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Nepal: Background and U.S. Relations

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Summary

A landlocked Himalayan kingdom between India and China, Nepal ranks among the world's poorest countries. In 1990, following a democratization movement, Nepal became a parliamentary democracy under a constitutional monarch. Although this led to a process of economic restructuring and market liberalization, political instability and years of increasingly dire internal security challenges have undercut the country's economic growth and reform efforts. Compounding the country's difficulties was the June 2001 tragedy in which ten members of the royal family, including King Birendra, were killed in an assassination-suicide, reportedly carried out by Crown Prince Dipendra. The murdered king's younger brother, Gyanendra, now occupies the throne. In a reversal of the longer-term trend towards a democratic constitutional monarchy, King Gyanendra declared a state of emergency, assumed full powers, suspended civil liberties and placed opposition leaders under arrest on February 1, 2005. The King explained his move as necessary to fight the Maoist insurgency. Human rights advocates are concerned that opposition leaders may "disappear" while in custody. U.S. foreign policy towards Nepal has provided development and security assistance while seeking to promote democracy and human rights.

Prior to the king's takeover, the Kathmandu government faced serious political opposition and increasing pressure to end a Maoist insurgency that since 1996 has caused widespread violence and crippled the Nepali economy. More than 10,000 people reportedly have been killed in the fighting. Nepal's Maoist rebels continuing violent campaign to overthrow the Kathmandu government has heightened concerns about the government's ability to effectively counter the insurgency. Hopes for an end to the civil war had been bolstered by a January 2003 cease-fire agreement. Subsequent negotiations failed to produce a lasting peace as hostilities resumed in August 2003. There exists fear that further deterioration of Nepal's security circumstances could lead to human rights abuses, destabilize the region, spur new tensions between India and China, and potentially create a failed state in South Asia which could become a terrorist haven. The Maoists have been identified as an "other terrorist group" by the State Department.

The king's takeover can be seen as the culmination of events beginning at the end of 2002 when the Nepali government faced a constitutional crisis. In October 2002, amid dissatisfaction with the worsening security situation and the inability of the prime minister to hold parliamentary elections as scheduled, King Gyanendra dismissed the prime minister and the cabinet and assumed "temporary executive authority." One week later, the king chose royalist Lokendra Bahadur Chand to serve as prime minister. The king replaced Chand with Surya Bahadur Thapa over the objections of the main parties in June of 2003. Prime Minister Surya Bahadur Thapa ended his term as Prime Minister on May 7, 2004. He was replaced by the king's former Prime Minister Sher Bahadur Deuba. Former Prime Minister Deuba was placed under house arrest on February 1, 2005. Leading Nepali political parties and opposition figures denounced the moves in February 2005 as undemocratic and unconstitutional. This report will be updated periodically.

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Nepal: Background and U.S. Relations

Recent Developments

The King's Takeover. King Gyanendra declared a state of emergency and, with the assistance of the Royal Nepal Army (RNA), seized power on February 1, 2005. Reportedly, troops patrolled the streets of Kathmandu, internet and telephone lines were cut, and newspapers were warned against printing anything critical of the state of emergency. The king dismissed government, detained opposition leaders, and appointed a crisis cabinet that is to report to him directly. It is thought by some that by moving against the democrats the king has strengthened the position of the Maoists. By some estimates almost half of the RNA is now occupied with palace security, civil administration and efforts to restrict communications and civil rights.¹ If human rights abuses by the king's government leave his regime isolated from the international community, his ability to successfully fight the Maoists may be further constrained. The king's legitimacy with the people has been weak due to the circumstances under which he assumed the throne and due to the perception of the people that his son, Prince Paras Shah, has "a reputation for drunken thuggery."² The role that the RNA has played in the takeover by the king appears to add a new dimension to what has been a three-way political struggle between the king, the democrats, and the Maoists.³

International Reactions. Reportedly, India, Britain, the United States, Japan, and the European Union all are eager for democracy to be restored, detained political leaders freed, and civil rights reinstated in Nepal.⁴ Warning that international military assistance to Nepal may be suspended, U.S. Ambassador James Moriarty reportedly warned the king that Nepal's future may be bleak if he does not restore constitutionally guaranteed freedoms, free political leaders and give them access to their parties.⁵ Both India and the United Kingdom have reportedly suspended security assistance to Nepal in the wake of the king's takeover.⁶ The State Department has taken the position that "the king needs to move quickly to reinstate and protect civil and human rights ... and begin a dialogue with the political

¹ S.D. Muni, "Thy Hand, Great Monarch!" *The Hindustan Times*, February 8, 2005.

² *Nepal: A Country Report*, The Economist Intelligence Unit, February 2005.

³ John Lancaster, "King Claims Absolute Authority in Nepal," *The Washington Post*, February 2, 2005.

⁴ "Nepal to Explain its Policy at UN Rights Meeting in Geneva," BBC News, February 21, 2005.

⁵ "U.S. Envoy Issues Warning on Nepal Military Aid,"

⁶ Elizabeth Mills, "Britain and India Sever Military Aid to Nepal, but King Remains Defiant," *WMRC Daily*, February 23, 2005.

parties....” The U.S. position on military assistance as of February 25 was that “we’re still looking at our options on security assistance.”⁷

India has reportedly offered to facilitate talks between the Maoists and the king if the king takes steps to restore multi-party democracy in Nepal.⁸ India is reportedly concerned that a continuing Maoist insurgency in Nepal could have an impact on neighboring Indian states. Some are concerned that India may be drawn into the conflict in Nepal in a more direct way out of its concern that a deteriorating security situation in Nepal could undermine security in India’s northeastern states. Such a move by India could be a cause of concern for China as it could be viewed by China as disturbing the geopolitical balance of the region. China has distanced itself from the Nepalese Maoists. The withdrawal of international military assistance is likely to eventually undermine the morale of the RNA which will make a military solution even more improbable than it was thought to be before the king’s takeover.⁹ The RNA has increased in strength in recent years and may play an important role as events unfold.¹⁰

NEPAL IN BRIEF

Population: 27,070,666 (July 2004 est.); *growth rate* 2.23% (2004 est.)

Area: 147,181 sq. km. (about the size of Tennessee)

Capital: Kathmandu est. population of 1.5 million

Ethnic Groups: Brahman, Chetri, Newar, Gurung, Magar, Tamang, Rai, Limbu, Sherpa, Tharu, et al.

Language: Nepali (official); about 12 others

Religion: Hindu 86%; Buddhist 8%; Muslim 4%

Life Expectancy at Birth: 59.4 years (2004 est.)

Literacy: total 45.2%; female 27.6%; male 62.7% (2003)

Per Capita income: \$242

Poverty: 38% of the population are estimated to be below the poverty line.

Gross Domestic Product: \$5.82 billion with 2.6% growth (2003est.)

Inflation: 4.8% (2004 est.)

Sources: CIA World Factbook; Reuters News; U.S. Departments of Commerce and State; World Bank; Asian Development Bank; Global Insight.

Maoist Reaction. From February 13 to 27, 2005, the Maoists blockaded major highways linking the country’s 75 districts as well as international road links

⁷ “Department of State Issues Daily Press Briefing, Feb 25,” States News Service, February 25, 2005.

⁸ “Delhi Message for Gyanendra; “Retrace, We Will Help Bring Rebels to Table,” *Indian Express*, February 21, 2005.

⁹ Amy Waldman, “King Sacks Government, Assuming Power in Nepal,” *The New York Times*, February 1, 2005.

