



# IPCS

INSTITUTE OF PEACE AND CONFLICT STUDIES

IPCS Forecasts

## Nepal in 2015

Constituent Assembly | Political Consensus | Nepal-India-China Triangle |  
Federalism Debate |

**Pramod Jaiswal**

IPCS Special Report # 169  
January 2015





About the Author

**Pramod Jaiswal**

Pramod Jaiswal is a SAARC Doctorate Fellow and has recently submitted his PhD thesis at the Centre for South Asian Studies, JNU.

He writes a column for the IPCS titled Himalayan Frontier. See

<http://www.ipcs.org/columnist/pramod-jaiswal/>

This report is an updated and compiled version of his earlier commentaries for his column during 2014.

© IPCS, 2015

B 7/3 Lower Ground Floor  
Safdarjung Enclave  
New Delhi 110029  
Tel: 91-11-4100 1900, 4100 1901  
Fax: (91-11) 41001902

Cover Photo Credit:  
<http://www.khumbule.com/wp-content/uploads/2014/10/par.jpg>

**CONTENTS**

**Section-I**

Nepal in 2015: A Forecast

- Constituent Assembly: Will it deliver in 2015?
- Will the Political Parties Come Together?
- Sandwiched between China and India

**Section-II**

Nepal in 2014: A Review

## IPCS Forecasts

---

# Nepal in 2015

**Pramod Jaiswal**

*IPCS Columnist on Nepal*

### **Nepal in 2015: A Forecast**

Since the end of the decade-long Maoist insurgency in 2006, Nepal has struggled with the difficult transition from war to peace, from autocracy to democracy, and from an exclusionary and centralised state to a more inclusive and federal one. The newly-formed federal, democratic republic has also been struggling for a constitution since then.

Internally, Nepal's immediate priority in 2015 is the promulgation of its constitution. If it does not succeed, the country may encounter prolonged chaotic conditions. Nepal's political parties are aware of the potential problems in the event of failure to promulgate the constitution on time. If the May 2015 deadline is missed, Nepal might have to wait for it till 2017. Externally, improving relations with India will be an important issue.

#### **Constituent Assembly: Will it deliver in 2015?**

In 2014, there wasn't much progress in the country's constitution-making process. The second Constituent Assembly (CA) of Nepal began to hiccuping immediately after its election in November 2013. The political parties did not learn much from the past. Though almost all the parties had agreed to produce the first draft of the constitution by 22 January, 2015, they took almost a month to decide who had the legitimacy to call the Constituent Assembly and wasted six more months to form the Council of Ministers – and still, the CA is not complete.

The constitution is the document of compromise and the debate to make the new Nepal inclusive must ensure the aspiration of historically marginalised peoples towards making all citizens equal, and simultaneously not making them unequal via federalism. It is impossible for the political parties to produce the draft of the constitution by 22 January. It is in the interest of all the political parties to forge broader consensus on the contentious issues and promulgate the constitution on May 28 – the Nepalese Republic Day. However, looking at the rigid stand of the ruling parties, it's a Herculean task to forge consensus among the major political parties in such a short period.

A multi-party system of governance is constituted of many individuals with different ideas, and a government is usually pressured to impose new legislations to improve the constitutional rights of the country. The political parties' self-imposed deadline of 22 January – for the new constitution – is only a week away, but these parties are still negotiating on the four contentious issues – including federalism, forms of governance, electoral system and judiciary – that led to the failure of the first CA. The second CA adopted all the achievements of the previous CA and decided to resolve the four key issues, but has failed miserably.



**IPCS**

INSTITUTE OF PEACE AND CONFLICT STUDIES

### **Will the Political Parties Come Together?**

Rifts within/ among major political parties slowed down the constitution-making process. Restful Prime Minister Sushil Koirala failed to deliver on many fronts. Due to lack of leadership qualities, he had to struggle a lot during government formation and appointments of officials to several key positions lying vacant in the administration, judiciary, foreign services and security. He could not take any important decisions or pressurise the government to push forward for the timely constitution. However, Nepal successfully conducted the 18th South Asian Association for Regional Cooperation (SAARC) Summit during his tenure in November. As expected, the 18th SAARC Summit could not deliver much, but Koirala cannot be held accountable for that.

