in each of the federal units. All of these demands steadfast action and an earnest, supportive bureaucracy to turn plans into action.

Connectivity Projects with India and China

Over the years, Nepal has given importance to connectivity projects with both India and China for good reasons. Experts have stressed that road, rail and air connectivity with North India and the Tibet Autonomous Region (TAR) of China are crucial for the fast-track development of Nepal. Indo-Nepal relations have been historically close and the bilateral ties are bound by religion, culture, matrimonial ties, an open border and an inter-linked trade and transit relationship. Over 70 per cent of Nepal's trade is with India.

However, the situation is fast changing. Chinese investments in Nepal are growing at a massive rate. China's investments are, in fact, on an upward trend all over South Asia. China has overtaken India in the volume of FDI into Nepal. In the first 10 months of the current fiscal year, Chinese investments into Nepal amounted to more than three times that of India.

The scenario is also changing in the tourism sector, another major source of revenue for Nepal. In 2017, 160,832 Indian tourists visited Nepal, making up the largest group of foreigners in the country. The Chinese were not far behind, with 104,664 Chinese visiting Nepal in the same year. Their numbers have grown exponentially. In 2010, only 46,360 Chinese tourists visited Nepal. In 2013, it was already double that. Now there is a possibility that, very soon, the Chinese will be the largest group of tourists in the country.

Nepal as a Connector to North India and TAR

India and China have risen many times in their history. Each time, Nepal has benefited. As an entrepôt nation in between the two giants, Nepal has historically reaped the advantage of trading with these two civilisations. When China prospered under the Yuan and Ming dynasties, and India under the Mughal rule, Nepal also went through a golden period. Owing to this historical legacy, the Nepalese feel a resurgent India and a rising China will provide a windfall again for the country. The converse is also true. Nepal suffered in the early 20th century during the civil war, during instability in China and during the difficult times in colonial India. Nepalese towns such as Bhimfedi, Bhaktapur and Rasua felt the pinch when the flow of goods to India, in the south, and Tibet, in the north, declined because of poverty, instability and the occasional armed rebellion around the border areas. With India and China rising again, can Nepal keep its house in order, reinvigorate its economy, reconnect the damaged trade ties and thrive once more as a vibrant economy?

This is the real question for contemporary Nepal - one which has to be answered by the current leaders of the country. First, let's examine where the growth is taking place in India and China. In India, the rapidly growing cities are Gurgaon, Bangalore, Delhi and Mumbai. The growth has also been significant in the Chinese cities of Shanghai, Wuhan, Beijing and Guangzhou, lifting millions out of poverty. Indians and Chinese today enjoy prosperity,

denied to them for centuries. People from the rural areas are migrating to the megacities, causing the urban areas to expand like never before. However, none of these megacities are anywhere near Nepal. Nepal borders Eastern Uttar Pradesh, North Bihar and North Bengal. By all indices, these are the most backward areas in India today. More specifically, Nepal borders Philibit, Baharaich, Sarbasti and Balrampur in Uttar Pradesh; and East Champaran, Sitamarhi, Madhubani, Arariya and Kishanganj in Bihar. If one sees the indices in sectors such as health, education and sanitation, these places are at the rock bottom in all the parameters in the whole of India. This is because India has neglected essential services and infrastructure – roads, railways, education and health services – in the border areas with Nepal, Bangladesh, Bhutan, China and Myanmar. This is where the challenge lies and this is why better connectivity and investments in border infrastructure will be a boon not only for the Indians in these areas, but also for their neighbours. Thankfully, the current government of Yogi Adityanath in Uttar Pradesh is giving adequate priority to the development of bordering districts with Nepal.

Therefore, when one speaks of economic cooperation, the sub-regional aspect of North India, Nepal and TAR North India, Nepal and Southwest Tibet must be understood. This is the political geography one has to explore. And it is high time that India and China start concentrating on infrastructural development – improving roads, railways, education, health care – in their border districts, contiguous to not only Nepal but other countries too. Without the development of the border areas, this marvel of ‘Rising Chin-India’ will not be felt in the smaller countries of the neighbourhood.

The train from Golmud in central China already runs to Lhasa and then pushes on to Shigatse. It will be extended to the Nepal border in a few years’ time. The Indian side is also upgrading the Janakpur-Jayanagar Railway while the Seemanchal Express runs from the border town of Jogbani in Bihar to Anand Vihar station in New Delhi. This year has also seen a flurry of visits between India and Nepal. India’s Prime Minister Narendra Modi and Oli have visited each other’s countries. The two Prime Ministers have agreed to construct a new electric rail line between Raxaul in Bihar to Kathmandu, which will be financed by India. The objective, it is said, is to expand “connectivity” between the two neighbours and “enhance people-to-people linkages and promote economic growth and development”. During Modi’s pilgrimage of Janakpur where Lord Ram and Goddess Sita were married,

he also announced a Ramayana circuit, which would greatly promote religious tourism. Soon after his visit, Shankaracharya of Orissa also visited Nepal and was felicitated by Oli in Kathmandu. It seems that religious, cultural and linguistic ties that had solidified Indo-Nepal relations from ancient times are again being encouraged so as to bring the relationship back from the low ebb that was witnessed during the undeclared economic blockade of 2015-16.

During Modi's visit to Nepal, the two sides, while underlining the catalytic role of connectivity in stimulating economic growth and promoting the movement of people, agreed to take further steps to enhance the economic and physical connectivity by air, land and water.