¹⁰ S.D. Muni “King Under Pressure to Restore Civil Liberties,” *ABC Radio Australia*, February 16, 2005.

to India and China in protest of the king's actions.¹¹ This led to clashes between Maoists and the RNA and reportedly brought trade by road to a standstill. The army organized armed convoys which allowed limited trade to continue.¹² The Maoists had earlier cut off land routes to Kathmandu in August, 2004.¹³ During the week-long blockade in 2004 prices of some basic foods more than doubled and fuel was rationed.¹⁴ This increase in food prices reportedly recurred in the 2005 blockade. By blockading Kathmandu, the Maoists are likely to increase pressure on the king's government. They have threatened to repeat the blockade if the king does not reverse policy and restore political power to the parties.¹⁵

The American Embassy in Kathmandu issued a message warning of a threat to Americans in Kavre District. Maoist cadres in Kavre District evidently have been instructed to arrest Americans traveling there. The warning noted that it is unclear if the threat applies to other Maoist controlled areas. The Embassy has warned Americans against traveling by road outside the Kathmandu valley.¹⁶

Political Reaction. Few appeared to be in a position to mount opposition to the king's assumption of power in the immediate aftermath of the takeover. Four editors of Nepali newspapers were brought in for questioning after their papers published blank spaces where they normally published editorials. Six other journalists are known to have been put in detention since the takeover. In a demonstration of solidarity, members of the Nepali Bar Association reportedly accompanied the editors to their questioning.¹⁷ Party Member Secretary Arjun Thapa, who escaped Nepal in February 2005, stated that the Nepali Congress' position is that a new constitution be drafted through a constitutional assembly of all key political stakeholders that incorporates political demands of the Maoists. The Nepali Congress Party also demanded that the king revoke the state of emergency, release all political prisoners, reinstate communications, recall parliament, and form an interim government headed by former Prime Minister Deuba.¹⁸

Human Rights Concerns. Human rights groups warn that Nepal is "plunging deeper into a massive human rights crisis" with "arbitrary arrests, censorship, and general repression" with "suspended fundamental constitutional rights including the freedom of assembly." As of February 9, 2005, over 150 opposition politicians, human rights activists, student leaders and trade unionists had

¹¹ "Maoist Blockade Creates Chaos in Nepal," *Hindustan Times*, February 22, 2005.

¹² "Nepal Rebels Attack Highway Convoy," *Reuters*, February 20, 2005.

¹³ "Maoist Rebels Cut off Kathmandu," *ABC Radio Australia*, August 8, 2004.

¹⁴ "Bombs on the Tennis Courts, No Petrol in the Pumps," *The Economist*, August 28, 2004.

¹⁵ "Maoists Call off Blockade," *WMRC Daily*, February 28, 2005.

¹⁶ "Warden Message: Warning of Threat to Americans in Kavre District," Consular Affairs Bulletin Report, U.S. Embassy Kathmandu, March 1, 2005.

¹⁷ "Nepalese Editors Summoned Over Blank Spaces in Papers," *Agence France Presse*, February 23, 2005.

¹⁸ "Nepali Congress Demands New Democratic Constitution," *Press Trust of India*, February 22, 2005.

been arrested in the wake of King Gyanendra's takeover.¹⁹ Human rights groups assert there is a history in Nepal of people disappearing after being brought into custody for political reasons. As a result, there is concern for those recently detained.²⁰ A February 2005 report by the International Crisis Group has stated that Nepal's record on "disappearances and extra-judicial killings is one of the world's worst."²¹ The report also predicts that the king's actions will intensify the civil war and aid the Maoists while also providing an opportunity for the international community to play a constructive role. On February 24, 2005, the European Parliament reportedly adopted a resolution strongly condemning King Gyanendra's takeover and recommended that a neutral third party, such as the United Nations, should arbitrate.²²

The Context to the Takeover. The security situation in Nepal has been deteriorating since the collapse of the ceasefire between the Maoists and the government on August 27, 2003. The death toll from the conflict with the Maoists, which began in 1996, has risen to over 10,000 by some estimates. The Maoists favor drafting a new constitution that would likely abolish the monarchy. The king opposes such a move and wants the Maoists to relinquish their weapons. Accommodation between the king and democratic elements had been thought to be key to creating the unified front necessary to defeat the Maoists. With his direct assumption of powers, and arrest of opposition democratic elements, the King has apparently decided to try to defeat the Maoists on his own. Observers have thought a military victory for either the Royal Nepal Army (RNA) over the Maoists to be unlikely.

Analysts increasingly view differences between King Gyanendra and the main political parties as undermining Nepal's ability to deal with its ongoing Maoist insurgency. King Gyanendra first declared a state of emergency in November 2001 and dissolved Parliament and assumed executive power in October 2002. The lack of elections undermined the legitimacy of the government appointed by the king. Political protest by the main political parties mounted in the spring of 2004 over the increasing assumption of power by the king. Monarchist Prime Minister Surya Bahadur Thapa stepped down amid these protest on May 7, 2004. Elections have not been held due to the state of emergency in the country even though pledges have been made to hold them.²³ The king will have difficulty holding elections as long as the Maoists control much of the countryside. Fighting between Maoists and government

¹⁹ "Nepal: Danger of 'Disappearances' Escalates," *Human Rights Watch*, February 9, 2005.

²⁰ "Nepal: Media Blackout Heightens Risk of Abuses," *Human Rights Watch*, February 16, 2005.

²¹ Nepal: Responding to the Royal Coup, *International Crisis Group*, 24 February 2005.

²² "Nepal: After Monarchist Coup d'etat in Nepal, Parliament Foresees Mediation by Javier Solana or UN," *Agence Europe*, February 26, 2005.

²³ Charles Haviland, "Nepal's Embattled PM," *BBC News*, May 7, 2004.

forces was reported in eastern, north central, and southwestern districts in February 2005.²⁴

After the end of the ceasefire, the Maoists appeared to be shifting from large-scale attacks on police and army headquarters to adopting new tactics that have focused on attacks by smaller cells conducting widespread assassinations of military, police and party officials and destruction of infrastructure.²⁵ More recently the Maoists have blocked roads as a tactic to bring pressure on the government. The unpopularity of a strategy focused on soft targets appeared to have led the Maoists to contemplate a further shift in policy in October 2003 and declare that they would not carry out political killings or destroy government infrastructure. Killings, and attacks on infrastructure, continued despite the politburo's announced change in tactics.²⁶ Though the insurgency began in 1996, a significant proportion of those killed have been killed in recent years.²⁷

Programs associated with the United States have been threatened by the Maoists in the past.²⁸ The United States Agency for International Development and Save the Children both operate in Nepal. On October 27, Maoist leader Prachanda stated that "we will ensure that no American citizens — tourists or officials — except those who come to the battlefield with the Nepal Army would be caused any harm by the Maoist militia."²⁹ Despite such reassurances, the U.S. government identified the Maoists as a threat to American national security and froze Maoists assets and warned Americans in Nepal of "the possibility of an increased threat to Americans and American-affiliated organizations from Maoist insurgents."³⁰

Political instability and insurgency-related violence has undermined the country's economy. In one estimate, it has been reported that Nepal has lost 15.4% of its gross domestic product over a seven year period.³¹ According to a close advisor of the Nepali king, and chairman of the country's largest private company, "Nepal

²⁴ "12 Maoists Killed in Clash with Soldiers in Eastern Nepal," *Agence France Presse*, February 22, 2005. "7 Die as Maoist Rebels Attack Convoys in Nepal," *Vancouver Sun*, February 22, 2005.

²⁵ "Nepal: Back to the Gun," *International Crisis Group Asia Briefing*, October 22, 2003.

²⁶ "Maoists Kill Two Nepali Congress Activists," *BBC News*, October 31, 2003.