Consensus is the only way to get the constitution implemented in Nepal. So far, Nepal has had six constitutions, at different points in time, and the debate to get an acceptable constitution for long-term social peace and stability, continues. All previous constitutions failed to bring peace and deliver to the aspirations of the citizens because it had not taken all the political actors into account. Hence, there was demand for a new constitution via the Constituent Assembly that could be implemented through consensus. If the NC and the UML try to get it passed via majority votes – which is unlikely as their Madhesi/ Janajati leaders have announced to oppose party orders – it would not be successful. The Madheshis and Maoists are uniting and are gaining ground despite multiple splits. Simultaneously, such undemocratic acts would invite polarisation in the ruling alliance (NC and UML) and opposition (Madhesi/Maoist/ Janajati parties).

If all political parties fail to come to any agreement in January, the general public will lose trust in political actors. The situation might get more fluid and difficult to handle. The ruling alliance will start fighting over who will become Koirala's successor. The UML had supported Koirala in 2014 on the condition of getting the reins back in 2015. This mess will benefit the 'radicals' and would make the constitution making process more complicated. New issues would erupt on the negotiation table. Netra Bikram Chand, who broke away from the CPN-Maoist (Baidya faction) to complete the remaining task of 'people's war,' would gain support among the radical communists while Kamal Thapa would demand for a 'Hindu state' and the 'role for monarch'. Similarly, Madhesi activists like CK Raut would capitalise on the dissent, frustration and absence of government in the Tarai plains and plop up even more untenable demands. The Modi government in India also poses fear among the Nepalese political parties who stand for a secular and republican Nepal. They think India might support pro-Hindu parties to fight for a Hindu Kingdom.

This unstable debate of constitution-making and quest for power will continue in Nepal. If Nepal postpones the identity criterion of federalism, the constitutional debate will be likely to be endless – merely postponing the social peace and stability. The Madhesi and Maoists might form alliances and protest in Madhes for identity-based federalism. The heat of unified protest of Madhesi/ Janajati/ Maoists and new forces like Jay Prakash Gupta/ CK Raut will be tougher for Kathmandu to resist.

## **Sandwiched between China and India: Improving Relations with New Delhi after Modi's Visit**

Nepal, a small nation sandwiched between China and India, has a huge influence of its neighbours. India figures prominently in the Nepal's foreign policy, and New Delhi has stakes in Kathmandu's peace process and constitution-making. In 2014, Nepal and India achieved new heights of their diplomatic relations. Indian Prime Minister Narendra Modi visited Nepal in August 2014. He became the first Indian prime minister to visit Nepal in 17 years. During his visit, Modi enchanted the Nepalese people with a rousing address in the Parliament of Nepal, which was the first such address by a foreign leader. He announced a soft loan of \$1 billion and committed to assist Nepal in several infrastructure development projects.

Several political parties of Nepal had raised voices against the Treaty of Peace and Friendship of 1950 and some other 'unequal' treaties. Hence, during Modi's visit, both the countries agreed to review, adjust and update the 1950 Treaty and other bilateral agreements. The Power Trade Agreement (PTA) and the Project Development Agreement (PDA) between the Investment Board of Nepal and India's GMR Group for the development of the Upper Karnali hydropower project was signed in October 2014. Again, during Modi's second visit to Kathmandu in November 2014, to attend the 18th SAARC Summit, he inaugurated an Indian-built 200-bed trauma centre and flagged off a Kathmandu-Delhi bus service. India also provided a helicopter to the Nepal Army and a mobile soil-testing laboratory to the country. Similarly, the Joint Commission which was formed in 1987 at the Foreign Ministers' level with a view to strengthening understanding and promoting cooperation between the two countries for mutual benefits in the economic, trade, transit and the multiple uses of water resources was reactivated after a 23-year gap during the visit of the Indian Minister of External Affairs in July 2014.

## **Nepal in 2014: A Review**

### **I**

## **Problems of Constitution Building**

### **Constitution-making: Contentious Issues**

The current Constituent Assembly (CA) that was elected in November 2013 has already taken the ownership of the progress made by the previous CA – which streamlined the tasks of writing a new constitution. Despite that, Nepalese political leaders made little effort to resolve the contentious issues of the constitution-making. They need to resolve four key contentious issues including federalism, forms of governance, electoral system and judiciary. Due to lack of intensive discussion among the political parties, they have failed to make any substantial progress.

