

New Government in Nepal: Challenges and Concerns

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Summary

After days of political speculations, Nepal's new prime minister, Pushpa Kamal Dahal, has managed to form a coalition government. His foremost challenge is to manage the coalition government which heavily depends on the Communist Party of Nepal-Unified Marxist Leninist and a few other smaller parties. Other than political stability, the new government has to focus on issues relating to the country's economy, foreign policy and environment.

More than a month after the elections to elect new members to the parliament and provincial assemblies, Nepal has its new prime minister, Pushpa Kamal Dahal, popularly known as Prachanda. This is Prachanda's third stint as Nepal's prime minister. In the new parliament, he has the support of 169 members, including 78 from the Communist Party of Nepal-Unified Marxist Leninist (CPN-UML), 32 from his own Communist Party of Nepal (CPN) [Maoist Centre], 20 from the Rastriya Swatantra Party (RSP), 14 from the Rastriya Prajatantra Party, 12 from the Janata Samajbadi Party, six from the Janamat Party (JP) and four from the Nagarik Unmukti Party. Prachanda is also backed by independent lawmakers, Prabhu Sah, Kiran Kumar Sah and Amresh Kumar Singh.¹ The seven parties coalition is also likely to form government in all seven provinces of Nepal.²

Voter turnout for the 20 November 2022 parliamentary and provincial elections was 61 per cent which was lower than that during the elections in 2017 when 68.67 per cent votes were polled. Even in May 2022, the local elections voter turnout was 66.86 per cent.³ One of the main reasons for the lower voter turnout, as some Nepali political analysts point out, was that the people were expecting fresh faces but many of the old candidates, who have delivered little in their constituencies, were nominated by almost all the political parties.⁴ Kamal Dev Bhattarai, a journalist working for *The Annapurna Express*, said, "[the] people are frustrated with mainstream political parties as they failed to bring political stability."⁵ Therefore, in some places, voters chose to elect fresh faces and for change. For example, the RSP, founded by Rabi (Ravi) Lamichhane in July 2022, succeeded in winning 20 seats in the federal elections. In addition, Upendra Yadav, a political heavyweight from Madhesh, lost the elections in Saptari 2. He was defeated by Chandra Kant Raut, Chairman of the JP. However, barring some ripples it created, the overall electoral results did not bring any major changes as the old leaders continued to dominate Nepal's politics.

¹ "President appoints Pushpa Kamal Dahal prime minister", *The Kathmandu Post*, 25 December 2022, <https://kathmandupost.com/national/2022/12/25/president-appoints-pushpa-kamal-dahal-prime-minister>.

² Ibid.

³ Kamal Dev Bhattarai, "Why did Nepal see low voter turnout this time?", *The Annapurna Express*, 20 November 2022, <https://theannapurnaexpress.com/news/why-did-nepal-see-low-voter-turnout-this-time-34431>.

⁴ Ibid.

⁵ Interview by the author with Kamal Dev Bhattarai.

In the face of a coalition government, this paper examines the major challenges confronting the new government under Prachanda.

Political Stability

Since the end of the centuries-old monarchy in Nepal in 2008, the country has seen 10 governments. The chief reason for the frequent change in the country's leadership is political factionalism. In 2018, after the communist parties joined hands to form a coalition government, many political observers strongly believed that the coalition would complete its five-year term. However, this did not happen. Leadership issue broke the communist alliance. The CPN (Maoist Centre) withdrew from the government, led by K P Sharma Oli, and extended its support to the Nepali Congress (NC) which formed the next coalition government in July 2021. In the recent elections in November 2022, the CPN (Maoist Centre) contested as a part of the NC-led coalition. However, after the announcement of the electoral results, the CPN (Maoist Centre) again switched sides to lead a coalition government. Notably, the NC is the largest single party with 89 members in the House of Representatives while the CPN (Maoist Centre) only has 32 members. Given the past political equations between Prachanda and Oli, a question on political stability remains.