²⁷ John Lancaster, "Nepal's War Turns Brutal For Rural Civilians," *Washington Post*, January 2, 2003; Philip Shenon, "Rebels in Nepal Drive Down Tourism," *New York Times*, February 9, 2003.

²⁸ Kedar Man Singh, "Nepal's Maoist Rebels Say They Will Not Carry Out Political Killings," *Agence France Presse*, October 22, 2003.

²⁹ Kedar Man Singh, "Nepal Maoists Say Americans Safe," *Agence France Presse*, October 27, 2003.

³⁰ "United States Declares Nepalese Maoists a National Security Threat, Freezes Assets," *Agence France Presse*, October 31, 2003.

³¹ "Studies Show Conflict Costing Nepal Billions," *BBC News*, October 30, 2003.

is on the verge of becoming a failed state.”³² U.S. government officials have expressed similar fears, and assert that further deterioration of Nepal’s circumstances could destabilize the region, spur new tensions between India and China, and potentially create a new terrorist haven in South Asia.³³

Politics

Nepal is engaged in a political struggle with monarchists, the political parties and Maoists all vying for control. The military also appears to be playing an increasingly important role. The Maoists are seeking a constituent assembly to achieve politically what they have thus far been unable to gain on the battlefield. The political parties seek a return to Parliamentary rule while the king has preferred an influential role in government. “An alliance between any two of the three contending groups is likely to determine Nepal’s future.”³⁴ The king’s takeover in February 2005 makes any alliance between the king and the democrats seem remote. A July 2004 poll found that 60% of Nepalis favor democracy under a constitutional monarchy, 17% favor democracy without a monarchy, and only 2% favor a return to absolute monarchy.³⁵

The relationship between the political parties and the king began to come apart in late 2002. On October 4, 2002, amid dissatisfaction with the worsening security situation and the inability of Prime Minister Deuba’s government to hold parliamentary elections as scheduled, King Gyanendra dismissed the prime minister, disbanded his cabinet, and assumed executive powers, while pledging to relinquish his authority once a new government was formed. (Deuba has since been reappointed and dismissed for a second time as prime minister.) This event marked the first time since absolute monarchy was ended in 1990 that a Nepali king dismissed an elected government and assumed direct power; the move thus stunned the main political parties in Nepal and led to a constitutional debate. While the king claimed that his decision was in accordance with his constitutional power to dismiss the government during a political crisis, the ousted prime minister and key political parties denounced the action as unconstitutional. In the days following Deuba’s dismissal, thousands of Nepalis took to the streets of Kathmandu to demonstrate their opposition to the king’s decision and demand the speedy restoration of democracy. Smaller demonstrations were held in support of the king.³⁶ No large scale

³² Binod Bhattarai and Edward Luce, “Nepal’s New Premier Unmoved by Clamor at Parliament’s Gates,” *Financial Times* (London), November 21, 2002.

³³ Such concerns were expressed in May 2003 by the U.S. Deputy Assistant Secretary of State for South Asia, Donald Camp (Campbell Spencer, “Nepal Rebels’ Patience ‘Wearing Thin,’” *Washington Times*, May 3, 2003. See also Bertil Litner, “Nepal’s Maoists Prepare For Final Offensive,” *Jane’s Intelligence Review*, October 2002).

³⁴ “Nepal,” *Economist Intelligence Unit*, August, 2003.

³⁵ Nepal: Responding to the Royal Coup, *International Crisis Group*, February 24, 2005.

³⁶ Binaj Gurubacharya, “Nepal King Fires Prime Minister,” *Associated Press Newswire*, October 4, 2002; Y.P. Rajesh and Gopal Sharma, “Ousted Nepal PM Brands Dismissal Unconstitutional,” *Washington Post*, October 5, 2002; Y.P. Rajesh, “Nepal Protesters (continued...)”

demonstrations were held in the immediate aftermath of the king's February 2005 takeover.

One week after his assumption of executive power in 2002, King Gyanendra met with senior political leaders to discuss formation of a new government, and he subsequently chose Lokendra Bahadur Chand, a member of the royalist, right-wing National Democratic Party and former premier, to oversee a caretaker cabinet until new elections could be held. The United States extended its best wishes to the new government and pledged its continued support in Nepal's anti-terrorism efforts.³⁷ Leading Nepali political figures, including Deuba, denounced the appointment as an "undemocratic exercise," and more pro-democracy demonstrations involving tens of thousands of Nepalis were held in December and January.³⁸ A May 2003 rally saw some 50,000 citizens gather to denounce the king and reiterate their demands for democracy.³⁹

The possibility of a reconciliation between the king and the political parties was set back when the king refused to accept the parties' recommendation for Prime Minister following Chand's resignation. The king instead selected Surya Bahadur Thapa to be his Prime Minister. Anti-monarchical protests from the five main parties, which seek a full restoration of parliament, brought significant pressure to bear on the king in late 2003 and early 2004.⁴⁰ Maoists are reported to have sought to make common cause with the main parties against the king at that time.

On July 13, 2003, Thapa called for a third round of negotiations with the Maoists. Nepalese government authorities' subsequent temporary detention of a chief Maoist negotiator Bharat Dhungana led to the closing of the Maoist rebel contact office in Kathmandu and put a third round of negotiations in doubt.⁴¹ The third round did transpire in mid-August 2003.⁴² The negotiations stalled on several points. The Maoists favor a constituent assembly to establish a new constitution and redefine the role of the king. The government opposes this, but has offered to include Maoists in an interim government and to call new elections. The government has also indicated that a negotiated agreement must include a plan for Maoists to disarm.

³⁶ (...continued)

Demand King Restore Democracy," *Reuters News*, October 8, 2002; Sushil Sharma, "Anti-King Protests in Nepal," *BBC News*, November 26, 2002.

³⁷ "Senior US Official Meets New Nepal Premier, Extends Support," *BBC Monitoring South Asia*, October 22, 2002.

³⁸ "Nepal Parties React Strongly to New Government," *Asia Pulse* (Sydney), October 11, 2002; Sushil Sharma, "Thousands Protest Against Nepal King," *BBC News*, December 15, 2002; "Thousands Urge Nepal King to Revive Parliament," *Reuters News*, January 13, 2003.

³⁹ "Opposition Rallies in Nepal," *New York Times*, May 5, 2003; Daniel Lak, "Nepal King Facing Cabinet Protest," *BBC News*, May 5, 2003.

⁴⁰ "Fresh Round of Nepal Anti-Monarchy Protests," *BBC Monitoring South Asia*, August 16, 2003.

⁴¹ Stratfor, "Maoist Warriors Await Outcome of Nepal Peace Talks," July 24, 2003.

⁴² "Third Meeting Over," *Nepal News.com*, August 18, 2003.

Chief Maoist negotiator Babu Ram Bhattarai stated that, “It is very unlikely the talks will lead to any fruitful end.”⁴³ Maoist “Supremo” Prachandra has stated that “we are not going to agree to anything less than a constituent assembly.”⁴⁴ The collapse of negotiations led to renewed fighting between Maoists and Royal Nepal forces.