Federalism remains one of the thorny issues major parties are sharply divided on. Among the crucial questions are the numbers of federal provinces, demarcation of boundaries, and names of the federal units. The future of the constitution also depends on how the political parties handle the issue of federalism. The Unified Communist Party of Nepal-Maoists (UCPN-Maoists) advocate for decentralised governance of 10 to 14 provinces based on ethnicity while the Nepali

Congress (NC) and Communist Party of Nepal-Unified Marxist Leninist (CPN-UML) call for centralised governance of a maximum seven provinces. The UCPN-Maoists and the Madhes-based parties are demanding more provinces in the hilly regions and less in the Madhes.

The UCPN-Maoist has proposed for a presidential form of government and envisage the directly-elected president as both the head of state and head of government while the NC proposed a reformed parliamentary form of government where the president is the head of the state and the prime minister is the executive chief. Vis-à-vis the electoral system, the UCPN-Maoists proposed a multiple-member, proportional, direct electoral system based on proportional inclusion, to be determined on the basis of the population, geography and socio-economic factors while the NC and CPN-UML proposed a mixed system, with half the members of parliament elected directly on First Past the Post (FPTP) voting and half elected proportionally (similar to the system applied in the CA elections). Regarding judiciary, the NC and the CPN-UML call for a supreme court while UCPN-Maoists demand a constitutional court.

Additionally, the parties of the ruling coalition, namely the NC and the CPN-UML, prefer all decisions to be taken in the plenary of the CA by majority vote while the oppositions (UCPN-Maoists and Madhes-based parties) prefers the consensus approach.

### **Polarisation among the Political Parties**

Presently, the UCPN-Maoist is building alliances both within and outside the CA to counter the dominant position of the ruling coalition (NC and CPN-UML). Outside the CA, the UCPN-M is reaching out to splinter Maoist groups while within the CA, it has formed an alliance with pro identity-based federalism parties – mainly the Madhes and ethnicity-based parties — called the Federal Republic Alliance (FRA). The signature campaign by Madhesi leaders of the NC against the federal model proposed by the NC and CPN-UML has also foiled the chances of imposing constitution by majority vote.

There has not been much change in the leadership of political parties and opportunities to discuss the numbers of provinces and identity issues, and the establishment of self-governance structures for smaller ethnic groups was missed. It is entirely possible that the same challenges that sunk the first CA will resurface.

In spite of all these challenges, one can hope that Nepal gets the constitution within the stipulated time. It is in the interest of all the political parties to fulfill their commitments. The NC can claim the successful promulgation of the constitution during their tenure while the CPN-UML should leave no stone unturned for timely constitution-making as they can claim to lead the next government. In February 2014, the NC and the CPN-UML signed a deal stating that former would hand over the leadership of the government to the latter in January 2015.

A failure to promulgate the constitution by January 22 might break the coalition between the two and destroy the CPN-UML's chances to lead the government. It might open the possibility for new alliances to be created. The UCPN-Maoists and Madhes-based parties would also like to consolidate their gains as they are pretty assured that Nepal would not go for the third CA election.



### **Koirala: The Restful Prime Minister**

It has been over two months since Sushil Koirala took office as the Prime Minister's of Nepal. In last two months, Koirala promoted six joint secretaries to secretaries and appointed Damodar Prasad Sharma as the new Chief Justice of the Supreme Court.

Despite the election of the second Constituent Assembly (CA) in November 2013, the CA has not got its full house, as 26 CA members remains to be nominated. The CA committees that were formed to accelerate the constitution-making process still do not have chiefs, and are yet to start operations. Of the rate of progress of the past two months has raised doubts regarding the timely delivery of the new constitution.

Koirala's slow pace has also raised serious doubts over the prospects of local elections that the governing parties had earlier vowed to conduct within six months of the CA elections. Since the election is now virtually impossible in the said time-frame, the government might schedule it after the constitution is promulgated, and has been confirmed by Deputy Prime Minister Prakash Man Singh. This is in the interest of the country as the leaders can direct their focus completely on the constitution-making process.

Koirala's government is yet to get a definitive shape. He is struggling to appoint officials to the several important positions lying vacant in the administration, judiciary, foreign service and security. Almost half a dozen ministries currently do not have ministers assigned, and eight slots for the position of Secretary remain vacant. The government is yet to appoint over a dozen ambassadors for different embassies around the world. According to media reports, 12 ambassadors will retire in the next five months. Even important missions, such as the Embassy of Nepal in New Delhi have been functioning without ambassadors, since December 2009.

