



The Journal of the Italian think tank on Asia  
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# Reacting to Donald Trump's Challenge

Edited by  
**Michelguglielmo Torri**  
**Nicola Mocci**

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**viella**

A large, intricate, light blue decorative floral pattern is located in the bottom right corner of the cover. It features complex, repeating geometric and organic shapes, resembling a stylized mandala or a traditional Islamic geometric pattern.

CENTRO STUDI PER I POPOLI EXTRA-EUROPEI “CESARE BONACOSSA” - UNIVERSITÀ DI PAVIA

# ASIA MAIOR

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NEPAL 2018: THE COMMUNIST SEARCH FOR NEW POLITICAL  
AND TRADE ROUTES\*

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*This article traces the main events of the internal situation and foreign policy of Nepal in 2018, after the electoral victory of the far-left parties and the defeat of the Nepali Congress at the end of 2017 and the consequent birth of the Oli government. The unification of the Communist Party of Nepal (Unified Marxist-Leninist) with the Communist Party of Nepal (Maoist Centre) and the subsequent birth of the Nepal Communist Party are central to the ongoing and complex readjustment of Nepali politics. In terms of international relations, the Oli government bends the Nepalese axis towards a deeper relationship with China. This position aims to break the risk of geopolitical and economic isolation to which Nepal is exposed. The country has no access to the sea and the Himalayan chain in the north should therefore become, in the following years, the geographic space for new communication routes in the framework of the Belt and Road Initiative. The final part of the article provides analysis of the Nepalese economic situation. Despite experiencing a period of growth after the earthquake of 2015, the economy of the country continues to suffer.*

### *1. Introduction*

The elections at the end of 2017 – the first ones after the approval of the new Constitution of 2015<sup>1</sup> – saw the landslide victory of the communist forces in Nepal. After the historical divisions, in October 2017, the two main communist parties of the country found an agreement that – through a series of intermediate steps - led them to form the national government, with the appointment as prime minister of Khagda Prasad Oli, and to the control of six federated states out of seven. The Nepali Congress was badly defeated. Despite the good result in terms of proportional votes, the party was penalised in the first-past-the-post seats, having failed to form a sufficiently

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1. Constitution of 2072, according to the official Nepalese calendar, the Vikram Samvat (*Vikrama samvat*).

broad coalition.<sup>2</sup> In May 2018, the left electoral alliance was transformed into a broader agreement (something already foreseen in the electoral phase) that led to the birth of the Nepal Communist Party, a unitary force that now controls two-thirds of the entire national parliament thanks to the alliance with the Federal Socialist Forum-Nepal in June 2018. At the time of writing (January 2019), the parliamentary majority was able to change the Constitution in complete autonomy.

In addition to internal political issues, the new government has a clear foreign policy objective, i.e. overcoming the main Nepalese geopolitical problem: the risk of isolation with India and therefore with the rest of the world. This danger – realised in the aftermath of the approval of the Constitution of 2015 with the blockade of the border due to the protests of the Madhesi populations – pushed Oli first to enter into the Belt and Road Initiative (BRI) in 2015, during his first term as head of the government, as well as to speed up the discussion with Beijing for the opening of a railway network able to connect Kathmandu with Tibet. At the same time, however, the project of a railway network linking the Nepalese capital with the state of Bihar in India was also at the centre of the prime minister's visit to New Delhi.

For the drafting of this paper, the main sources were official reports and press releases of the government of Nepal and of other Nepalese, foreign and international institutions. For the domestic policy sections, Nepalese newspapers were also consulted.

## 2. *The communist government*

In Nepal, 2017 ended with the crushing victory of the Left Alliance in the federal and state elections of November–December 2017: the coalition between Marxist-Leninists (CPN-UML) and Maoists (CPN-MC) won almost two-thirds of the seats of the House of Representatives, in addition to the leadership of six federated states out of seven.<sup>3</sup> The Nepalese House of Representatives consists of 275 members.<sup>4</sup> Of the 165 members elect-

2. The Nepali Congress had allied itself with the Rastriya Prajatantra Party (RPP) of Kamal Thapa, with the Nepal Loktantrik Forum of Bijay Kumar Gachhadar, and with former prime minister Baburam Bhattarai, leader of the Naya Shakti Party.

3. Data on the results of the state and national elections of 2017, unless otherwise specified, are taken from the website of *The Kathmandu Post* dedicated to elections (<https://election.ekantipur.com>).

4. Art. 84 of the Nepalese constitution. For the text of the constitution, I have relied on the official English translation by the Ministry of Law, Justice and Parliamentary Affairs of Nepal. An electronic copy is available on the website of the International Institute for Democracy and Electoral Assistance ([http://www.constitutionnet.org/sites/default/files/2017-07/Constitution-of-Nepal-English-with-1st-Amendment\\_2\\_0.pdf](http://www.constitutionnet.org/sites/default/files/2017-07/Constitution-of-Nepal-English-with-1st-Amendment_2_0.pdf)). On the main political institutions under the new constitution see also: Matteo Miele, 'Nepal 2015-2017: A Post-Earthquake Constitution and the Political Struggle', *Asia Maior 2017*, pp. 313-316.