Security

Assistant Secretary of State for South Asia Rocca has stated that peaceful dialogue between Maoists and the Nepal government is “imperative” for the country’s political and economic well-being.⁴⁵ General strikes called for by the rebels have been highly effective in curtailing Nepali commerce and education.⁴⁶ Evidence of the rebellion’s severe effects came with a December 2002 decision by the World Bank to scrap nine irrigation projects in midwestern Nepal due to security concerns.⁴⁷

In January 2003, the chief of Nepal’s armed police force, his wife, and his bodyguard were shot and killed by suspected Maoist rebels. Initial speculation held that the daring attack in the Nepali capital marked a new, high-profile, low-risk rebel strategy.⁴⁸ Yet, on January 29, only three days after the assassination, the Kathmandu government and Maoist rebels declared a cease-fire. The surprise development apparently was enabled by the efforts of Minister for Physical Planning and former army colonel Narayan Singh Pun, who coordinated directly between the palace and the insurgents. The breakthrough reportedly came after 24 hours of secret negotiations in which the government agreed to remove the bounties it was offering for rebel leaders, withdraw Interpol alerts on them, and cancel its declaration of the Maoists as a terrorist organization.⁴⁹

In March 2003, several Maoist leaders emerged from hiding to attend a meeting of mainstream political parties in the Nepali capital. Working with government negotiators, and with the approval of all major Nepali political parties, they were able

⁴³ “Nepal Rejects Key Maoist Demands,” *Irish Times*, August 18, 2003.

⁴⁴ “Nepal ‘Maoist Supremo’ Prachandra Pessimistic on Talks,” *BBC Monitoring South Asia*, August 18, 2003.

⁴⁵ Gopal Sharma, “U.S. to Nepal Rebels — End Violence, Begin Talks,” *Reuters News*, December 14, 2002.

⁴⁶ “Nepal Shuts Down as Maoists Call General Strike,” *Reuters News*, November 10, 2002; Sushil Sharma, “Maoists Close Nepal Schools,” *BBC News*, December 12, 2002.

⁴⁷ Motilal Poudel, “Decision Leaves Thousands of Farmers Shattered,” *Kathmandu Post*, December 3, 2002.

⁴⁸ Gopal Sharma, “Nepal Killing Seems to Signal Twist in Rebel Strategy,” *Reuters News*, January 28, 2003.

⁴⁹ “Govt, Maoists Announce Cease-Fire,” *Kathmandu Post*, January 30, 2003; Gopal Sharma, “Nepal Government, Rebels Declare Cease-Fire,” *Washington Post*, January 29, 2003; “Hopes Rise for Nepal Peace,” *BBC News*, January 30, 2003.

to unveil a 22-point code of conduct for proposed peace talks.⁵⁰ Leading rebel negotiator Babu Ram Bhattarai used the opportunity to criticize the government for violating the code of conduct, but vowed commitment to the peace process. Sounding its own conciliatory note, the Kathmandu government expressed that it was “sincerely committed and engaged in making [peace] talks successful.”⁵¹

After some delay caused by difference over initial agendas, representatives of the two sides finally met in a Kathmandu hotel on April 27, 2003. Four leading opposition parties rejected sending their own representatives to a proposed committee to oversee the negotiation process.⁵² Several hours of talks took place in a “cordial atmosphere,” but produced no concrete progress toward resolution of the conflict. A second round of talks in early May dealt with procedural issues.⁵³ The third round in mid-August 2003 similarly failed. The exclusion from negotiations of mainstream Nepali political parties adds a serious complication to conflict resolution efforts.⁵⁴ Rebel leaders express deepening frustration with the government tack, complaining that Kathmandu’s representatives are failing to build an “atmosphere of confidence” and are insincere in negotiations. They also reacted with anger at their April 30th inclusion on the U.S. State Department’s list of “other terrorist organizations,” stating that the U.S. decision “could have a negative impact on the peace process” by showing “the American tendency for war and not for peace.”⁵⁵

The Maoists’ message has called for “American imperialism” and the “dirty Yankee” to “go home.” The Maoists’ Chief Negotiator, and Chairman of the “People’s Government,” Baburam Bhattarai, reportedly threatened the United States with “another Vietnam” if the United States expands its aid to Nepal.⁵⁶ Bhattarai also sent a letter to the U.S. Ambassador in Kathmandu which called on the United States

⁵⁰ The code stipulates that both sides are committed to finding a peaceful solution through dialogue, will stop violent activities including strikes and kidnappings, gradually release prisoners, not obstruct the transport of food and medicine, and help displaced people return home (“Nepal’s political parties welcome code of conduct for Maoist peace talks,” *Agence France-Presse*, March 14, 2003).

⁵¹ “Nepal Maoists Open to Talks on Monarchy’s Future,” Reuters News, March 13, 2003; “Thousands Greet Nepali Maoists,” *BBC News*, April 3, 2003; Gyaneshyam Ojha, “Serious Backlash If Peace Process Fails: Maoist Leaders,” *Kathmandu Post*, April 4, 2003; “Nepal Says to Hold ‘Goodwill Talks’ With Rebels,” Reuters News, March 28, 2003.

⁵² One of the rebels’ key demands is that elections be held for a new assembly to draft a new constitution and decide the future of the monarchy.

⁵³ Daniel Lak, “Nepal Peace Talks Conclude,” *BBC News*, May 9, 2003. The Nepali press took a more optimistic view, emphasizing that “incremental progress” was made through minor concessions by both sides (Yuvraj Acharya, “Govt to Limit Army Patrols, Release 3 Maoist Leaders,” *Kathmandu Post*, May 10, 2003).

⁵⁴ See “Nepal Backgrounder: Ceasefire — Soft Landing or Strategic Pause?” International Crisis Group Report 50, April 10, 2003.

⁵⁵ “Maoists Attack Peace ‘Insincerity,’” *BBC News*, May 15, 2003; “Nepal Rebels Say U.S. Trying to Disrupt Peace Talks,” *Reuters News*, May 2, 2003.

⁵⁶ Thomas Bell, “Maoist Army Wins Hearts and Minds in West Nepal,” *The Globe and Mail*, September 18, 2003.

to stop “interfering” in the internal affairs of Nepal.⁵⁷ Maoists claimed responsibility for killing two off-duty Nepalese security guards at the American Embassy in Kathmandu in 2002⁵⁸ and the Maoists have made it known that American trekkers are not welcome in Maoist-controlled Nepal.⁵⁹ Further, the Maoists stated on October 22, 2003, that American-backed organizations would be targeted. Rebel leader Prachanda is reported to have stated that groups funded by “American imperialists” would not be allowed to operate in Nepal.⁶⁰

Key Country Issues

Governance

Political Background. Nepal, the world’s only officially Hindu country, has been an independent kingdom since 1768. Never colonized, the country was almost totally isolated from outside influence until the early 1950s. A transition from strict king’s rule to constitutional monarchy began in 1959, when then-King Mahendra issued a new constitution and held the country’s first democratic elections. In 1960, however, the king declared the parliamentary system a failure, dismissed the fledgling government, suspended the constitution, and established a partyless system of rule under the monarchy. Although officially banned, political parties continued to exist and to agitate for a return to constitutional democracy.

In February 1990, student groups and the major political parties launched the Movement for the Restoration of Democracy. The centrist Nepali Congress (NC) party joined with the leftist parties to hold peaceful demonstrations in Nepal’s few urban centers. In April 1990, after more than 50 people were killed when police fired on a crowd of demonstrators, then-King Birendra turned power over to an interim government. This government drafted a constitution in November 1990 establishing Nepal as a parliamentary democracy with a constitutional monarch as head of state. The king at that time retained limited powers, including the right to declare a state of emergency with the approval of a two-thirds majority of parliament.

Nepal’s first decade of democracy was marked by political turbulence in which three parliamentary elections were held and nine governments came to power.⁶¹ In

⁵⁷ Binaj Gurubacharya, “Maoist Rebel Leader Asks U.S., China, India to Stop Interfering in Nepal,” *Associated Press*, September 25, 2003.

⁵⁸ Binaj Gurubacharya, “Nepal Rebels Threaten U.S.-Funded Groups,” *Associated Press*, October, 22, 2003.