Koirala has failed to appoint a complete team of advisors since he took office. He is also unable to orchestrate efficient coordination between the Prime Minister's Office and other ministries. Due to the long-standing delay in filling the vacant positions of the second-most powerful institution of the country's security force, the functioning of the Nepal Police has been badly affected. The government hasn't demonstrated any urgency to end the delay in promoting Deputy Inspector Generals of Police (DIG) to the vacant Additional Inspector General of Police (AIG) positions. There are several other issues that Koirala government needs to resolve immediately, for the delay has negatively affected the delivery of service to the people.

The snail's pace and indecisive behaviour of the prime minister has been criticised by all quarters. Such harsh criticism about Koirala been made both by external analysts as well as the members of his own party. Madhav Kumar Nepal, Senior Leader, Communist Party of Nepal- Unified Marxist Leninist (CPN-UML), pointed towards Koirala's lack of experience in governance as the reason for the slow pace, and further stated that the latter is somebody who would easily get frustrated with the problems.

Before being elected as the Prime Minister, in February 2014, Koirala served only for the party at various levels. He joined the Nepali congress in 1954 and spent 16 years in political exile in India after King Mahendra suspended the constitution, dissolved parliament, dismissed the cabinet, imposed direct rule and imprisoned then Prime Minister Bishweshwar Prasad Koirala

and his closest government colleagues in December 1960. Koirala has also spent three years in Indian prisons for his involvement in a plane hijacking in 1973. He has been a member of the Central Working Committee of the party since 1979 and was appointed as the General Secretary of the party in 1996. He was promoted to Vice President position in 1998 and has been the president of the party since 2010.

Undoubtedly, the 75-year-old Koirala is honest, sincere and known for his simple life. Last month, Koirala also got international coverage claiming him world's poorest head of state. According to the Office of the Prime Minister and the Council of Ministers that disclosed the assets of top government officials including Koirala and the members of the Council of Ministers, the only assets of the prime minister are three mobile phones.

The past two months under Koirala's tenure has not been all that bad either. He managed to get all the parties agree to own up all the achievements and agreements of the last CA. The house also prepared a schedule for the constitution-making process. All he needs to do now is to enforce the schedule. He should change the functioning system of his office, and carry out all the appointments without delay. Instead of opening new doors of confrontations and obstacles, he needs to concentrate on ways that can give Nepal its constitution in a timely manner. The rescheduling of local election after the constitution promulgation is a positive move.

He has wasted enough time by visiting temples, travelling across the countries, visiting his own constituency, and leaving the major tasks aside. He cannot afford to lose anymore.

## II

### **Federalism in Nepal: The Dominant Debate Within**

The constitutional debate in Nepal has been caught up in peculiar twists and turns ever since late 1940s. So far, Nepal has had six constitutions, at different points in time, and the debate to get an acceptable constitution for long-term social peace and stability continues.

Why have constitution debates been unable to bring social peace and political stability in Nepal? Why have federalism debates in Nepal been so polarised that Constituent Assembly (CA) I was dissolved and elections to CA II were held to draft a constitution? There are two simple questions to deconstruct the question of federalism in Nepal. First, why do historically marginalised communities (Madhesis, Janjatis, dalits etc) that constitute almost 70 per cent of the Nepal's population strongly sympathise with federalism? Why are the Caste of High Hill Elites (CHHE) (Brahmins and Chettri etc) who are dominant in Kathmandu's power structure are opposed to federalism in its true spirit and agreed on a federal model of governance only after the large-scale Madhesi movement in 2007?

#### **Why is the Federalism Narrative So Dominant In Nepal?**

Nepal has been monolithic, upper caste hill-centric dominance of one language, culture, and an extremely centralised power structure of governance throughout history. However, the diversity in languages, cultures and a sense of belongingness that exists in Nepal has not been



given due recognition; and the state's discrimination and exclusionary policies triggered a sense of deep dissatisfaction among the historically marginalised community.

In this context, on the basis of 'unity in diversity', federalism narratives gained prominence to institutionalise self-rule, autonomy, and dignity in the country. This brings us to the debate of 'identity-based' federalism that is largely the politics for recognition of diversity in Nepal for these communities.

### **What are the Technicalities of the Federalism Debate?**

The debate on federalism has become one of the most contentious issues in Nepal. This polarised debate is approached via various perspectives, such as: change (pro-identity based federalism) Vs. status quo forces (federalism on the basis of viability); pluralist Vs. monoculturalist; historically marginalised communities Vs. upper caste hill dominance; and political de-centralisation Vs. administrative de-centralisation. By and large, the new political forces that emerged in Nepal after the promulgation of the 1990 constitution – like Maoists and various political parties that arose from social movements of Madhesis, Janjatis etc. – associate themselves with the former while traditional parties like Nepali Congress and CPN-UML associate themselves with latter categories.

