



A New Coalition in Nepal: Implications for Domestic and Foreign Policies

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Summary

In the last one year, Nepal has had three coalition governments. Under the current coalition, comprising the Communist Party of Nepal (Maoist Centre), the Communist Party of Nepal- Unified Marxist Leninists and several fringe parties, the current command of the government remains with Prime Minister Pushpa Kamal Dahal. The two large partners had an uneasy coalition in the past. Therefore, the question of their future remains pertinent.

Introduction

On 4 March 2024, Nepal's Prime Minister Pushpa Kamal Dahal left his key coalition partner Nepali Congress (NC) and decided to align again with the second largest party, the Communist Party of Nepal- Unified Marxist Leninist (CPN-UML), and several fringe parties to form a new coalition.¹ Dahal's Communist Party of Nepal (Maoist Centre) [CPN (Maoist Centre)] only has 32 seats in the 275 House of Representatives, while the NC and the CPN-UML have 88 and 78 seats respectively. The communist parties dominate the new coalition. Out of five alliance partners, three – the CPN (Maoist Centre), the CPN-UML and the CPN (Unified Socialist) – share different brands of communism. The other two alliance partners – the Rastriya Swatantra Party (RSP), led by Rabi Lamichhane, and the Janata Samajbadi Party (JSP) – do not have clear ideological foundations.

The left-dominated new coalition government is likely to have implications for Nepal's domestic and foreign policies. The political reconciliation between Dahal and CPN-UML Chairman K P Sharma Oli has surprised many as the two leaders shared bad blood, mainly after the dissolution of the House of Representatives in 2022 and the subsequent split of the Nepal Communist Party (NCP).² Since then, the NC and the Maoists, including other fringe parties, started the campaign of alienating Oli through the electoral alliance. The two parties formed a coalition government after the 2022 national elections, but parted ways over the issue of the presidential candidate and ended their political ties after the presidential election in March 2023.

¹ Kamal Dev Bhattarai, "Why did Nepal's prime minister suddenly change his coalition partners?", *The Wire*, 7 March 2024, <https://thewire.in/south-asia/explainer-why-did-nepals-prime-minister-suddenly-change-his-coalition-partners>.

² "Oli takes a jibe against government on various foreign policy matters", *The Kathmandu Post*, 23 August 2023, <https://kathmandupost.com/politics/2023/08/06/oli-takes-a-jibe-against-government-on-various-foreign-policy-matters>.

Why did Dahal Break the Coalition?

Over the past few months, the Dahal-led government has become unpopular as it has failed to improve service delivery, recover the country's economy and create jobs for the youths.³ Political differences between the CPN (Maoist Centre) and the NC were visible. Both sides accused each other of breaking the coalition government. The CPN (Maoist Centre) held the NC and its ministers responsible for not cooperating and creating obstacles for Dahal to bring good governance and revive the country's economy.⁴ Dahal and then-Finance Minister Prakash Sharan Mahat were on a collision course over the past few months.⁵ Mahat had confessed that there were some differences between him and Dahal over the mobilisation of the country's resources.⁶ Mahat is also accused of rejecting some proposals proposed by Dahal, for instance, providing allowances to the former Maoist combatants and projects proposed by Dahal for his home constituency, Gorkha-2.⁷ It is believed that Dahal also proposed dismissing some non-performing ministers from his cabinet to run the government comfortably, but the NC's President Sher Bahadur Deuba did not agree to it.⁸

Besides differences within the coalition government, ideological problems between the unnatural partners cropped up. Dahal claimed that NC Mahasamiti, the highest decision-making body, shed bad light on the Maoist insurgency. The Mahasamiti meeting concluded in the third week of December 2023, and the proposal presented by leaders was endorsed.⁹ The Maoist leaders were of the view that the two parties could not go together if one coalition partner deplores the Maoist insurgency and raises questions about its relevance. In the Mahasamiti meeting, the General Secretary of the Party, Gagan Kumar Thapa, proposed that the party will not forge electoral pre-poll alliances with any parties.¹⁰ Moreover, in the Mahasamiti meeting, out of 22,000 representatives from across the country, 1,063 representatives signed in favour of the revival of the Hindu state, which alarmed the Maoist party, a strong advocate of the current political system.¹¹

The NC leaders, however, disagree with the claims made by Dahal and his party members. The NC's chief whip, Ramesh Lekhak, said that his party had always remained honest and

³ "Prime Minister Dahal admits government failed to deliver as per the expectation", *The Kathmandu Post*, 1 March 2024, <https://kathmandupost.com/politics/2024/03/01/prime-minister-dahal-admits-government-failed-to-deliver-as-per-expectations>.