ed with the first-past-the-post electoral system (one for each constituency), the CPN-UML obtained 80 seats and the CPN-MC 36. The Nepali Congress (NC) won in just 23 constituencies, despite a more than positive result in the proportional representation. The former prime minister Baburam Bhattarai, leader of the Naya Shakti Party – who initially had decided to join the Left Alliance,<sup>5</sup> – won his seat with the support of the NC in the first-past-the-post system defeating the CPN-MC candidate.<sup>6</sup> The other 110 seats are distributed with a proportional system among the parties that pass the threshold, i.e. 3% of the votes on a national basis (only five in this case<sup>7</sup>): CPN-UML (33.25%), NC (32.78%), CPN-MC (13.66%) and finally the two allied Madhesi parties, the Federal Socialist Forum-Nepal (4.95%) and the Rastriya Janata Party-Nepal (4.93%). The distribution of proportional seats was only defined in February, 2018: CPN-UML: 41 seats; NC: 40; CPN-MC: 17; RJPN (Rastriya Janata Party-Nepal): 6; FSN (Federal Socialist Forum-Nepal): 6.<sup>8</sup> These last two parties also obtained ten and 11 seats respectively in the first-past-the-post, as well as the leadership of State No. 2, the only federated state not won by the Left Alliance.

The RPP monarchists obtained only one seat in the first-past-the-post, but it was won by Rajendra Lingden against the NC (that was, as seen, the ally of the RPP at the national level, but not in the single constituency of Rajendra Lingden) and indirectly supported by the communist coalition.<sup>9</sup> From the new political-institutional balances, a new government was born, and a cabinet led by the Marxist-Leninist leader Khagda Prasad Oli, who was appointed as new prime minister on 15 February 2018,<sup>10</sup> shortly after the allocation of the proportional seats.

5. 'UML, MC, Naya Shakti announce poll alliance', *The Rising Nepal*, 4 October 2017.

6. 'Key architects of left alliance Bamdev, Shrestha suffer loss', *The Kathmandu Post*, 11 December 2017.

7. 'Five parties likely to qualify for PR seats', *República*, 14 December 2017. In total, 49 parties were running for proportional representation ('49 parties submit closed list', *myRepública*, 17 October 2017). I have chiefly consulted the paper edition of *República*. The online edition of the newspaper, that has been used to a lesser extent, is indicated as *myRepública*.

8. 'EC allocates UML 41 PR seats in lower house', *República*, 10 February 2018.

9. 'Rajendra Lingden: Congress-RPP partnership is now broken', *Online Khabar*, 30 October 2017; 'RPP candidate Lingden's victory rally dotted with left party flags', *myRepública*, 10 December 2017.

10. Office of the President of Nepal, *Right Honorable President Appoints Honorable Member of House of Representatives Mr. K. P. Sharma Oli as Prime Minister*, 15 February 2018 (<https://english.presidentofnepal.gov.np/right-honorable-president-appoints-honorable-member-of-house-of-representatives-mr-k-p-sharma-oli-as-prime-minister>). Oli had been Nepalese Prime Minister between the autumn of 2015 and the summer of 2016.

Political party	Percentage	Seats
CPN-UML	33.25%	121
NC	32.78%	63
CPN-MC	13.66%	53
FSFN	4.95%	17
RJPN	4.93%	16
Others		5

The above data have been elaborated by the author on the basis of the sources quoted in this article and listed in the footnotes.

A few days earlier, on 7 February, elections were held for the upper chamber of the Nepalese parliament, the National Assembly, composed of 59 members, 56 of whom are elected by an electoral college composed of 550 members of the States' Assemblies and 1,506 members of the Local Units<sup>11</sup> – the various local institutions<sup>12</sup> – while the remaining three members are nominated by the president of the Republic at the proposal of the government.<sup>13</sup> Of the 56 elected members, the CPN-UML obtained 27 seats, the CPN-MC 12, 13 seats went to the NC, while the two Madhesi parties, RJPN and FSFN, elected two members each.<sup>14</sup> The other three members

11. 'National Assembly Election 2018', *República*, 7 February 2018.

12. 'New local level units come into existence', *The Kathmandu Post*, 11 March 2017.

13. According to article 86, section 2, of the Nepalese Constitution «The National Assembly shall consist of fifty nine members as follows: (a) fifty six elected members consisting of at least three women, one Dalit and one from persons with disabilities or minorities, from each State by an electoral college composed of members of the State Assembly, chairpersons and vice-chairpersons of the Village Bodies, and Mayors and Deputy-Mayors of the Municipalities, with different weightage of vote by members of the State Assembly, chairpersons and vice-chairpersons of the Village Bodies, and Mayors and Deputy-Mayors of the Municipalities, as provided for in the Federal law, (b) Three members consisting of at least one woman nominated by the President on recommendation of the Government of Nepal». In reality, the eight members of State No. 2, along with 16 others from the other states (six members in State no. 1, one member in State no. 4, three members in State no. 5, six members in State no. 7), had already been elected previously, being the only candidates. On 7 February, therefore, the remaining 32 members were elected. 'Upper House Election today', *República*, 7 February 2018; 'Two dozen NA members elected unopposed', *The Himalayan Times*, 30 January 2018.

14. 'EC submits NA election result to president', *The Himalayan Times*, 12 February 2018.

were appointed by the president on February 20: two seats to the CPN-UML and one to the CPN-MC.<sup>15</sup>

Political party	Seats
CPN-UML	29 (27 elected, 2 appointed)
NC	13
CPN-MC	13 (12 elected, 1 appointed)
FSFN	2
RJPN	2
The above data have been elaborated by the author on the basis of the sources quoted in this article and listed in the footnotes.	