⁵⁹ Amy Waldman, “Chance for Peace Fades in Nepal as Deaths Rise,” *The New York Times*, October 13, 2003.

⁶⁰ Binaj Gurubacharya, “Nepal Rebels Threaten U.S.-Funded Groups,” *Associated Press*, October, 22, 2003.

⁶¹ The bicameral parliament consists of a 205-seat House of Representatives (Lower House), whose members are elected by popular vote to serve five-year terms; and a 60-seat National Assembly (Upper House), whose members are appointed (10 by the king, 15 by an electoral (continued...)

the third parliamentary elections in May 1999, NC president and former Prime Minister Girija Prasad Koirala agreed to support Krishna Prasad Bhattarai as prime minister. However, in mid-March 2000, rivalry between the two leaders and party dissatisfaction led to Bhattarai stepping down. On March 20, King Birendra appointed Koirala prime minister for a fourth time.

The Kathmandu government faced additional turmoil in June 2001, when Crown Prince Dipendra reportedly shot and killed his parents, King Birendra and Queen Aishwarya, seven other members of the royal family, and himself, after a disagreement over whom he should marry. King Gyanendra, the former king's brother, was crowned on June 4 and he appointed a commission to investigate the assassination. By mid-June, the country began returning to normal following rioting and widespread refusal to believe official accounts of the massacre. In July 2001, Prime Minister Koirala stepped down amid fears of continuing instability and his government's failure to deal with the growing Maoist insurgency. He was replaced by NC leader Sher Bahadur Deuba, who then became the head of Nepal's eleventh government in as many years.

Constitutional Crisis. During the summer of 2002, the government of Nepal was thrown into a constitutional crisis that, many argue, has interfered with its ability to effectively combat the Maoist insurgency. The crisis began in late May, when King Gyanendra, at the request of the prime minister, dissolved parliament and unilaterally declared a three-month extension of emergency rule, which had expired on May 24. The prime minister, who also scheduled early elections for November 2002, reportedly took such action after his centrist Nepali Congress party refused to support his plan to extend emergency rule. Following the prime minister's actions, 56 former members of parliament filed a lawsuit against the prime minister, claiming that there was no constitutional precedent for the dissolution of parliament during emergency rule. In August, the Supreme Court rejected this lawsuit. Although opponents of the prime minister agreed to accept the verdict, they emphasized the difficulty of holding free and fair elections two years ahead of schedule when much of the country was under either rebel or army control.⁶²

Meanwhile, these events effectively split the Nepali Congress into two factions. First, the Nepali Congress Party (NC), led by former Prime Minister Koirala, expelled Deuba from the party for three years for his unilateral actions. Then, in mid-June, Prime Minister Deuba called an NC convention that overturned his expulsion and elected him, rather than Koirala, as NC president. Supporters of Koirala, however, argued that the NC convention led by Deuba, who was an expelled party member at the time, was invalid. In September, Nepal's Election Commission

⁶¹ (...continued)

college, and 35 by the House of Representatives). For the purpose of this report, "parliament" refers to the House of Representatives, which is the main focus of legislative reporting.

⁶² "Parties React to Court Ruling Backing PM's Right to Dissolve Parliament," BBC Monitoring South Asia, August 7, 2002; Shusham Shrestha, "Nepal PM's Foes Begrudgingly Accept Court Approval of Early Elections," *Agence France-Presse*, August 7, 2002.

ruled that Koirala was the president of the NC, and, therefore, his faction was authorized to use the party's name and emblems in the November elections. In accordance with the Election Commission's ruling that allowed it one week to apply under a new party name, the Deuba-led faction registered as the Nepali Congress (Democratic) party on September 23.⁶³ Given that almost 60% of the population is illiterate, use of the NC emblems could be a significant advantage for the Koirala faction in future elections. On the other hand, some observers speculate that the ruling party split may benefit the Nepal Communist Party-United Marxist and Leninist (NCP-UML) party, the country's second largest.⁶⁴

Although the prime minister pledged that there would be no emergency rule during the scheduled November 2002 elections, Maoist attacks and threatened strikes prompted the government to consider various measures to prevent a Maoist disruption of the polls. The government discussed imposing a partial state of emergency in areas badly affected by the insurgency. However, opposition parties, which urged the government to open a dialogue with the Maoists, argued that by curbing civil liberties, emergency rule would inhibit free and fair elections. As an alternative, the government announced in September that it would hold the elections in six stages over two months, starting in mid-November, so that government troops could be transferred around the country to protect voters and candidates.⁶⁵ After further deliberation, however, Nepal's cabinet concluded that the security situation was too risky to hold elections. On October 3, the cabinet asked King Gyanendra to postpone the national elections for one year.⁶⁶ The next day, he dismissed the prime minister, disbanded his cabinet, and assumed executive powers.

Maoist Insurgency

In February 1996, the leaders of the underground Communist Party of Nepal (Maoist) and the United People's Front (UPF) launched a "People's War" in the midwestern region of Nepal, with the aim of replacing the constitutional monarchy with a one-party Communist regime. Over 10,000 people, including civilians, guerrillas, and security personnel, reportedly have been killed in the ensuing insurgency. The uprising appears to have been fueled by widespread perceptions of government corruption and failure to improve the quality of life of citizens, including providing access to cultivable land. The Maoist movement is estimated to include between 5,000 and 10,000 armed fighters and to control a substantial proportion Nepal.⁶⁷ By some estimates the Maoists run a parallel government, setting up their

⁶³ "Nepal's Embattled PM Forms New Political Party," *Reuters News*, September 23, 2002.

⁶⁴ Kedar Man Singh, "Nepal Says PM is not Head of Ruling Party, Hands Title to Foe," *Agence France-Presse*, September 17, 2002; "Nepal Poll Panel Rejects PM as Head of Ruling Party," *Reuters News*, September 17, 2002.

⁶⁵ Binaj Gurubacharya, "Nepal to Hold Elections in Stages," *Associated Press Newswire*, September 28, 2002.

⁶⁶ Gopal Sharma, "Nepal Cabinet Seeks to Put Off Elections by a Year," *Reuters News*, October 3, 2002.

⁶⁷ Philip Pan, "China Backs Nepal Over Maoist Rebels," *Washington Post*, July 14, 2002; (continued...)

own tax system, burning land records, and redistributing seized property and food to the poor, in 45 districts.⁶⁸ The King of Bhutan is reported to have stated that the Maoists control 69 of 75 districts in Nepal.⁶⁹ The insurgency has been waged, in part, through torture, killings, and bombings targeting police and public officials. Some analysts have equated the insurgency with the Shining Path movement in Peru. A string of bank robberies, combined with “revolutionary tax” revenue, has made the Nepali Maoists among the wealthiest rebel groups in Asia, with up to \$128 million in net receipts.⁷⁰ The Maoists control over Nepal “has been steadily increasing.”⁷¹

Shortly after Prime Minister Deuba took office in July 2001, the Nepali government and the Maoists announced a truce and began peace talks the following month. After three rounds of promising discussions, talks broke down over the Maoists’ demand that the monarchy be eliminated. On November 23, 2001, the Maoists broke the cease-fire with coordinated attacks on army and police posts. Three days later, King Gyanendra declared a state of emergency, which allowed the Royal Nepal Army (RNA), then at a strength of 53,000, to join the police in fighting the insurgents. The poorly trained, largely ceremonial RNA, however, was unable to stem the increasing Maoist violence. Plans have been underway to expand the force, thought to number at least 72,000, and to provide them with enhanced training.⁷² The state of emergency was extended for three months in February and again in May 2002. The government also passed the Terrorist and Disruptive Activities (Control and Punishment) Bill in April, which replaced an anti-terrorism ordinance issued at the time of the first declaration of emergency. The new law makes terrorism a crime punishable by life in prison and allows government forces to detain terrorist suspects for an extendable 90-day period.⁷³

After breaking the cease-fire, the Maoists staged numerous deadly attacks on police and army posts, government facilities, and civilian areas, and forced the country’s economy to a standstill in successive general strikes protesting the state of emergency. A significant proportion of the deaths associated with the insurgency

⁶⁷ (...continued)

Bertil Litner, “Nepal’s Maoists Prepare For Final Offensive,” *Jane’s Intelligence Review*, October 2002; Binod Bhattarai and Edward Luce, “Nepal’s New Premier Unmoved by Clamor at Parliament’s Gates,” *Financial Times* (London), November 21, 2002.