The Economy

Nepal has achieved a growth averaging 4.9 per cent over the financial years (FY) 2009-2019. The COVID-19 pandemic years saw the first economic contraction in Nepal in the last 30 years. However, the economy recovered in FY2022 with strong growth in domestic demand for consumption and investment. The World Bank forecasts a moderate growth of 5.1 per cent in FY2023 and 4.9 per cent in FY2024. The fiscal deficit is projected to fall from 3.4 per cent of gross domestic product (GDP) in FY2023 to 2.4 per cent in FY2024.⁶ However, the high inflation rate has made the lives of Nepalis tough. Just before the national and provincial elections, Nepal's inflation rate surged to 8.64 per cent in September 2022. The inflation rate is largely driven by high prices of food and fuel.⁷ The *Inflation Expectations Survey* for the first quarter of 2022-23, published by Nepal Rastra Bank, the country's central bank, reported that the inflation is expected to hit 12 per cent within a year.⁸

Unemployment is another problem faced by Nepal. It has 63.7 per cent of its local population below the age of 30 years. According to a report by the International Labour Organisation, the unemployment rate for Nepali youths aged 15-29 is 19.2 per cent, compared to 2.7 per cent for the whole population. Over 400,000 young people are

⁶ The World Bank, 7 October 2022, <https://www.worldbank.org/en/country/nepal/overview>.

⁷ Gopal Sharma, "Nepal Inflation Surges to 8.64 % ahead of elections", *Reuters*, 21 October 2022, <https://www.reuters.com/world/asia-pacific/nepal-inflation-surges-864-ahead-elections-2022-10-21/>.

⁸ "Inflation expected to stand at 12 percent within one year, NRB's survey shows", *The Kathmandu Post*, 4 December 2022, <https://kathmandupost.com/national/2022/12/04/inflation-expected-to-stand-at-12-percent-within-one-year-nrb-s-survey-shows>.

estimated to enter the labour force every year.⁹ Unemployment and high inflation rate are forcing many young Nepalis to seek jobs in other countries. In the FY2021-22, an average of 1,745 people left Nepal every day to seek employment abroad. It is estimated that the number will increase to 2,546 persons leaving Nepal each day in the current fiscal year.¹⁰ South Korea has agreed to allow an additional 40,000 jobs for Nepali workers in 2023.¹¹

Foreign Policy and Relations with Foreign Powers

Nepal has tried to balance its relationships with its two proximate neighbours and Asian powers – India and China. Nevertheless, the country's leadership has been categorised by many as either "pro-India" and "pro-China", depending on which leader and party are in power. Such categorisation is mainly based on the political ideology of the leader and party. For example, the NC is tagged as "pro-India" while the communist parties are regarded as "pro-China". Despite some ideological differences, all political parties have almost similar stance on country's relationships with India and China. For instance, in its election manifesto, the NC stated that it will adopt diplomatic means to resolve boundary issues with India and maintain good relations with both New Delhi and Beijing.¹² During the elections campaign, Oli had been a bit tough on boundary issues with India, while sharing similar thoughts on the need for good relations with both India and China. Addressing the voters in Darchula district, Oli said, "we will bring back land, including Kalapani, Lipulek and Limpiyadhura".¹³ He added, "we will not spare even an inch of our land".¹⁴ On relations with India and China, Oli posited that if voted into power, he will balance the country's ties with both countries for mutual benefit.¹⁵

Besides India and China, the United States (US) has emerged as an important actor in Nepal's domestic politics and foreign affairs. The Millennium Challenge Corporation (MCC) Nepal Compact and the State Partnership Programme (SPP) have brought Kathmandu very close to Washington. Under the MCC, the American government has agreed to provide US\$500 million (\$674 million) in grants, while Nepal will contribute US\$130 million (\$175 million) for projects that prioritise energy and roadways. Opponents of the MCC accused it of being a part of the US' "grand design" to pull Nepal to its side to counter China's Belt and

⁹ "Country data and ILO results" <https://www.ilo.org/kathmandu/areasofwork/employment-promotion/lang--en/index.htm>. Hritika Sharma, "Youth Unemployment: A serious problem in Nepal", *Nepal News*, 21 July 2022, <https://nepalnews.com/s/issues/youth-unemployment-a-serious-problem-in-nepal>.