### 2.1. *The unification of Marxist-Leninists and Maoists and the entry of the FSFN into the government*

On 17 May 2018, in line with the agreements made during the election campaign,<sup>16</sup> the Communist Party of Nepal (Unified Marxist-Leninist) and the Communist Party of Nepal (Maoist Centre) merged into the Nepal Communist Party (NCP).<sup>17</sup> 55% of members of the party organs will be composed of members from the CPN-UML, and 45% of members from the CPN-MC: the new central committee is composed in fact of 441 members, 241 from the CPN-UML and 200 from the CPN-MC.<sup>18</sup> The proportion clearly favours the CPN-MC that had instead obtained less than half of the votes and seats of the CPN-UML in the elections of 2017. Furthermore, the leadership of the party is entrusted equally to both Oli and Pushpa Kamal Dahal, the historical Maoist leader and twice former prime minister, also known as Prachanda.<sup>19</sup> The Nepal Communist Party has 174 MPs in the House of Representatives and 42 MPs in the National Assembly.<sup>20</sup>

15. 'Govt recommends three names for National Assembly members', *The Himalayan Times*, 20 February 2018; Office of the President of Nepal, *Right Honorable President Appoints Three [sic] Individuals as National Assembly Members*, 20 February 2018 (<https://english.presidentofnepal.gov.np/right-honorable-president-appoints-three-individuals-as-national-assembly-members>).

16. 'UML, MC, Naya Shakti announce poll alliance'.

17. 'UML, Maoist Center merge to form Nepal Communist Party', *República*, 18 May 2018.

18. *Ibid.*

19. *Ibid.*

20. 'New sun dawns on Nepal', *The Himalayan Times*, 18 May 2018.

A few days after the formal creation of the NCP, on 1 June 2018, the single-party government opened the doors of the cabinet to the coalition with one of the two Madhesi parties, the FSFN, with the appointment of two new ministers.<sup>21</sup> In particular, the FSFN chairman, Upendra Yadav, assumed the office of deputy prime minister and minister for Health and Population, while Mohammad Istiyak Rai obtained the Ministry of Urban Development.<sup>22</sup> Simultaneously with the increase of the government majority, Oli appointed also the minister for Defence Ishwar Pokhrel, as deputy prime minister, while Gokul Banskota, previously minister of state for Communications and Information Technology, joined the cabinet.<sup>23</sup> The coalition ensures the government control of two thirds of the parliament and therefore the possibility to modify, in full autonomy, the Constitution<sup>24</sup> (art. 274, section 8 of the Constitution).

At the same time, the new government alliance created some tensions in the local coalition between the two Madhesi parties: FSFN and RJPN, in power in State No. 2. The fact that the FSFN had joined the central government while the RJPN had been excluded from it opened the possibility that, even at local level, a new government could come into being along the lines of the central government.<sup>25</sup> The possibility of a new balance in State No. 2 – the only state not governed by the NCP – was indicated by some RJPN leaders following the withdrawal of the NCP support to Lalbabu Raut (chief minister of State No. 2) on the eve of the FSFN's entry into the federal government.<sup>26</sup> In any case, according to RJPN general secretary Keshab Jha, the national alliance should not have consequences on the local alliance, although even the RJPN had avowed itself as favourable to join the Oli government, but without receiving the same reception guaranteed to the FSFN by the NCP.<sup>27</sup> Also Ashok Rai, one of the leaders of the FSFN, made it clear that the new political arrangement in Kathmandu would not have repercussions on State No. 2.<sup>28</sup>

At the basis of the new government coalition there is an agreement, which, inter alia, should guarantee a constitutional amendment in favour

21. 'With FSFN on board, Oli govt has two-thirds majority', *República*, 2 June 2018.

22. *Ibid.*

23. *Ibid.*

24. *Ibid.*

25. *Ibid.*

26. 'RJPN leaders hint at change in power equation in Province 2', *República*, 1 June 2018;

27. 'With FSFN on board, Oli govt has two-thirds majority'. However, officially, the possibility of a future entry of the RJPN into the government was also among the intentions of the NCP. 'FSFN to join govt with three ministers', *República*, 29 May 2018.

28. 'RJPN leaders hint at change in power equation in Province 2', *República*, 1 June 2018;

of the Madhesi population.<sup>29</sup> In 2017, the Deuba government's attempt to amend the Constitution had failed to reach the required 395 votes.<sup>30</sup>

## 2.2. *An old issue: the names of the federated states*

One of the problems that the detailed drafting of the Constitution of 2015 had not been able to solve was the names and the capitals to be assigned to the federated states<sup>31</sup> of the Republic.<sup>32</sup> In fact, the very articulation of the Nepalese federal structure had been a problem caused by the divergences between the three main parliamentary forces (Nepali Congress, Marxist-Leninists and Maoists)<sup>33</sup> in a country that counts over 120 ethnic groups or castes.<sup>34</sup> The solution was to assign to each of the states, temporarily, not a name but a number from 1 to 7. For example, the state of the capital Kathmandu is State No. 3. In fact, the Constitution assigns the choice of the names of the states and their respective capitals to a majority of two thirds of every state assembly.<sup>35</sup> In 2018, the names and capitals were established for only three states: State No. 4 is now the Gandaki State and its capital is Pokhara,<sup>36</sup> State No. 6 has taken the name of Karnali State with Birendranagar as the capital<sup>37</sup> and State No. 7 became the Sudurpashchim State with Godawari as the capital.<sup>38</sup>

29. 'With FSFN on board, Oli govt has two-thirds majority'.