⁴ Kamal Dev Bhattarai, "Factors that led Dahal to ditch alliance with NC", *The Annapurna Express*, 5 March 2024, <https://theannapurnaexpress.com/story/47806/>.

⁵ Ibid.

⁶ "Ex-FinMin Mahat challenged to prove allegation of PM Dahal attempting to distribute money arbitrarily", *My Republica*, 13 March 2024, <https://myrepublica.nagariknetwork.com/news/ex-finmin-mahat-challenged-to-prove-allegation-of-pm-dahal-attempting-to-distribute-money-arbitrarily/>.

⁷ Ibid.

⁸ "PM Dahal to drop underperforming ministers", *The Himalaya Times*, 24 December 2023, <https://thehimalayantimes.com/kathmandu/pm-dahal-to-drop-underperforming-ministers>.

⁹ "After Mahasamiti, Congress still unclear on election alliances", *The Kathmandu Post*, 23 February 2024, <https://kathmandupost.com/politics/2024/02/23/after-mahasamiti-congress-still-unclear-on-election-alliances>.

¹⁰ Anil Giri, "Thapa's proposal against poll alliance gets Deuba's nod", *The Kathmandu Post*, 20 February 2024, <https://kathmandupost.com/politics/2024/02/20/thapa-s-proposal-against-poll-alliances-gets-deuba-s-nod>

¹¹ "1063 members sign proposal of Hindu state in the NC policy making conclave", *The Rising Nepal*, 22 February 2024, <https://risingnepaldaily.com/news/39263>.

committed to the coalition and had also followed the coalition pact. He added that in the past, the NC had formed alliances incorporating various parties to protect the constitution and consolidate the democratic system in the country.¹²

Although denied by the communist parties, speculations are rife over China's role in bringing the communist parties together. For the past few years, China has been openly advocating a united communist party and government in Kathmandu.¹³ Some leaders from the NC and other parties have accused Beijing of working hard to bring them together. C K Raut, Chairman of the Janamat Party, said, "The government was changed in Kathmandu under the influence of China and its ambitious Belt and Road Initiative [BRI]".¹⁴ He added, "The ideological polarisation in Kathmandu has begun. The government change is linked with the power centre, whose interest is linked to the BRI. Fundamentally, the formation of the new government in Kathmandu is part of an ideological polarisation."¹⁵ In reaction to such accusations, CPN-UML head, Oli said, "I hear things like China is behind the government change, the Chinese are coming in a big way, China has penetrated Nepal. We should not be talking like that."¹⁶ On the issue of the BRI, the NC spokesperson, Mahat, has now accused Dahal of creating obstruction.¹⁷

Future of the New Coalition

After the new coalition came into power, two pertinent questions hung: will the new coalition survive for long, and will the new alliance deliver?

Will the New Coalition Survive for Long?

Given the uneasy relations between Dahal and Oli in the past, a question mark hangs on the future of the new coalition government. In 2018, two parties – the CPN (Maoist) and the UML – merged to form a new party, the NCP, but that broke up in 2020 following the power tussles between Dahal, Oli and Madhav Kumar Nepal. Given past experiences, it is hard for the three parties to come together again.

The three communist parties of the coalition are talking about the revival of the left alliance. Dahal has said that the current coalition is the beginning of the formation of the left alliance. However, the UML leaders are not too optimistic and call it a ruling coalition.¹⁸ It is widely believed that the other two parties in the current coalition (the RSP and the JSP)

¹² "PM broke coalition the coalition unilaterally", *The Himalayan Times*, 7 March 2024, <https://thehimalayantimes.com/kathmandu/pm-broke-the-coalition-unilaterally-nepali-congress>.