This brings us to the technical debate on federalism, that, on the basis of the 'Committee on State Restructuring and Allocation of State Powers' during CA I agreed upon – "Identity based Federalism" and "viability," i.e., on the basis of economic capability. There are five indicators for "Identity" – ethnicity, language, culture, geography and regional continuity, and historical identities (historically subjected to discrimination in various forms in their homeland). The "viability" has four indicators – economic interrelationships and capability; status and potential for infrastructural development; availability of natural resources; and administrative feasibility.

### **Complexities of the Federalism Issues in Nepal**

The technical details are no less complex, adding complexities to the issues in the federalism debate. However, there exist battles of narratives regarding the debate on federalism. It is alleged that the status quo forces try to obfuscate the federalism debate to benefit the CHHE and curve out federal lines of a new Nepal in ways that give demographic advantage to ruling elites and maintain dominance in Kathmandu's power structures. Conversely, the status quo forces allege that the pro-identity-based federal forces support single identity ethnic based federalism. However, Nepal is a multi-ethnic, multi-lingual nation and it is not possible to have a majority of any single ethnic group in any model of federalism. The only difference that adds complexities is the devolution of power from dominant elite's high hill castes to pave Nepal's transition towards inclusive citizenship and recognition of marginalised communities, identities, culture and self-rule.

Perhaps, the buck stops at the top leaders of the political parties in Nepal who are all traditionally ruling high-caste Brahmins to strike constitutional agreement. And, the rationale choice has to be made on ways to delegate power from the hill upper caste elites to the people who have been historically marginalised and such choices are more difficult given how CA I winners are losers in CA II elections.

### **Is Nepal Postponing the Inevitable?**

Nepali politics is in transition and fast-changing its state characteristics from a monarchy to a republic; a Hindu state to a secular one; and a unitary structure towards an inclusive federal model of governance. The CA I postponed federalism issues for the CA II despite marginalised communities united and had adequate support base of 2/3rd majority – that includes the aspiration of identity and viability model of federalism denouncing 14 state models of federal governance.

If Nepal postpones the identity criterion of federalism, the constitutional debate will be likely to be endless – merely postponing the social peace and stability. The constitution is the document of compromise and the debate to make the new Nepal inclusive must ensure the aspiration of historically marginalised people towards making the people equal, and simultaneously not making them unequal via federalism.

## **III**

### **Nepal and India: After Modi's Visit**

Narendra Modi's thumping victory with 282 Lok Sabha constituencies, making him the Indian Prime Minister generated vibes throughout the region. His invitation to the heads of governments of the South Asian Association for Regional Cooperation (SAARC) member-states to his swearing-in ceremony was an unprecedented move – perhaps a signal that under his tenure as the prime minister, India will prioritise its neighbourhood. It would be interesting to observe what Modi's victory means for the region in general, and for Nepal in particular.

#### **Modi's Neighbourhood Policy**

The BJP, in their manifesto, assured that they would pursue friendly relations with all of India's neighbours but would not hesitate from taking firm stances and strong steps. It was a clear signal to neighbours that they would not compromise on issues of terrorism and national security. Modi's image as a decisive leader and his party's 'nationalist' stand indicates that Modi would be different from the previous governments India has had. However, his efforts would be visible only if he comes with proper homework, revive the SAARC and facilitate the implementation of the SAFTA – the regional free trade agreement, during the SAARC summit to be held in Kathmandu in November 2014. Since its establishment in 1985, the SAARC has made no progress due to the perpetual disagreements between India and Pakistan – despite the fact that the SAARC charter forbids member-countries from bringing bilateral issues to the table.

Many experts predict that Modi's foreign policy priority would be South Asia followed by China and the US, while others believe that China and South Asia would be lowest in his list of priorities as compared to the US, Japan and other strategic partners. After Modi's rise, some media called him the "Shinzo Abe of India" while the westerners fear him as the "Indian Putin." Many believe that he might emerge as the "Indian Deng Xiaoping." Time will tell which name plate matches Modi best. However, Modi will have a proactive foreign policy, possibly one driven by economy.

#### **Modi and Nepal-India Relations**

Nepal-India relations have always been cordial, strong, and have stood the test of time. The two countries are so inextricably intertwined by means of geography, history, culture, religion and tradition that a change in government in either country would not affect the warmth of their bilateral relations. Many believe that there would be no fundamental shift in India's policy towards Nepal under Modi's regime, but it is likely that Nepal will get more attention, and that interaction between New Delhi and Kathmandu will increase. Interestingly, his first public statement on foreign affairs was about Nepal, on Twitter, where he said he was committed to strengthen relations.