30. The votes in favor of a second amendment totaled 347. 'Year-long efforts at amendment fail', *República*, 22 August 2017. The constitution had already been amended in 2016. 'House passes first amendment to constitution', *The Rising Nepal*, 24 January 2016.

31. Nepalese states are also indicated as «provinces» in several English-language publications, although *pradeśa* is translated as «state» in the official English version of the constitution.

32. On this, see also Bhadra Sharma & Ellen Barry, 'Earthquake Prods Nepal Parties to Make Constitution Deal', *The New York Times*, 8 June 2015.

33. Surendra Bhandari, *Self-Determination & Constitution Making in Nepal: Constituent Assembly, Inclusion, & Ethnic Federalism*. Singapore: Springer, 2014, p. 22.

34. Government of Nepal, National Planning Commission Secretariat, Central Bureau of Statistics, *National Population and Housing Census 2011 (National Report)*, Volume 01, Kathmandu, 2012, pp. 144-147.

35. Article 295, section 2 and article 288, section 2 of the Constitution.

36. 'Province 4 named Gandaki; Pokhara Capital', *The Kathmandu Post*, 6 July 2018.

37. 'Province 6 named Karnali; Surkhet capital', *The Kathmandu Post*, 25 February 2018.

38. 'Province 7 named Sudurpashchim, Godawari capital', *The Kathmandu Post*, 28 September 2018.

### 3. *Nepalese foreign policy, between New Delhi and Beijing*

#### 3.1. *Oli in India*

The first state visit of a new Nepali prime minister is usually to India: Oli went to New Delhi in early April, at the invitation of his counterpart Narendra Modi.<sup>39</sup> On the eve of the visit, minister for Foreign Affairs Pradip Kumar Gyawali (at the time a member of the CPN-UML and later in the NCP), while openly acknowledging the difficulties that Oli himself had had during his first term as prime minister in 2015,<sup>40</sup> expressed his desire for a solid relationship with New Delhi and clarified the necessity of Nepal's equidistant position between India and China: «[w]e are not in a position to ignore any of the two neighbours. It is good to know that India and China are gradually cooperating with each other in various areas despite their geopolitical and strategic rivalry. We must be able to reap benefits from both the countries», but Nepal «will not align with any of the two countries».<sup>41</sup>

The meeting between the two prime ministers took place on 7 April and four joint statements were issued.<sup>42</sup> The topic at the centre of the meeting was the development of the infrastructural integration between the two countries, especially after the long blockade of the Indo-Nepalese border following protests of the Madhesi population in the south in the months following approval of the Constitution. From New Delhi, Modi and Oli inaugurated the Integrated Check Post at Birgunj in Nepal and the works for the Motihari-Amlekhgunj cross-border petroleum products pipeline.<sup>43</sup> The project is the realisation of a 69 km pipeline between Motihari (Bihar, India) and Amlekhgunj (State No. 2, Nepal) to deliver 2 million tons of petroleum products every year.<sup>44</sup> The request for the construction of a pipeline between the Indian town of Raxaul (on the Indo-Nepalese border) and Amlekhgunj

39. Government of Nepal, Ministry of Foreign Affairs, *Joint Statement during the State Visit of Prime Minister of Nepal to India (6-8 April 2018)*, 7 April 2018, (<https://mofa.gov.np/joint-statement-during-the-state-visit-of-prime-minister-of-nepal-to-india-6-8-april-2018>); 'PM Oli in New Delhi, key meetings today', *Repubblica*, 7 April 2018.

40. In April, Pradip Kumar Gyawali declared: «[w]e have had some difficult relations with India during the previous stint of the current prime minister». 'Excellent Nepal-India relations a must: FM Gyawali', *Repubblica*, 2 April 2018.

41. 'Excellent Nepal-India relations a must: FM Gyawali', *Repubblica*, 2 April 2018.

42. Government of Nepal, Ministry of Foreign Affairs, *Joint Statement during the State Visit of Prime Minister of Nepal to India (6-8 April 2018)*, 7 April 2018 (<https://mofa.gov.np/joint-statement-during-the-state-visit-of-prime-minister-of-nepal-to-india-6-8-april-2018>).

43. *Ibid.*

44. Indian Oil Corporation, *Prime Ministers of India and Nepal launch Ground-breaking Ceremony of India-Nepal Petroleum Products Pipeline*, 7 April 2018 (<https://iocl.com/AboutUs/NewsDetail.aspx?NewsID=49404&tID=8>); 'India-Nepal oil pipeline formally launched', *Repubblica*, 8 April 2018.

had been made by the then-Nepali prime minister, Sushil Koirala, in August 2014, during the visit of Modi to Kathmandu.<sup>45</sup> A year later, the agreement was ratified by a Memorandum of Understanding with which a 15-year contract was envisaged between the Indian Oil Corporation and Nepal Oil Corporation.<sup>46</sup> Afterwards, the project was extended to Motihari.<sup>47</sup> The cost for the Indian Oil Corporation is expected to be INR (Indian rupees) 3.24 billion<sup>48</sup> (just less than US\$ 50 million)<sup>49</sup> while INR 1.2 billion will be made available by the government of Nepal.<sup>50</sup> Construction should be completed by the end of 2020.<sup>51</sup>