¹³ Anil Giri, "Communist Unity Top of Agenda as Chinese Flock to Nepal", *The Kathmandu Post*, 19 January 2023, <https://kathmandupost.com/politics/2024/01/19/communist-unity-top-on-agenda-as-chinese-flock-to-nepal>.

¹⁴ "China had no role in change of ruling coalition, UML chief Oli clarifies", *The Kathmandu Post*, 13 March 2024, <https://kathmandupost.com/national/2024/03/13/china-had-no-role-in-change-of-ruling-coalition-uml-chief-oli-clarifies>.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ "An initiative of communist unity has begun", *The Annapurna Express*, 4 March 2024, <https://theannapurnaexpress.com/story/47795/>.

could leave the government at any point due to their differences with Dahal.¹⁹ Cracks are also visible in left unity.²⁰ It has been more than one month since the formation of the new coalition and there are reports of ongoing talks about the possibility of the NC and the CPN-UML coming together to form a stable government for at least the next four years.²¹

Will the New Alliance Deliver?

The five-party alliance has come up with *Sajha Sankalpa* (Common Minimum Programme [CMP]), a political ritual any coalition government adopts. The major points of the new documents are ending the economic recession; resolving the problems faced by financial institutions; implementing federalism and improving public institutions; ensuring governance and effective service delivery; creating jobs and encouraging domestic products for consumption; focusing on education, health and social security; constructing physical infrastructures; energy development, information and communication; climate change, land management; women empowerment and inclusion; transitional justice and durable peace process; and independent and non-align foreign policy.²²

One of the major challenges before the new coalition is improving the country's economic situation. The World Bank, the Asian Development Bank (ADB) and the International Monetary Fund project that Nepal's economy will grow this year. However, the continuous plunge in imports and exports has become a worry for policymakers.²³ The ADB Outlook anticipates Nepal's economy to grow by 3.6 per cent (at market prices) in the current fiscal year, up from an estimated growth of 1.9 per cent in the fiscal year 2023.²⁴ Despite the positive indications, expansion in the service sector, taming inflation and the challenges of job creation remain a Herculean task for the government. Due to the lack of jobs at home, it is estimated that approximately 3,000 Nepalis are leaving the country every day.²⁵ The current economic situation in Nepal is causing increasing resentment in the country.

On 28 and 29 April 2024, the third Nepal Investment Summit was held in Kathmandu. Addressing the inaugural session of the summit, Dahal said:

“Our skilled workforce and low labor costs presents an attractive proposition for international investors...With over 60 per cent of Nepal's population falling within the working-age group and a rapidly expanding middle-class population shows the immense potential for consumer driven growth...Nepal provides a number of investment opportunities across diverse sectors,

¹⁹ Ritu Raj Subedi, “Coalition Unity under the strain?”, *The Rising Nepal*, 21 April 2024, <https://risingnepaldaily.com/news/41859>.

²⁰ Ibid.

²¹ Kamal Dev Bhattarai, “Will NC and UML form a new alliance?”, *The Annapurna Express*, 9 April 2024, <https://theannapurnaexpress.com/story/48307/>.

²² “Panch Dal ko Sajha Sankalpa”, 2080 BS (2024), <https://www.opmcm.gov.np/wp-content/uplod>.

²³ The World Bank, “Nepal Development Update”, April 2024, <https://www.worldbank.org/en/country/nepal/publication/nepaldevelopmentupdate>.

²⁴ “ADB, projects Nepal's economy to grow by 3.6 percent in fiscal year 2024\25”, *The Annapurna Express*, 11 April 2024, <https://theannapurnaexpress.com/story/48356/#>.