¹⁰ Arjun Poudel "High inflation and unemployment are forcing youths to seek foreign jobs", *The Kathmandu Post*, 21 November 2022, <https://kathmandupost.com/national/2022/11/21/high-inflation-and-unemployment-are-forcing-youths-to-seek-foreign-jobs>.

¹¹ "South Korea to recruit 40,000 Nepali workers in 2023", *The Annapurna Express*, 19 December 2022, <https://theannapurnaexpress.com/news/south-korea-to-recruit-40000-nepali-workers-in-2023-35753>.

¹² "Nepali Congressko Sankalp Pratinidhi Sabha R Pradeshsabha Nirvachan 2079", *Nepali Congress*, <https://www.nepalicongress.org/single/press-release/nepali-congress-election-manifesto-2079-hor-and-province-assembly-election>.

¹³ "'We will bring back land, including Kalapani': Nepal's Ex PM's Big Claim", *NDTV*, 4 November 2022, <https://www.ndtv.com/world-news/will-bring-back-land-including-kalapani-nepal-ex-pm-kp-sharma-olis-big-claim-3491832>.

¹⁴ Ibid

¹⁵ Gopal Sharma, "Nepal's Oli vows to balanced ties with China , India if returned to power", *Reuters*, 4 November 2022, <https://www.reuters.com/world/asia-pacific/nepals-oli-vows-balanced-ties-with-china-india-if-retained-power-2022-11-04/>.

Road Initiative. After a long debate, Nepal's parliament ratified the MCC in early 2022. Washington accepted Kathmandu in the SPP, an exchange programme between the US National Guard and a partner country, after Kathmandu applied twice in 2015 and 2017. In 2022, the SPP debate received traction after a visit by the Commanding General of the US Army Pacific, Charles A Flynn. Under pressure from the opposition and some members of his own party, Sher Bahadur Deuba's government terminated Nepal's partnership with the SPP.¹⁶

Environmental Concerns

Nepal is a "climate risk" country. According to the World Bank and the Asian Development Bank's publication on *Climate Risk Country Profile*, by 2030, around 199,000 Nepalis may be affected by floods. At that time, the annual impact of floods on the country's GDP may be around US\$574 million (S\$769.5 million).¹⁷ Simultaneously, there may be an increase in the number of droughts in Nepal. The climate change and its impacts will severely affect the poor, those living in the remote regions of the country and people engaged in subsistence agriculture. Important adaptation approaches such as new irrigation methods, water storage and the use of high yielding and new varieties of seeds, as the report suggests, may be inaccessible to poor Nepalis. In such a situation, without sufficient support from the state and civil society groups, many poor people may be pushed into grim poverty condition.

Despite such reports and effects, the Nepali government has hardly restrained itself from taking decisions on projects involving serious damage to forest areas. A recent example is the government's decision to build an airport at Nijgadh, 175 kilometres south of Kathmandu.¹⁸ According to an environmental and social impact assessment carried out by Nepal's tourism ministry in February 2017, about 2.4 million small and large trees had to be felled for the construction of the airport. The matter went to the Supreme Court of Nepal which quashed the decision taken by the government.¹⁹ An expert's group was then formed by the government in August 2022, in pursuant to the Supreme Court's order to study the project. The expert's group recommended abandoning the "airport city" concept, to declare around 9,000 hectares as protected zone and to use only about 4,000 hectares area for the airport.²⁰

Paradoxically, the NC-led government demonstrated its concerns on environmental issues and signed a "concessional financing agreement" worth of US\$100 million (S\$1.376 million)

¹⁶ "Nepal government decides not to move ahead with US government's State Partnership Program", *The Kathmandu Post*, 20 June 2022, <https://kathmandupost.com/national/2022/06/20/nepal-government-decides-not-to-move-ahead-with-us-government-s-state-partnership-program>.

¹⁷ "Climate risk country profile: Nepal", World Bank Group and Asian Development Bank, 2021, p. 13,

¹⁸ "Proposed Nijgadh Int'l Airport to be built with gov investment: DG Adhikari", *MyRepublica*, 21 September 2022, <https://myrepublica.nagariknetwork.com/news/proposed-nijgadh-int-l-airport-to-be-built-with-gov-investment-dg-adhikari/>.