⁶⁸ Aniket Alam, “Abductions, a Political Message by Maoists?” *The Hindu*, January 23, 2005.

⁶⁹ G.S. Iyer, “Nepal Policy Lacks Cogency,” *The Hindu*, February 22, 2005.

⁷⁰ Bertil Litner, “Nepal’s Maoists Prepare For Final Offensive,” *Jane’s Intelligence Review*, October 2002.

⁷¹ International Institute of Strategic Studies, *The Military Balance, 2004-2005*, (London: Oxford University Press, 2004), p.148.

⁷² John Kifner, “A Magical Kingdom’s Bleak Political Realm Grappling with a Wobbly Cease Fire,” *The New York Times*, August 4, 2003. International Institute of Strategic Studies, *The Military Balance, 2004-2005* (London: Oxford University Press, 2004), Some reports place the strength of the RNA at 78,000, see Neelesh Misra, “Nepalese Soldiers, Famous for Keeping Peace, Learn to Wage War,” *Associated Press*, February 26, 2005.

⁷³ Binaj Gurubacharya, “Nepal Parliament Approves Anti-Terrorism Bill,” *Associated Press* Newswire, April 4, 2002.

have occurred since November 2001. Two of the deadliest battles came in May 2002, when, according to Nepali officials, up to 650 rebels and at least 100 soldiers and police officers were killed. Following those clashes, the rebel commander, Pushpa Kamal Dahal — also known as “Prachanda” or “the fierce one” — issued a statement declaring a one-month cease-fire beginning May 15, 2002. Claiming that the rebels have used cease-fires to regroup, the government of Nepal promptly rejected the cease-fire offer and insisted that the rebels first lay down their arms.⁷⁴ Critics of the Deuba government’s hard-line approach toward the Maoists argued that it failed to address the rural poverty that underlies the Maoist campaign.⁷⁵

After the state of emergency expired on August 28, 2002, the Maoists again stepped up their attacks. During the first week of September, Maoist bombings and battles with police officers and soldiers left more than 300 people dead. On September 16, a general strike called by the Maoists shut down much of the country. November clashes in areas to the west of Kathmandu involved rebel attacks on police stations and administrative headquarters and caused at least 200 deaths, including some 60 security personnel.⁷⁶ Along with this accelerated pace of violence, there were reports that sizeable Nepali army units had undergone anti-terrorist training in India, while Maoists may have established a presence in nearby Indian states such as Bihar. Intelligence reports also suggested that, in return for arms and training, Maoist forces provide bases to rebel groups fighting New Delhi’s rule in India’s northeastern Assam state.⁷⁷ A cease fire was reached in January 2003. Fighting resumed in August 2003 as the cease fire agreement collapsed.

Classical Maoism conceives three phases of protracted war: strategic defensive, strategic stalemate, and strategic offensive. Although the insurgents’ tactical-level efforts have had great successes thus far and represent a significant threat to the Kathmandu government’s ability to govern, one late 2002 assessment indicates that the rebels’ tactics may be ill-suited to urban combat, and that the Maoists may be outstripping their supply resources.⁷⁸

⁷⁴ Neelesh Misra, “Government Rejects Maoists Cease-Fire Offer; Army Says Rebels Withdraw From Western Stronghold,” *Associated Press Newswire*, May 9, 2002.

⁷⁵ David Rohde, “Ousted by King, Nepal Premier Asks for Support,” *New York Times*, October 6, 2002.

⁷⁶ Kedar Man Singh, “Nepal Considers New Emergency After 300 Dead in Maoist Unrest,” *Agence France-Presse*, September 11, 2002; Binaj Gurubacharya, “General Strike Shuts Most of Nepal,” *Washington Post*, September 16, 2002; “Upsurge in Nepal Violence,” *BBC News*, November 15, 2002; Sushil Sharma, “Nepal Rebels ‘Suffer Heavy Casualties,’” *BBC News*, November 23, 2002.

⁷⁷ R. Bedi, “Maoist Battle to Control Nepal,” *Jane’s Terrorism and Security Monitor*, November 2002.

⁷⁸ John Mackinlay, “A Military Assessment of the Nepalese Maoist Movement,” *Jane’s Intelligence Review*, December 2002.

Economy

Nepal is one of the poorest countries in the world, with a per capita annual income of about \$242. Some 38% of the country's 24 million people live in poverty and up to 90% earn a living through agriculture, which accounts for roughly 40% of the country's gross domestic product. Only 20% of the land is arable. Major crops include rice, wheat, maize, jute, sugarcane, and potatoes. Continued reliance on subsistence farming could keep Nepal poor for many years to come. Though the industrial base is small, Nepal produces carpets, garments, and increasingly textiles, which now account for about 70% of merchandise exports. Other major revenue sources are tourism and remittances from Nepal's famed Gurkha soldiers serving in the British and Indian armies.

For the first time in nearly 20 years, Nepal's economy reportedly contracted by 0.6% in the fiscal year ending July 2002, an apparent result of the internal rebellion's impact on trade (including tourism) and manufacturing.⁷⁹ This is compared to a 6.4% economic growth rate for FY1999/2000 (ending in July). Nepal's economic growth equaled 2.6% in 2003. An IMF team forecast 3.5% growth for Nepal for the period July 2004 to July 2005 based on a December 2004 visit to Nepal which took place before the king's February 2005 takeover.⁸⁰ Growth is expected to drop in the wake of the takeover by the king. Future economic prospects will likely be influenced by the outcome of the peace negotiations underway with the Maoists and the king's ability to come to terms with the democrats.

Nepal's long-term outlook is clouded by limited resources — both human and natural — and an unfavorable geographic setting.⁸¹ An annual report by the Asian Development Bank reflects the widespread belief that, “addressing the underlying causes of the insurgency — widespread rural poverty and the failure to spread the benefits of development more widely — is critical for Nepal's development.”⁸² Government efforts to increase foreign trade and investment have been impeded by political instability, the resistance of vested interests, the small size of the economy and its remoteness, the lack of infrastructure and technological development, and frequent natural disasters, including floods and landslides. The U.S. Agency for International Development has estimated that the cost of the conflict to Nepal's economy at \$1.5 billion in lost property and lost economic growth. USAID has also estimated that Nepal's defense expenditure have increased by 45% since 1997.⁸³

Hydroelectric potential may be Nepal's most attractive asset in the eyes of investors. Nepal and India have completed several joint irrigation-hydroelectric

⁷⁹ “Nepal Economy Hits 20-Year Low,” BBC News, December 11, 2002.

⁸⁰ *Nepal: Country Report*, The Economist Intelligence Unit, February 2005.

⁸¹ “Nepal: Executive Summary,” Global Insight, October 10, 2002.

⁸² Asian Development Bank, “Asian Development Outlook 2003,” available at [<http://www.adb.org/documents/books/ado/2003/default.asp>].