²⁵ “About 3,000 youths leave country every day”, *MyRepublica*, 8 December 2022, <https://myrepublica.nagariknetwork.com/news/about-3000-youths-go-abroad-every-day/>.

including tourism, agriculture, manufacturing, ICT, infrastructure development, garments and high value crops, including agro-processing to mention a few...Nepal's strategic location, situated between emerging markets India and China, signifies it as an ideal investment destination."²⁶

In that summit, 12 memorandums of understanding were inked between Nepal and foreign investors. Investments worth more than nine billion Nepali Rupees (S\$91.1 million) were approved for four projects in Nepal.²⁷ Altogether, 152 projects were showcased during the summit, which was attended by investors from around four dozen countries, including India, China, Japan, the United Kingdom, the United States (US), the United Arab Emirates and Germany.²⁸

Beijing announced exempting visa fees for Nepali travellers from 1 May 2024 and launching commercial flights to two new international airports in Nepal-Pokhara and Lumbini. Luo Zhaohui, Chairman of China International Development Cooperation Agency, said the Chinese government gives great importance to direct and indirect investment in Nepal to implement the Trans-Himalaya dimensional connectivity. He added that Chinese entrepreneurs are interested in having a bilateral free trade agreement between the two countries.²⁹

India's Ambassador to Nepal, Naveen Srivastava, said that India is currently the biggest cumulative foreign direct investment (FDI) investor in Nepal, with more than 33 per cent of Nepal's FDI stock. He stated:

"This investment trend continues its positive trajectory, and in recent times, we've seen new investments coming in sectors such as construction, automobiles, or FMCG [fast-moving consumer goods]. This is apart from the huge investment that India and Indian companies are making in the hydropower sector. As we look to the future, the government of India will continue to encourage Indian industry to invest further in Nepal."³⁰

Though the country has attracted investments, many international investors often hesitate to invest in Nepal due to the political instability and implementation problems. It is believed that to attract investment and implement investment-related commitments, the

²⁶ "Address by Rt. Hon'ble Pushpa Kamal Dahal 'Prachanda', Prime Minister of Nepal at the Inaugural Session of the Nepal Investment Summit 2024", Office of the Prime Minister and Council of Ministers, 28 April 2024, <https://www.opmcm.gov.np/en/address-by-rt-honble-pushpa-kamal-dahal-prachanda-prime-minister-of-nepal-at-the-inaugural-session-of-the-nepal-investment-summit-2024/>.

²⁷ "Nepal Investment Summit concludes; funding worth NRs 9 billion approved", *Business Standard*, 29 April 2024, https://www.business-standard.com/world-news/nepal-investment-summit-concludes-funding-worth-nrs-9-billion-approved-124042901233_1.html.

²⁸ Ibid.

²⁹ Sangam Prasain, "Neighbours India and China make tall promises at Nepal Investment Summit", *The Kathmandu Post*, 29 April 2024, <https://kathmandupost.com/money/2024/04/29/neighbours-india-and-china-make-tall-promises-at-nepal-investment-summit>.

³⁰ Ibid.

government has to amend more than 12 laws.³¹ Effective service delivery also remains a challenge. However, during his inaugural address at the summit, Dahal said:

“We are strongly committed to carry out continuous reforms to facilitate the investors, industrialists, innovators and easing of doing businesses. In this context, the Government of Nepal has recently amended eight different laws governing business and investment regime. I believe, this boosts the investors’ confidence to invest in Nepal.”³²

The New Coalition and Foreign Policy

Among others, the new coalition has outlined its foreign policy priorities, albeit most of the points are vague and do not offer any clear guidelines for the government. However, the Maoists and CPN-UML converge on foreign policy issues more than the Maoists and the NC. The CMP has pledged to adopt an independent and non-aligned foreign policy based on the United Nations Charter and *Panchsheel*.³³

China was the first country to react to forming of the new coalition in Kathmandu. On 5 March 2024, Chinese Foreign Ministry spokesperson, Mao Ning, said, “We would like to work with the new government to uphold the five principles of peaceful coexistence, deepen our traditional friendship, strengthen practical cooperation, advance the China-Nepal strategic partnership of cooperation featuring ever-lasting friendship for development and prosperity and deliver more benefits to the peoples of the two countries.”³⁴ Subsequently, newly-appointed Deputy Prime Minister and Minister for Foreign Affairs Narayan Kaji Shrestha visited Beijing and Tibet, where he held talks with his Chinese counterpart Wang Yi and other high-level Chinese Communist Party officials.³⁵