In another joint statement, the two governments have committed themselves to the realisation of «a new electrified rail line, with India's financial support, connecting the border city of Raxaul in India to Kathmandu».<sup>52</sup> This promises a direct rail link between the Nepalese capital and the Indian border. It has to be underlined that State No. 3, i.e. the state of the capital Kathmandu, is home to two-thirds of all industries in the entire country.<sup>53</sup> Two other joint statements provide for the expansion of cooperation in the agricultural sector<sup>54</sup> and an India-Nepal Statement on New Connectivity through Inland Waterways «to develop the inland waterways for the movement of cargo, within the framework of trade and transit arrangements, providing additional access to sea for Nepal».<sup>55</sup>

45. Government of India, Ministry of External Affairs, *Joint Press Statement on the Visit of the Prime Minister to Nepal*, 4 August 2014 ([https://www.mea.gov.in/bilateral-documents.htm?dtl/23807/Joint\\_Press\\_Statement\\_on\\_the\\_Visit\\_of\\_the\\_Prime\\_Minister\\_to\\_Nepal](https://www.mea.gov.in/bilateral-documents.htm?dtl/23807/Joint_Press_Statement_on_the_Visit_of_the_Prime_Minister_to_Nepal)).

46. Government of India, Cabinet, Press Information Bureau, *Memorandum of Understanding between India and Nepal for construction of petroleum products pipeline from Raxaul (India) to Amlekhgunj (Nepal) and re-engineering of Amlekhgunj Depot and allied facilities*, 12 August 2015. (<http://pib.nic.in/newsite/PrintRelease.aspx?relid=124943>).

47. 'India-Nepal oil pipeline formally launched'.

48. Indian Oil Corporation, *Prime Ministers of India and Nepal launch Ground-breaking Ceremony of India-Nepal Petroleum Products Pipeline*, 7 April 2018.

49. The US\$-INR rate of exchange was calculated on 6 April 2018.

50. 'India-Nepal oil pipeline formally launched'.

51. *Ibid.*

52. Government of Nepal, Ministry of Foreign Affairs, *India-Nepal Statement on Expanding Rail Linkages: Connecting Raxaul in India to Kathmandu in Nepal*, 7 April 2018 (<https://mofa.gov.np/india-nepal-statement-on-expanding-rail-linkages-connecting-raxaul-in-india-to-kathmandu-in-nepal>).

53. Government of Nepal, Ministry of Finance, *Economic Survey 2017/18*, unofficial translation, July 2018, p. 68.

54. Government of India, Ministry of External Affairs, *India-Nepal Statement on New Partnership in Agriculture*, 7 April 2018 (<https://www.mea.gov.in/bilateral-documents.htm?dtl/29797/IndiaNepal+Statement++New+Partnership+in+Agriculture>).

55. Government of Nepal, Ministry of Foreign Affairs, *India-Nepal Statement on New Connectivity through Inland Waterways*, 7 April 2018 (<https://mofa.gov.np/india-nepal-statement-on-new-connectivity-through-inland-waterways>).

Modi reciprocated the visit in May.<sup>56</sup> In Nepal, the Indian premier and Oli inaugurated construction of the 900 MW Arun-III hydro project and the Nepal-India Ramayana Circuit.<sup>57</sup> Despite the pro-Chinese political-ideological dimension, on the cultural and linguistic side – in a hypothetical Hindu geopolitical pan-region – Nepal’s affinity is towards India. Its cultural link with China – albeit with deep historical roots in modern times<sup>58</sup> – is evidently not comparable to that with India.

#### 4. To Beijing and to Lhasa

The visit of Oli to the People’s Republic of China took place between 19 and 24 June 2018.<sup>59</sup> After the meetings in Beijing, the prime minister also went to Lhasa (22-24 June 2018).<sup>60</sup> In many respects, the visit to China certainly has a greater significance than the Indian one. Accompanying him was a delegation of 119 people including ministers, MPs, government officials, businessmen and journalists.<sup>61</sup> The issue of the Nepalese infrastructures was at the centre of this visit, in particular the railway link between Nepal and Tibet.<sup>62</sup> Naturally, in this context, the projects of connection between the two countries are framed within the Belt and Road Initiative. A few days after the visit of Oli to India, the new minister of Foreign Affairs, Pradeep Kumar Gyawali, visited China to reiterate the Nepalese participation in the BRI,<sup>63</sup> already affirmed by Oli in 2015.<sup>64</sup> The victory of the Left

56. Ministry of Foreign Affairs, Policy, Planning, Development Diplomacy and Nepali Diaspora Division, Nepal, *MOFA Bulletin, Current Affairs*, April - May 2018, Vol 2, Issue 6, p. 3.

57. *Ibid.*

58. Nepal was a tributary state of the Qing Empire. On this see, inter alia, Vijay Kumar Manandhar, *A Documentary History of Nepalese Quinquennial Missions to China: 1792–1906*. New Delhi: Adriot Publishers, 2001.

59. Government of Nepal, Ministry of Foreign Affairs, *Annual report (2017-18)*, Kathmandu, 2018, p. 31.

60. *Ibid.*

61. Government of Nepal, *Ministry of Foreign Affairs, Press Release on the Official Visit of Prime Minister of Nepal Rt. Hon. KP Sharma Oli to the People’s Republic of China*, 19 June 2018 (<https://mofa.gov.np/press-release-on-the-official-visit-of-prime-minister-of-nepal-rt-hon-kp-sharma-oli-to-the-peoples-republic-of-china>); ‘Trans-Himalayan railway govt’s top priority: PM Oli’, *Repubblica*, 20 June 2018.