Modi's prime minister-ship has added anxiety among those Nepalese who stand for a secular and republic Nepal. They fear that Modi's government, whose leaders had openly expressed unhappiness after Nepal was declared a secular and republic country, might encourage the hard-line Hindu party and pro-Hindu forces of Nepal to fight for the Hindu Kingdom. However, many neglect such fears as Modi is the Prime Minister of a democratic India whose own constitution calls it a "Secular Democratic Republic." Thus, Modi's government would not try to fiddle with these aspirations of Nepalese; and instead it would concentrate on building stronger economic ties. He would refrain from supporting hard-line forces in Nepal, irrespective of their ideological and religious persuasions.

'Secular' and 'Republic' were the two demands agreed by the political parties of Nepal to bring Maoists in the peace process, and those which were later reaffirmed by the People's Movement of 2006. India facilitated the process as it was in its security interests. A small faction in Modi's party still believes that a 'Hindu Kingdom' can be brought about but they fear the revival of another armed conflict by the Maoists. Hence, India would not make attempts at such adventurism as it would hurt its prime concern – security. Moreover, during the bilateral meeting between Indian Prime Minister Narendra Modi and Nepal's Prime Minister Sushil Koirala, the former assured the latter that New Delhi had no interest in interfering in the issue of secularism in Kathmandu; and that India would in fact help Nepal in its development.

### **Challenges for India**

Modi promised 'development and governance' to the people of India during his campaign, which verifies his focus on economic development. The Nepalese economy too can reap the benefits because it is closely linked with the Indian economy. For this, Nepalese political parties need to sort out their differences; write the constitution on time; take meaningful steps towards political stability; and refrain from over-politicising its policy towards India by developing a national consensus, so that internal power struggle does not affect Nepal's foreign policy priorities.

Similarly, India must give greater political recognition and priority to its Nepal policy because of its unique relationship and security implications. The best way Modi could earn India some goodwill in Nepal is by letting the constitution-writing process take its own course and refrain from actively dictating terms, and/or micro-management, like the previous government did.

### **India-Nepal Hydroelectricity Deal: Making it Count**

With just two weeks left to seal the deal, the government of Nepal has formed a seven-member task force headed by Energy Secretary of Nepal to finalise the Power Trade Agreement (PTA)

with India, and the Project Development Agreement (PDA) with Indian company GMR for Upper Karnali. The meeting of the Council of Ministers has authorised the team to hold dialogues with political parties of Nepal and forge consensus on the issue. The team has the drafts of the agreement presented by both the sides, as well as their reservations. The final agreement will be prepared after considering both drafts. The authorised team arrived New Delhi for negotiations on 3 September.

The PTA and PDA were expected to be signed during Indian Prime Minister Narendra Modi's official visit to Nepal in August. Citing the lack of enough deliberation, Nepal and India bilaterally decided to finalise the deals within 45 days. Unfortunately, not much progress has been seen in last one month.

On 18 August, the Nepalese parliament's Water Resources Committee asked the Energy Ministry to produce every document related to PTA, together with Nepal government's June 2014 response to an earlier Indian proposal. The Committee also instructed the energy minister to present a progress report on the proposed agreement in the parliament. Media reports state that India had refused Nepal's proposal – in PTA draft – for allowing investors from Nepal, India and other countries to trade power without any obstruction in both India and Nepal, as well as the permission to sell electricity generated in Nepal to the third countries through India.

If the project is completed on time, the 900 MW Upper Karnali Hydroelectric Project would generate dividends worth approximately \$33 million from equity, royalty and free electricity throughout the concession period of 25 years. It is being constructed by an Indian company, the GMR Group, and will be handed over to the state-run Nepal Electricity Authority (NEA) after 25 years. Since it is being constructed on BOOT (build, own, operate and transfer) basis, the NEA will not have to share the project's financial burdens.

The Investment Board Nepal, the government body overseeing the implementation of the Upper Karnali Project, has been negotiating the PDA with the GMR since April 2013. Additionally, a 13-member high-level committee that was formed under the National Planning Commission to deliberate on the draft PDA, raised two major concerns: First, the impact of the Upper Karnali project on the Rani-Jamara-Kuleriya and the Rajapur-Surya Patawa irrigation projects that are being constructed in Bardiya downstream of the project; and second, providing the cash incentive of approximately \$51000 for every megawatt of electricity the project generates.