Earlier, after the elections in Taiwan in January 2024, addressing an event organised by the Chinese Embassy in Kathmandu, Dahal reiterated Nepal’s ‘One China Policy’ while opposing the liberation of Taipei. He said, “Our commitment is strong, unequivocal, straightforward, and unshakable. The change in domestic and external situations has not influenced or affected this principled position of Nepal. Nepal recognises China as the sole legal government representing the whole of China, and Taiwan is an inalienable part of China’s territory.”³⁶

³¹ “Taskforce for amending dozen laws before the investment summit”, *The Annapurna Express*, 7 February 2024.

³² “Address by Rt. Hon’ble Pushpa Kamal Dahal ‘Prachanda’, Prime Minister of Nepal at the Inaugural Session of the Nepal Investment Summit 2024”, op cit.

³³ The Panchsheel Agreement, otherwise known as the Five Principles of Coexistence, is a set of principles to govern relations between states. They were first codified during an agreement between India and China in 1954, “Panch Dal ko Sajha Sankalpa”, 2080 BS (2024), <https://www.opmcm.gov.np/wp-content/uplod>

³⁴ Ibid.

³⁵ Anil Giri, “Deputy PM Shrestha says he proposed new corridors to China”, *The Kathmandu Post*, 1 April 2024, <https://kathmandupost.com/national/2024/04/01/china-willing-to-reopen-14-trade-routes-says-dpm-shrestha>.

³⁶ “Nepal PM Dahal reiterates ‘One China Policy’ after recent Taiwan polls”, *Business Standard*, 14 January 2024, https://www.business-standard.com/world-news/nepal-pm-dahal-reiterates-one-china-policy-after-recent-taiwan-polls-124011400579_1.html.

After the formation of the new government, Srivastava met and congratulated Shrestha. Soon after, on 3 May 2024, Nepal announced the printing of a new Nepali Rupee 100 currency note which displays a map showing Lipulekh, Limpiyadhura and Kalapani. India had earlier termed Nepal's territorial claims "artificial enlargement" and "untenable". On this matter, Indian External Affairs Minister S. Jaishankar said, "...With Nepal, we were having discussions about our boundary matters through an established platform. And then in the middle of that, they unilaterally took some measures on their side. But by doing something on their side, they are not going to change the situation between us or the reality on the ground".³⁷

The coalition government has not mentioned the relationship with the US and other powers as yet. However, the coalition government is seeking increasing investment from the US and other Western countries.³⁸

Conclusion

The stability of the present government depends on how Dahal handles the country's economic situation, deals with the service delivery system and effectively controls the growing activities of the right-wing forces. The pro-monarchist party Rastriya Prajatantra Party has mainly been hitting the streets demanding the restoration of the Hindu state and monarchy.³⁹

On the foreign policy front, prioritising foreign investment to speed up economic growth and create jobs will help the Dahal government extend its support base. It will also help Nepal to address some of its economic problems. It is also critical for Nepal to deal with all the major powers to secure its interests, avoiding any powerful government's strategic and military purpose.

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³⁷ "Nepal's unilateral actions will not change ground reality: Jaishankar", *The Hindu*, 4 May 2024, <https://www.thehindu.com/news/international/rs-100-nepal-currency-note-to-have-new-map-that-includes-lipulekh-limpiyadhura-and-kalapani/article68139191.ece>.

³⁸ "Finance Minister draws US investors' attention to Nepal" *Nepalnews*, 17 April 2024, <https://www.nepalnews.com/s/business/finance-minister-draws-us-investors-attention-to-nepal>.

³⁹ "Rastriya Prajatantra Party submits demand for Hindu state reinstatement", *The Kathmandu Post*, 22 February 2024, <https://kathmandupost.com/politics/2024/02/22/rastriya-prajatantra-party-submits-demand-for-hindu-state-reinstatement>.