62. ‘Trans-Himalayan railway govt’s top priority: PM Oli’.

63. Ministry of Foreign Affairs, Policy, Planning, Development Diplomacy and Nepali Diaspora Division, Nepal, *MOFA Bulletin, Current Affairs*, April - May 2018, Vol 2, Issue 6, pp. 3-4. During the visit, in addition to the institutional meetings, in particular with his Chinese counterpart, Gyawali presented the Chinese translation of *The Selected Speeches of Prime Minister KP Oli*, *Ibid.*, p. 4.

64. Ministry of Foreign Affairs of the People’s Republic of China, 习近平会见尼泊尔总理奥利 (Xi Jinping meets Nepali Prime Minister Oli), 21 March 2016 (<https://www.fmprc.gov.cn/web/zyxw/t1349371.shtml>).

Alliance had strengthened the Nepalese alignment in the Chinese project, highlighted from the first day of the visit of the prime minister to the reception organised by his ambassador in Beijing.<sup>65</sup>

On 20 June, before the Nepal-China Business Forum, Oli's speech underlined the Nepalese recognition of the «One China policy» and declared that «[w]e have a principled position that we do not allow our soil to be used against China. This is translated into day-to-day reality».<sup>66</sup> The prime minister then further clarified the hopes of the new Nepalese government towards Beijing, in addition to the recognition of the Chinese role in world geopolitics: «[w]e believe that China, with its huge financial and technological capability, can help us to transform our development landscape. Many people believe that the success story of the 21st century will be written as the success story of China. Our great friend, China, has astonished the world by attaining unprecedented progress in many spheres. We share the joy of tremendous achievements of China, our close neighbour and true friend. We also cherish China's positive and influential role in global arena».<sup>67</sup> Oli defined the BRI as a «visionary initiative» and «[w]e believe that this initiative offers immense opportunities for collaboration and partnership between our two countries. Growing attraction of the international community towards BRI has made it one of the biggest platform for international cooperation».<sup>68</sup> On the same day, Oli also met with Chinese president Xi Jinping<sup>69</sup> and with his counterpart Li Keqiang on 21 June.<sup>70</sup> Among the many Memoranda of Understanding (MOU)

65. «I have always felt at home in China. In particular, I have very fond memories of my visit to the People's Republic of China in March 2016 [...] During that visit, we, the leaders of Nepal and China, agreed to elevate our bilateral relations to a higher pedestal. We signed important agreements on the areas of transit transport, connectivity, trade and investment, and co-operation. We agreed to be partners-in-development under the Belt and Road Initiative», Ministry of Foreign Affairs of the People's Republic of China, *Statement by Prime Minister Rt. Hon. KP Sharma Oli at a Reception held in his honor by Ambassador of Nepal to China*, 19 June 2018 (<https://mofa.gov.np/statement-by-prime-minister-rt-hon-kp-sharma-oli-at-a-reception-held-in-his-honor-by-ambassador-of-nepal-to-china>). The website also contains the Chinese translation of the statement.

66. Government of Nepal, Ministry of Foreign Affairs, *Rt. Hon'ble Prime Minister K.P. Sharma Oli addressed the Nepal-China Business Forum today in Beijing*, 20 June 2018 (<https://mofa.gov.np/address-by-the-right-honourable-k-p-sharma-oli-prime-minister-of-nepal-to-the-nepal-china-business-forum>).

67. *Ibid.*

68. *Ibid.*

69. Government of Nepal, Ministry of Foreign Affairs, *Press Release on the Official Visit of Prime Minister of Nepal Rt. Hon. K. P. Sharma Oli to the People's Republic of China*, 20 June 2018 (<https://mofa.gov.np/press-release-on-the-official-visit-of-prime-minister-of-nepal-rt-hon-k-p-sharma-oli-to-the-peoples-republic-of-china>).

70. Government of Nepal, Ministry of Foreign Affairs, *Press Release on the Official Visit of the Prime Minister of Nepal Rt. Hon. KP Sharma Oli to the People's Republic of China*, 21 June 2018 (<https://mofa.gov.np/press-release-on-the-official-visit-of-the-prime-minister-of-nepal-rt-hon-kp-sharma-oli-to-the-peoples-republic-of-china>).

and letters of exchange signed during these two days (more than 20),<sup>71</sup> the MOU on Cooperation for Railway Connectivity was particularly relevant and was defined by the Joint Statement as «the most significant initiative in the history of bilateral cooperation and believed that it would herald a new era of cross-border connectivity between the two countries».<sup>72</sup> The goal was the construction of a railway line to connect Tibet to Kathmandu,<sup>73</sup> alongside the other project scheduled with India, thus improving Nepalese trade routes and limiting the risk of isolation of the land-locked country. As mentioned, the second part of the journey of Oli was in Tibet. While in Lhasa, the prime minister met with Qi Zhala and visited the Potala and the Jokhang.<sup>74</sup>

A few weeks after the visit to Beijing and Lhasa, in September, Oli reopened with the Chinese the discussion for the project of the China Gezhouba Group Corporation for the Budhi Gandaki Hydropower Project (US\$ 2,5 billion).<sup>75</sup> The agreement had been reached by Prachanda in June 2017,<sup>76</sup> one of his last decisions as prime minister, but then it was cancelled by Oli's predecessor, Deuba (NC), on the eve of the elections,<sup>77</sup> a few weeks

71. Government of Nepal, Ministry of Foreign Affairs, *Press Release on the Official Visit of Prime Minister of Nepal Rt. Hon. K. P. Sharma Oli to the People's Republic of China*, 20 June 2018 (<https://mofa.gov.np/press-release-on-the-official-visit-of-prime-minister-of-nepal-rt-hon-k-p-sharma-oli-to-the-peoples-republic-of-china>); Government of Nepal, Ministry of Foreign Affairs, *Press Release on the Official Visit of the Prime Minister of Nepal Rt. Hon. KP Sharma Oli to the People's Republic of China*, 21 June 2018 (<https://mofa.gov.np/press-release-on-the-official-visit-of-the-prime-minister-of-nepal-rt-hon-kp-sharma-oli-to-the-peoples-republic-of-china>).