The first issue was addressed after the committee members agreed to deploy a team to conduct a study within six months of signing the PDA. But some of the members of the committee held apprehensions on the proposal of giving cash incentives to an export-oriented project like Upper Karnali. They opposed on the grounds that such incentive should only be given to projects that generate electricity for domestic consumption.

Nepal should not get entangled in the issue of whether any sort of incentive should be given to an export-oriented hydropower project. Even if such one-time incentive of \$51000 is provided for every megawatt of electricity the Upper Karnali will produce, the government will lose only \$400 million – which is an insignificant amount compared to the huge benefits the project will bring by harnessing the country's water resources. The government must not waste time and energy on such minor issues that will ultimately be detrimental to the development of the Upper

Karnali – and that will also set a precedent for other projects to be built with foreign direct investment.

Besides the PDA on the Upper Karnali, the government should also accelerate the process of signing a deal on the proposed PTA with India at the earliest, so that both Nepal and India can benefit mutually. Nepal has to sign this deal to send positive signals to the international market and to create an appropriate atmosphere to attract investments in the hydropower sector – crucial for the development of the country's energy sector. The PTA will allow Nepal to import as much electricity as it needs when production falls and export power when there is surplus. Similarly, the signing of the PDA would demonstrate Nepal's openness to investors who want to build export-oriented hydroelectric projects and pave the way for the government to generate income through royalties.

There are minor dissensions against the deal from the small leftist parties such as the CPN-Maoist. Reports also state that some senior leaders of the CPN-UML are against the deal but they have not made any comment – thereby giving tacit approval. India should also demonstrate a flexible approach to the deal. Signing immature deals in the past has not served any purpose. Hence, it should address Nepal's genuine concerns whereby a conducive atmosphere for such similar future deals is created. The formation of a taskforce headed by the energy secretary is a welcome step towards the signing of a power trade agreement with India.

## IV Nepal and China

### Chinese Inroads to Nepal

Over the recent months, China, in an attempt to strengthen its relations with the South Asian Association for Regional Cooperation (SAARC), has been taking efforts to build a close-knit strategic alliance with Nepal. At a meeting with a visiting delegation of Nepali parliamentarians, Liu Zhenmin, Vice Minister of Foreign Affairs, China, stated that Nepal's role as the host of the upcoming SAARC summit will be instrumental in augmenting Chinese ties with the South Asian regional bloc.

Nepal and China also revised the bilateral Air Services Agreement (ASA), permitting the increase in the number of flights per week between the two countries to 56 from 14 – considered a major boost to the Nepal-China economic cooperation in various areas. Additionally, under the revised pact, an additional seven flights per week will be added annually to amount to 70 flights per week by 2016.

Ever since the March 2008 uprising, when the Tibetans strongly started the global anti-China protests on the eve of the Beijing Olympic Games, there has been a major shift in China's policy towards Nepal. The King of Nepal, a longstanding strategic partner of China, used to serve the Beijing's security interests. After Nepal became a republic, the unprecedented visits by Chinese government officials and members of the communist party have further grown, especially in last few months. Nepal has hosted high ranking officials such as the Vice-Minister of the Communist

Party of China's (CPC) International Department, Ai Ping, State Counsellor Yang Jiechi, and the Vice-Chairperson of the Standing Committee of the CPC, Yang Jungi, in the past five months alone. Media reports state that on an average, at least two Chinese delegations visit Nepal every month.

Given the claims that Nepal may be used by the US for its larger strategy of encircling China, Beijing is concerned about Kathmandu being manipulated by other external powers. Security experts on China state that Beijing increased its interest in Kathmandu due to the perceived threat to Tibet via Nepali territory – particularly due to the prolonged state of instability and transition in Nepal, and the recent change in China's neighbourhood policy following the accession of the new leadership.

However, after Nepal became a republic in 2008, China found it expedient to cultivate the Maoists to serve its security interests. They wanted to curb the underground activities of approximately 20,000 Tibetan refugees settled in Nepal. Ideological affinities made Maoists in Nepal cast sympathetic eyes on China. China accepted the friendly hand extended by the Maoists when they were in dire need of support from a strong power. Former Prime Minister of Nepal, Prachanda's acceptance of China's invitation to attend the closing ceremony of the Olympics not only made him the first Prime Minister to break the tradition of going to India as first foreign visit following assuming the office, but also proved his inclination towards China. Maoists view India and the US as 'imperialist powers' and stated that they were fighting against their interference in Nepalese politics.