⁸³ “Democracy and Governance: Update on the Conflict in Nepal,” USAID, February 24, 2005.

projects and, in 2001, the Kathmandu government implemented a hydropower policy that opened the entire sector to private investment. A number of factors, including lack of capital, high transportation costs, environmental and social impact concerns, and political impediments, continue to hamper Nepal's hydropower potential, leaving only 15% of the country's population with access to electricity.

Nepal's tourist industry has traditionally been an important part of the economy and a key source of foreign exchange. However, due to the burgeoning Maoist conflict, the royal family killings, and the September 2001 terrorist attacks on the United States, tourist arrivals fell by 20% in 2001, and again by 28% in 2002, to roughly 220,000. Recent government efforts to revive the industry include opening up more mountain peaks to expeditions, reducing visa fees and easing visa procedures.

Deforestation is one of the major environmental problems in Nepal. Between 1979 and 1994, Nepal's forest cover declined from 38% to 29%. A 2001 report prepared by the United Nations and the Nepali government cites several key causes of deforestation: population growth, increased consumption of fuel wood, expansion of grazing and agricultural land, internal migration, smuggling of logs into India, and government forest policy. Rapid depletion of forest resources has contributed to landslides, floods, erosion of agricultural lands, silting of waterways, and loss of settlements and human life.⁸⁴

Geopolitics

Nepal has been described as a yam between two boulders. Nepal's geopolitical status as a small, landlocked buffer state situated between two Asian giants — India and China — has severely constrained its foreign policy and trade options. Although Nepal has sought to maintain friendly relations with both neighbors, cultural, linguistic, religious, and economic ties with India historically have been much closer than those with China. Nepal is heavily dependent on India as the primary source of imports, the main market for exports, and for access to the sea through the major port of Calcutta. Moreover, the Himalayan mountain range along Nepal's northern border limits access to China, whereas the 500-mile southern border with India is relatively open. India, which has always considered Nepal a strategic link in its northern border defenses, has supported Kathmandu's efforts against the Maoist guerrillas by providing helicopters, transport vehicles, and arms and offering to train Nepali soldiers.⁸⁵ Some believe that India has the most to lose from Maoist advances in Nepal, as New Delhi views Nepali instability as a potential catalyst for the destabilization of India's own troubled northeastern states.⁸⁶

⁸⁴ "Rampant Tree-Felling Shrinks Nepal's Forest Cover," *Reuters News*, March 27, 2001; United Nations Environment Program, "Nepal: State of the Environment 2001," available at [<http://www.rccap.unep.org>].

⁸⁵ "India Pledged to Support Nepal in Rebel Fight," *Reuters News*, August 23, 2002.

⁸⁶ Mandavi Mehta and Nisala Rodrigo, "Nepal Update," *South Asia Monitor* 53, Center for Strategic and International Studies, December 1, 2002.

At the same time, the Nepali leadership has long resented Indian economic influence and has sought to establish a more independent foreign policy. Kathmandu has at times “played the China card” in seeking to counterbalance what it considers undue pressure from India. In recent years, Beijing has contributed significant economic aid to Nepal — roughly \$10 million per year — and has pledged “political and moral” support for Nepal’s fight against the Maoist insurgency, which it denounces as misusing the ideas of Chairman Mao Zedong. In November 2001, Beijing agreed to provide communications equipment to assist the Nepal Army in operating in mountainous terrain. Some observers have noted that Nepal’s stability is important to China, given that it serves as a buffer between China and India.⁸⁷ The United States apparently supported India in taking a leading role in the situation in Nepal in the wake of the February 2005 takeover by the king.⁸⁸

U.S.-Nepal Relations

Relations between the United States and Nepal have traditionally been friendly. With 25.1% of Nepal’s exports going to the United States, the United States is Nepal’s second largest destination for exports. India is first with 53.3% of Nepal’s exports.⁸⁹ U.S. policy objectives toward Nepal include supporting democratic institutions and economic liberalization, promoting peace and stability in South Asia, supporting Nepalese independence and territorial integrity, and alleviating poverty. The United States became Nepal’s first bilateral aid donor in January 1951 and has since contributed more than \$1.4 billion bilaterally and multilaterally to that country. On January 26th, 2005, S. 191, the Tariff Relief Assistance for Developing Economies Act of 2005, or the Trade Act of 2005, was referred to the Senate Committee on Finance. The bill recognizes the challenges to least developed countries (LDC) including Nepal, particularly with the end of the multi-fiber arrangements, and would allow duty free access for products from Nepal and 13 other LDCs.⁹⁰

In December 2002, the United States and Nepal signed an accord calling for the non-surrender of nationals to any international criminal court without prior consent. A similar pact, known as an Article 98 agreement, was signed by the governments of the United States and India earlier in the year. In March 2003, the United States and Nepal signed a Memorandum of Intent to “formalize and strengthen both nations’ participation in the Antiterrorist Assistance program.”⁹¹ In July 2003 the

⁸⁷ Philip Pan, “China Backs Nepal Over Maoist Rebels; Move Reflects Beijing’s Growing Interest in Fostering Stability, Not Revolution,” *Washington Post*, July 14, 2002.

⁸⁸ “U.S. Wants India to Play a Leading Role in Nepal,” *Press Trust of India*, February 22, 2005.

⁸⁹ *Nepal: Country Report*, The Economist Intelligence Unit, February 2005.

⁹⁰ S. 191 Trade Act of 2005 as introduced in the Senate and “Bill Seeking Duty Free Access of LDC Products Raised in US Congress,” *Organization of Asia-Pacific News Agencies*, February 23, 2005.

⁹¹ “Nepal-U.S. Non-Surrender Accord,” Press Release, American Embassy, Kathmandu, (continued...)

United States Embassy in Kathmandu reported that the Maoists had begun targeting U.S. aid projects.⁹²

U.S. Assistance

U.S. attention to Nepal has focused on issues related to the Maoist insurgency in recent years. The United States has provided Nepal with \$22 million in light weaponry and other military assistance to assist Nepal in its fight against the Maoists.⁹³ The FY2006 request proposes an increase from \$1,488,000 to \$4,000,000 for Foreign Military Financing (FMF) for Nepal with a stable \$650,000 for International Military Education (IMET) and training for Nepal. U.S. military assistance “will help provide a modernizing Royal Nepal Army with the capability to convince the Maoists that they cannot follow the military path to political power.” High priority items for FMF assistance to the RNA include “small arms, grenade launchers ... night vision goggles, body armor, secure communications equipment, spare parts for mobility platforms, and armor plating.” Nepal will be eligible to receive grant excess defense articles in FY2006 under section 516 of the Foreign Assistance Act. The United States also provides development assistance to Nepal under the Child Survival and Health (CSH) programs, Development Assistance (DA), and Economic Support Funds (ESF).⁹⁴

⁹¹ (...continued)

December 31, 2002; “Nepal and U.S. Governments Sign Antiterrorism Assistance,” Press Release, American Embassy, Kathmandu, April 25, 2003.

⁹² “US Saddened Over Maoist Targeting,” *BBC Monitoring South Asia*, August 1, 2003.

⁹³ Jahn Lancaster, “King Claims Absolute Authority in Nepal,” *The Washington Post*, February 2, 2005.

⁹⁴ “South Asia,” FY2006 Congressional Budget Justification for Foreign Operations, Released February 15, 2005, United States Department of State.