72. Government of Nepal, Ministry of Foreign Affairs, *Joint Statement between Nepal and the People's Republic of China*, 21 June 2018 (<https://mofa.gov.np/joint-statement-between-nepal-and-the-peoples-republic-of-china>).

73. 'China to extend railway link to Kathmandu', *myRepublica*, 22 June 2018.

74. The press release of Consulate General of Nepal in Lhasa states that «the Nepali delegation visited historical Potala Palace built by King Song Tsan Gampo in 7th Century and the Jokhang». In fact, the Potala was built by the fifth Dalai Lama on the ruins of the palace of Srong btsan sgam po (Zhwa sgab pa dbang phyug bde ldan, *Bod kyi srid don rgyal rabs: an advanced political history of Tibet*. Vol. I. Kalimpong: T. Tsepal Taikhang, 1976, p. 77). The consulate statement is available on the website of the Ministry of Foreign Affairs of Nepal: Consulate General of Nepal, Lhasa, *Press Release on the Official Visit of the Prime Minister of Nepal Rt. Hon. K.P. Sharma Oli to the People's Republic of China*, 23 June 2018 (<https://mofa.gov.np/press-release-on-the-official-visit-of-the-prime-minister-of-nepal-rt-hon-k-p-sharma-oli-to-the-peoples-republic-of-china>). According to the tradition, Srong btsan sgam po had a Chinese wife and a Nepalese wife. Sa skya Bsod nams rgyal mtshan, *Rgyal rabs gsal ba'i me long* (The Mirror of the Royal Genealogies), Pe cin: Mi rigs dpe skrun khang, 2002, pp. 85-131.

75. 'PM asks ministry to rehire Chinese firm', *The Kathmandu Post*, 24 September 2018.

76. 'Nepal, China ink mega hydropower agreement', *The Hindu*, 5 June 2017.

77. 'Nepal scraps \$2.5 bln hydropower plant deal with Chinese company', *Reuters*, 13 November 2017.

after the alliance between CPN-UML and CPN-MC and the expulsion of the latter from the government.

It is also important to remember the relevance of the December visit of the minister for Foreign Affairs to the United States. Pradeep Kumar Gyawali first met US Secretary of State Mike Pompeo<sup>78</sup> and then the Assistant Secretary of Defense for Asian and Pacific Security Affairs, Randall Schriver.<sup>79</sup> Back in Nepal, however, Gyawali had made clear that Nepal would not join the Indo-Pacific alliance<sup>80</sup> that the United States was trying to build on the basis of a project by Japanese prime minister Shinzō Abe as a response to limit and counterbalance the BRI.<sup>81</sup>

### 5. *The economic situation*

Nepalese GDP has continued its growth, after a decrease in 2016 caused by the earthquakes of 2015, reaching approximately US\$ 24.47 billion in 2017.<sup>82</sup> In 2015, the GDP was about US\$ 21,4 billion and about US\$ 21,13 billion in 2016.<sup>83</sup> In addition to the earthquakes of 2015 – whose economic damage was calculated around US\$ 7 billion<sup>84</sup> – the already mentioned Indian border blockade between September 2015 and February 2016 affected the economic results. The International Monetary Fund estimates set Nepalese GDP growth at 6.3% for 2018 and 5.0% for 2019.<sup>85</sup> The latter figure is in stark contrast to the hopes of the Nepalese government to reach a growth of 8% for fiscal year (FY) 2018/2019.<sup>86</sup>

78. Embassy of Nepal, Washington D.C., *Press Release*, 18 December 2018 (<https://us.nepalembassy.gov.np/wp-content/uploads/2018/12/Press-Release-on-FM-Visit-in-Washington-DC.pdf>).

79. Embassy of Nepal, Washington D.C., *Press Release*, 19 December 2018 (<https://us.nepalembassy.gov.np/wp-content/uploads/2018/12/Press-Release.pdf>).

80. 'Nepal won't join US-led Indo-Pacific alliance: Gyawali', *Repubblica*, 22 December 2018.

81. On this, see also: Brahma Chellaney, 'Building a «free and open» Indo-Pacific', *The Japan Times*, 21 November 2018 and Humphrey Hawksley, 'A US-led Indo-Pacific alliance against China is an outdated idea', *Nikkei Asian Review*, 3 September 2018.

82. Source: The World Bank, 'Nepal' (<https://data.worldbank.org/country/nepal>).

83. *Ibid.*

84. Arun Bhakta Shrestha, Samjwal Ratna Bajracharya, Jeffrey S. Kargel & Narendra Raj Khanal, *The Impact of Nepal's 2015 Gorkha Earthquake-Induced Geohazards*, ICIMOD Research Report 2016/1, International Centre for Integrated Mountain Development, 2016, p. 2.