India expressed serious concern over Prachanda's action. Indian media went overboard stating that India lost Nepal from its sphere of influence and that it would affect India's security in the long run. Interestingly, China supported the Maoist Party only after they emerged as the single largest party in the Constituent Assembly election of April 2008, while, it was the only country to supply arms to King Gyanendra to suppress the Maoist insurgents at a time when India, the US and the UK had refused to provide help of such nature.

### **India- China Competition and Rivalry**

The competition for influence between China and India along the Nepal-China border is not a new story. The development assistance of Rs. 100 million provided by India for Nepal's remote hilly region of Mustang was followed by a financial assistance worth Rs. 10 million for the construction of a library, a science laboratory, and school building with computers in Chhosor village (adjacent to Tibet's Jhongwasen district), in the same region, by China. Subsequently, the ambassadors of both countries have visited the region.

There are reports of China funding and promoting China Study Centers, mostly along the India-Nepal border. In February 2009, China proposed and submitted the draft of a new 'Peace and Friendship Treaty' to Nepal. The then Prime Minister Prachanda was supposed to sign the treaty on his China visit, but was obliged to resign over the issue of the Chief of Army Staff, prior to his scheduled visit.

India, in response to the Chinese attempt to extend the railway link from Tibet to the Nepalese border, has drafted a plan to extend its railway links to Nepal. India has announced assistance worth Rs. 10.88 billion for the expansion of railway services in five places along the India –

Nepal border. The first phase of expansion is scheduled to begin from Birgunj in Nepal which is about 350 kilometers south of Rasuwagadhi, the place which is to be connected by China via railway lines. The power-game between China and India is thus slowly unfolding in Nepal.

Nepal's position has become more strategically significant with the rise of China that is aiming to be a superpower. Situated between the two regional powers who aspire to be global players, Nepal can grab the opportunities and become a center of geopolitical competition between the rising China and a defensive India. A stable Nepal is in the interest of both India and China as it serves their prime concerns – security.

### **The proposed Rail Link with Nepal**

China is planning to extend the Qinghai-Tibet Railway to Nepal by 2020. The rail link is expected to be extended to the borders of India and Bhutan as well. Through Qinghai-Tibet Railway, China connected its existing railway system to Tibet's capital Lhasa in 2006 – which passes through challenging peaks on the Tibetan highlands, touching altitudes as high as 5,000 meters as part of government efforts to boost economic development in the neglected region. In August 2008, six additional rail lines were proposed to connect to Qinghai-Tibet railway – such as the Lhasa-Nyingchi and Lhasa-Shigatse in the Tibet Autonomous Region, the Golmud (Qinghai province)-Chengdu (Sichuan province), Dunhuang (Gansu province)-Korla (Xinjiang Uygur Autonomous Region), and the Xining (Qinghai Province)-Zhangye (Gansu). The project is expected to be completed before 2020 while the Lhasa-Shigatse segment was completed in August 2014.

The Lhasa-Shigatse segment extends over 253 kilometers, carrying trains at 120 kmph through valleys and over three bridges that run across the Brahmaputra River. The opening of this segment has reduced the travel time from Lhasa to the remote border towns of Tibet by half. This particular railway line is to be extended to Rasuwagadhi in Nepal via the Shigatse-Kerung stretch. Rasuwagadhi is about 500 kilometers from Shigatse. It is also reported that the link will have two separate extension points, one with the Nepal border and the other with the borders of India and Bhutan.

Shigatse is an important monastery town, home to the Tashilhunpo monastery that has been the seat of the Panchen Lamas, and is an important centre of pilgrimage for many Tibetans.

In response to the Chinese attempt to extend the railway link from Tibet to the Nepalese border, Kathmandu has drafted a plan to extend its railway links to Nepal. Simultaneously, India has announced assistance worth Rs. 10.88 billion for the expansion of railway services in five places along the India-Nepal border.

Though Chinese claims that the rail network expansion will be crucial in economic, cultural, and tourism promotion in South Asia, it has alarmed New Delhi because of its strategic implications. While Nepal shares a common dream of extending the railway line to Lumbini, the birth place of Lord Buddha, through Kathmandu, there is sign of nervousness among the Indian government due to the possible threat. Such fear might gradually fade after Modi's invitation to the Chinese to fulfill his ambitious bullet train plan.