¹⁹ Sangam Prasain and Tika R Pradhan, "Supreme Court says no to Nijgadh airport over environmental concerns", *The Kathmandu Post*, 27 May 2022, <https://kathmandupost.com/money/2022/05/27/supreme-court-says-no-to-nijgadh-airport-over-environmental-concerns>.

²⁰ "Nijgadh is appropriate for building international airport, says experts' group", *The Himalayan*, 18 September 2022, <https://thehimalayantimes.com/nepal/nijgadh-is-appropriate-for-building-international-airport-says-experts-group>.

with the World Bank to support “Green, Resilient, and Inclusive Development” in August 2022.²¹ This agreement has been opposed by many Nepali activists who argue that the country should receive climate finance instead of loans given its minimum contribution to global emission.²²

The NC, CPN-UML and CPN (Maoist Centre) have mentioned climate issues in their election manifestos. The NC talked about making Nepal a net-zero emission country by 2045. This is a global commitment already made by Nepal.²³ The CPN (UML) and CPN (Maoist Centre)’s manifestos talk about environmental protection. The RSP’s manifesto mentioned zero tax on electric vehicle and support for research to find alternatives to plastic.²⁴

Conclusion

The fate of the current Prachanda-led government depends on how deftly and cleverly he manages to keep his coalition partners together. The toughest person to manage will be Oli. The two comrades have many ups and downs in their political relationships. They have a similar political desire to lead Nepal. On policy related matters, as Prachanda is a tested political leader, it is less likely for observers to witness any drastic change under his premiership.

At present, the country’s economy needs attention. Rising rates of inflation and unemployment demand the government to take effective steps. On foreign policy, Prachanda is likely to be tagged as a “pro-China” leader²⁵ but he will not upset India or the US on any issues. Under his leadership, Nepal will certainly try to balance foreign affairs to secure its interests. Unfortunately, the issue of the environment has never ranked high in the Nepal government’s priority list. However, the growing economic impact of climate change and environmental deterioration need some serious attention. Climate change is also affecting the livelihood of the people and forcing some of them to migrate from their home place,²⁶ adding to the “burden” of the host territories within Nepal as well as across the border. One has to wait and see what steps the new Prachanda-led government takes to

²¹ “Nepal and World Bank Sign \$100 Million Financing Agreement to Support Nepal’s Green, Resilient, and Inclusive Development”, *The World Bank*, 29 August 2022, <https://www.worldbank.org/en/news/press-release/2022/08/29/nepal-and-world-bank-sign-100-million-financing-agreement-to-support-nepal-s-green-resilient-and-inclusive-development>.

²² Diwakar Pyakurel, “Why environmentalists in Nepal are protesting against a ‘climate loan’ from the World Bank”, *Scroll.in*, 11 November 2022, <https://scroll.in/article/1037022/why-environmentalists-in-nepal-are-protesting-against-a-climate-loan-from-the-world-bank>.

²³ Anushka Nepal, “Where does climate change figure in manifestos”, *The Annapurna Express*, 11 November 2022, <https://theannapurnaexpress.com/news/where-does-climate-change-figure-in-manifestos-33987>.

²⁴ Ibid.

²⁵ Shirish B Pradhan, “‘Pro-China’ Prachanda returns as Nepal PM for 3rd time”, *Rediff.com*, 25 December 2022, <https://www.rediff.com/news/report/prachanda-returns-as-nepal-pm-for-3rd-time-with-olis-support/20221225.htm>.

²⁶ See Deepak Dorje Tamang and Pranita Bhushan Udas (2022), “Climate change, gendered vulnerabilities and resilience in high mountain communities: the case of Upper Rasuwa in Gandaki River Basin, Hindu Kush Himalayas”, in Asha Hans, Nitya Rao, Anjal Prakash and Amrita Patel (edited), *Engendering Climate Change: Learnings From South Asia*, Oxon & New York: Routledge, pp. 106-124.

protect Nepal's environment. The new government certainly has much to deal with in addressing Nepal's challenges.

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