U.S. Assistance to Nepal, 2001-2006
(thousand dollars)

Act.	FY2001	FY2002	FY2002 S.A. ^a	FY2003	FY2004	FY2005 est.	FY2006 req.
CSH	9,250	20,000	—	19,899	24,840	23,540	23,000
DA	11,858	7,597	—	10,247	8,874	10,000	11,392
ESF	0	3,000	—	4,000	4,971	4,960	5,000
FMF	0	2,000	12,000	2,950	3,975	1,488	4,000
IMET	237	377	—	500	546	650	650
Peace Corps	1,735	2,111	—	2,624	2,108	394	0
Totals	23,080	35,085	12,000	40,220	45,314	41,032	44,042
Food Aid (not including freight costs)							
P.L. 480 Title II Grant	0	2,352	—	0	0	1,000	0
FFE	—	—	—	2,130	0	n/a	n/a
Sec. 416(b)	2,666	0	—	0	0	n/a	n/a

Sources: CRS Report RL31362, *U.S. Foreign Aid to East and South Asia: Selected Countries*, by Thomas Lum; and U.S. Department of State.

While U.S. officials have pledged to support Nepal's efforts to combat the Maoist insurgency and to strengthen democracy there, they also have dismissed any speculation that the United States seeks to establish military bases in Nepal. Given an expressed U.S. interest in maintaining and improving relations with India, some have argued that the United States should limit any military presence in Nepal that might rile New Delhi.⁹⁵ Continuing a military exchange program that was established in the mid-1990s, a platoon-sized team of U.S. Pacific Command forces reportedly engaged in month-long joint military exercises in Nepal in early 2003. The exercise was meant to improve force interoperability and to boost Nepal's tactical efficiency.⁹⁶ In May, the U.S. Ambassador to Kathmandu was quoted as saying that the United States "does not seek to establish any U.S. base in Nepal and the United States does not have any strategic interest in Nepal," adding that the U.S.

⁹⁵ "US Official Reiterates His Country's Support," BBC Monitoring South Asia, September 6, 2002; "USA Establishes Military Funding to Help Nepal Combat Maoist Insurgency," *BBC Monitoring South Asia*, September 11, 2002.

⁹⁶ Surendra Phuyal, "US Forces in Nepal for Joint Military Exercise," *Kathmandu Post*, January 14, 2003.

military is there “just to train the Nepali soldiers in anti-terrorist techniques.”⁹⁷ The Maoists have expressed their opposition to any United States military presence in the country and have stated they will fight U.S. military forces if they enter Nepal.⁹⁸

In a bilateral purchase deal unrelated to promised U.S. security assistance, a consignment of 5,000 U.S.-made M-16 rifles was delivered to Nepal in January and February 2003. These weapons were expected to be combined with a scheduled shipment from Belgium of 5,500 advanced automatic rifles to enhance significantly Kathmandu’s anti-insurgency capabilities.⁹⁹

Terrorism

In September 2002, President Bush sent a letter to then-Prime Minister Deuba thanking Nepal for its contributions to ending terrorism.¹⁰⁰ The U.S. State Department has designated the Communist Party of Nepal (Maoist) as an “other terrorist organization.”¹⁰¹ No links have been found between the Nepali Maoists and international terrorist organizations operating beyond South Asia, such as Al Qaeda, and the Maoist fighters have no known state patrons providing arms or supplies.¹⁰² Some 200 Nepali police and Royal Nepal Army officers have received anti-terror training under an anti terror training agreement between the United States and Nepal. This agreement has been targeted by the Maoists in their negotiations with the Nepali government.¹⁰³

Human Rights Concerns

The United States views Kathmandu’s record on human rights as “poor” due to “numerous serious abuses” including “arbitrary and unlawful lethal force ... abuse of detainees” and the use of “torture as punishment or to extract confessions.” The State Department has also pointed to the disappearance of persons in custody and poor prison conditions as other problems.¹⁰⁴ Freedom of assembly, speech, and the press,

⁹⁷ “US Envoy Says No Plan to Establish Military Bases in Nepal,” *BBC Monitoring South Asia*, May 6, 2003.

⁹⁸ Chitra Tiwari, Nepal Maoists Agree to Bargain,” *The Washington Times*, August 2, 2003.

⁹⁹ Surendra Phuyal, “US Arms Arrive, Wait On for Belgian Minimis,” *Kathmandu Post*, January 6, 2002; Sushil Sharma, “Nepal Takes Delivery of US Rifles,” *BBC News*, January 6, 2003.

¹⁰⁰ “Bush Thanks Nepal for Efforts Against Terrorism,” *BBC Monitoring South Asia*, September 18, 2002.

¹⁰¹ U.S. Department of State, “Patterns of Global Terrorism 2002,” April 30, 2003, available at [<http://www.state.gov/s/ct/rls/pgtrpt/2002/>].

¹⁰² “US Official Reiterates His Country’s Support,” *BBC Monitoring South Asia*, September 6, 2002.

¹⁰³ “US Embassy Clarifies Anti-Terror Cooperation with Nepal.” *BBC Monitoring South Asia*, August 16, 2003.

¹⁰⁴ “Nepal: Country Report on Human Rights Practices-2004,” Released by the Bureau of (continued...)

mandated by the Nepali constitution, have been suppressed by the government under the current state of emergency. Reports by Amnesty International have echoed these criticisms, asserting that Nepal has been “in the grip of a human rights crisis for a number of years.” Amnesty International has also stated that as a result of the February 2005 state of emergency “a human rights catastrophe is looming amidst heightened militarization and an attack on democracy.”¹⁰⁵

Along with the U.S. Department of State, Amnesty International, and Human Rights Watch also have criticized the Maoist insurgents for human rights violations in their ongoing conflict. The Maoists allegedly have committed murders, bombings, torture, abductions, and the severing of victims’ limbs. Although they continue to target the police and the army, the Maoists have also killed and injured civilians, including political leaders, local elites, and suspected informers. Reports indicate that the Maoists recruit children as young as 14 years old as soldiers, messengers, and human shields. According to a July 2002 report prepared by a coalition of international and Nepali human rights groups, at least 30% of the Maoist guerrillas are children.¹⁰⁶

Human trafficking and child labor are serious social problems in Nepal. An estimated 5,000-12,000 Nepali women and girls are lured or abducted to India and forced into prostitution each year. In addition, reports indicate that 2.6 million children in Nepal, mostly girls, are economically active, with 1.7 million of these children working full-time. Most child laborers — about 95% — work in agriculture, and roughly 40% do not attend school. Until 1994, children reportedly constituted nearly one-third of the workforce in Nepal’s carpet industry. However, due to heightened media attention in consumer nations, the establishment of a certification system for carpets made without child labor, and increased efforts by the Ministry of Labor, children reportedly now comprise only 2% of Nepal’s carpet workers.¹⁰⁷ In August 2002, the International Labor Organization and the Finance Ministry of Nepal reached agreement on a \$5 million project funded by the U.S. Department of Labor to combat the worst forms of child labor in Nepal.¹⁰⁸

¹⁰⁴ (...continued)

Democracy, Human Rights, and Labor, U.S. State Department, February 28, 2005.

¹⁰⁵ “Nepal: A Long Ignored Human Rights Crisis is Now on the Brink of Catastrophe,” *Amnesty International*, February 18, 2005.

¹⁰⁶ “30 Percent of Nepalese Maoist Fighters Are Children: Study,” *Agence France-Presse*, July 6, 2002.

¹⁰⁷ Amnesty International, *Annual Report 2001: Nepal*, and *Annual Report 2002: Nepal*; U.S. Department of State, *Country Reports on Human Rights: Nepal 2001*, March 4, 2002.

¹⁰⁸ “Agreement to Combat Child Labor,” Press Releases, American Embassy, Kathmandu, August 20, 2002.

Figure 1. Map of Nepal



Adapted by CRS from Magellan Geographix.