However, it needs to be underscored that Nepal has little knowledge or experience in railways. Most Nepalese have never seen a train or travelled in one. There can be no question about what a big difference an extended railway network will make in a landlocked nation like Nepal, moving goods and people in and out of the country mostly accessible by road and air till now. However, Nepal's dearth of expertise and technical manpower, difficult terrain, poor maintenance facilities and erratic energy supply will make the railways a challenging project for both India and China, despite their long experience and technical know-how. Nevertheless, Nepal is hoping there will be synergy between Modi's dream of joining all the Buddhist and Hindu religious sites and China's President Xi Jinping's vision of a One Belt, One Road (now also called the Belt and Road Initiative [BRI]). Nepal will stand to benefit from both these initiatives.

Nepal has also just opened a new optical fibre link across the Himalayan mountains to China. Although China's BRI does not directly link with Nepal, the latter tends to benefit from the web of mega projects coming up in its immediate and extended neighbourhood. If Kenya and Nigeria can benefit from Chinese investment, and if the Chinese rail link can reach Tehran and London, why can it not come to Nepal, which has a long border with the TAR?

For all this to happen, Nepal has to focus on big infrastructure projects such as hydropower and highways, airports and railways. During Modi's visit to Nepal, the foundation stone of the 900-megawatt (MW) Arun-III hydro-electric project in Nepal was laid. It was hoped that

the operationalisation of the project would help enhance cooperation in the generation and trade of power between the two countries.

The manufacturing sector alone will not be able to move Nepalese people out of poverty. Emphasis ought to be given to tourism and hydropower, and bringing modern farming technologies to agriculture. Millions of Nepalese, both men and women, are currently working in the Gulf, Malaysia and South Korea. The elderly and the children left in the villages of Nepal cannot rebuild homes and schools destroyed during the earthquake.

Studies show that the number of migrants leaving South Asia for work is increasing every year. For instance, Malaysia is now the number one destination country for Nepalese migrants (40.9 per cent), followed by Saudi Arabia (22.9 per cent), Qatar (20.3 per cent), the United Arab Emirates (11.2 per cent) and Kuwait (2.1 per cent). These countries have become the top five destinations for Nepalese migrant workers abroad.⁴ Remittances have become a major contributing factor to increasing household income and the national gross domestic product (GDP). More than 4.76 million permits to work abroad (excluding India) were issued by the government during the 2016/17 fiscal year. That represents more than 15 per cent of the country's population. Remittances accounted for 10.9 per cent of the GDP in 2003/04 and 26.94 per cent in the current fiscal year 2016/17. The remittance flow, therefore, is a major contributor to development financing in Nepal. A Nepal National Bank study conducted in 2016 states that in the district of Dhanusha in the plains of Nepal, remittance-receiving households spent more on education and health and had better access to information than non-remittance-receiving households. There is, therefore, no doubt that remittances sent by workers have benefitted the economy, which during recessions, blockades and natural calamities, faces adverse effects from other sectors such as tourism, exports and investments. However, due to the recent spat between Qatar and some of its neighbours, there is a steady decline in the number of Nepalese workers being hired in Qatar. This trend does not augur well for the development of the country's post-earthquake and post-blockade economy.

⁴ International Labour Organisation, 2017. <http://www.ilo.org/global/research/global-reports/weso/2017/lang--en/index.htm>. Accessed on 2 May 2018.

An area where priority has to be given by the present government is the harnessing of the country's water resources. Nepal's electricity generation is dominated by hydropower. However, electricity provides only a tiny fraction of the total energy used in the country. The bulk of the energy is provided by fuel wood, agricultural waste, animal dung and imported fossil fuel. It is important to increase energy dependency on electricity with hydropower development. While it is true that hydropower projects contribute to deforestation, soil erosion, relocation of villages and increased flooding downstream in the southern plain of Nepal and neighbouring states of India every year, there is little choice for a country which, till recently, was reeling from 16 hours of power cuts during winter. Between 2005 and 2014, the peak demand for electricity more than doubled from 557MW to 1,200MW. During the same period, the annual electricity generation increased from 2,642 GWh (Gigawatt Hours) to 4,630 GWh. Of this, 3,558 GWh was produced domestically and 1,072GWh imported from India. Nepal, which possesses 83,000 MW of hydro-potential, has now become a power-importing country due to the gross politicisation of the issue of hydro-resources, political instability in the country, policy inconsistency and a lack of transmission lines. Nepal also suffers from energy vulnerability as was seen in 2015 when a border blockade led to a scarcity of fuel and cooking gas. Despite facing such acute shortages of daily essentials, Nepal has done little to ensure that the people do not have to suffer again in the future.

What the country needs is for all the political parties to work hand in hand to develop hydro-resources. There is also a need to formulate and implement plans to develop solar, bio-gas and wind energies in Nepal. Although there are many such plans and programmes on paper, there has been no concrete action on these fronts.

Conclusion

Nepal has a new Constitution. It completed three tiers of elections to the central, provincial and local bodies, and has an elected government. It is hoped that, after years of political wrangling and instability, the country will embark on a new journey of stability, progress and prosperity. However, it will not be an easy task. Fraught with various factions within each of the political parties, the politicisation of vital state organs and hard hit by the devastating earthquake of 2015, Nepal needs to gear up with a multi-pronged strategy on all fronts. It has

to root out corruption, ensure a bipartisan bureaucracy and good governance at home, build critical infrastructure and forge better ties with neighbours. Cartels with links to various powerful lobby groups and red-tapism have become another hindrance in doing business in Nepal and these have to be curbed.

A great deal will depend on how Nepal manages its new federal system. This will have an effect not only on the amount of FDI it receives, but also on its relations with its two powerful neighbours.

.