85. International Monetary Fund, *Regional Economic Outlook, Asia and Pacific: Asia at the Forefront: Growth Challenges for the Next Decade and Beyond*, October 2018, p. 5.

86. 'IMF keeps Nepal's growth projection unchanged at 5%', *Repubblica*, 10 October 2018.

The inflation rate, calculated at 9.9% in FY 2015/2016 and 4.5% in FY 2016/2017, reached an average of 4% considering the data of FY 2017/2018 (until mid-March 2018).<sup>87</sup>

The international trade of Nepal continues to be strongly unbalanced towards imports: in FY 2016/2017 exports accounted for just 6.9% of total trade.<sup>88</sup> In the first eight months of FY 2017/2018, the figure was 6.5%, i.e. NPR (Nepalese rupees) 53.42 billion out of a total of foreign trade amounting to NPR 820.78 billion.<sup>89</sup> The data become even more significant when compared with previous years: in FY 2004/2005 exports accounted for 28.2%.<sup>90</sup> In the same period of FY 2017/2018 exports to India grew by 9.8%, while those to China by 62%.<sup>91</sup> On the import side, the increase is more balanced: an increase of 22.3% was recorded for imports from India and 22.2% for those from China.<sup>92</sup> Clearly, the geographical condition of a landlocked and mountainous country and lack of adequate infrastructures weaken Nepalese trade. These data explain better the need of Nepalese governments, beyond the political and ideological differences, to develop quick and structured links with the two neighbouring countries. India and China are destinations, but also intermediate points – through their ports – for Nepalese goods. As a counterbalance, Nepalese GDP has been strongly supported in recent years by the remittances of Nepalese workers abroad.<sup>93</sup> Specifically, the remittances were 29.6% of GDP in FY 2015/2016 and 26.9% in 2016/2017.<sup>94</sup>

The tourism sector suffered a severe blow after the earthquakes of 2015 when it dropped from about 790,000 tourists in 2014 to about 539,000. It rose to around 753,000 tourists in 2016 and over 940,000 in 2017.<sup>95</sup> Indian tourists in 2017 accounted for 17.1% of the total, while Chinese tourists 11.1%.<sup>96</sup> In FY 2016/2017, tourism brought to Nepal more than NPR 58.5 billion in foreign currency, while in the first eight months of FY 2017/2018 the figure was more than NPR 43.4 billion.<sup>97</sup> In November 2018, the number of tourists exceeded one million for the first time.<sup>98</sup>

87. Government of Nepal, Ministry of Finance, *Economic Survey – Fiscal Year 2016/17*, unofficial translation, p. 47.

88. Government of Nepal, Ministry of Finance, *Economic Survey 2017/18*, unofficial translation, July 2018, p. 46.

89. *Ibid.*

90. *Ibid.*

91. *Ibid.*

92. *Ibid.*, p. 47.

93. Government of Nepal, Ministry of Labour and Employment, *Labour Migration for Employment: A Status Report for Nepal: 2015/2016 – 2016/2017*, Kathmandu, 2018, pp. 35-36.

94. *Ibid.*

95. Government of Nepal, Ministry of Finance, *Economic Survey 2017/18*, unofficial translation, July 2018, p. 80.

96. *Ibid.*

97. *Ibid.*, p. 81.

98. 'Foreign tourist arrivals cross one million mark', *Repubblica*, 14 December 2014.

Agriculture contributed 28.8% to Nepalese GDP in FY 2016/2017 and government estimates calculate a contribution of 27.6% for FY 2017/2018.<sup>99</sup> According to government data, in FY 2017/2018 industrial production should contribute 5.4% of the country's GDP.<sup>100</sup> In the first eight months of FY 2017/2018, relative to foreign investments in the industry sector, out of 4,273 industries registered from 92 countries, 1,226 were from China (proposed employment: 68,655) and 36 from Hong Kong (proposed employment: 4,782 employees).<sup>101</sup> Registered industries from India were 713 (proposed employment: more than 68,655).<sup>102</sup> Investments from the US (375 industries, proposed employment: 17,654), South Korea (324 industries, proposed employment: 11,070) and the United Kingdom (169 industries, proposed employment: 10,702) were also significant.<sup>103</sup> Investments from India represent 35% of total foreign investments in the industry sector, while those from China 25.6% and those from Hong Kong 11%.<sup>104</sup>

At the beginning of January 2018, 1 US dollar was traded at around 101 Nepalese rupees.<sup>105</sup> In 2018, the Nepalese rupee suffered a significant loss in value against the US currency at around 119 Nepalese rupees for 1 US dollar in the first half of October,<sup>106</sup> and closing the year at around 112 rupees.<sup>107</sup> The difficulties of the Nepalese currency were due to the devaluation of the Indian rupee to which the Nepalese rupee is linked.<sup>108</sup> Although this did not result in any significant advantage for weak Nepalese foreign trade, the weakness of the Nepalese rupee favoured the value of the remittances, but made more expensive those infrastructures that were vital for the development of the Republic.<sup>109</sup>

In mid-December 2018, the Nepalese government decided to prohibit the use on Nepalese territory of Indian banknotes over 100 rupees, i.e. the new 200, 500 and 2,000 rupee banknotes introduced by the Modi government.<sup>110</sup> At the same time, according to Arun Budhathoki (editor-in-chief of the *Kathmandu Tribune*), reported by the Assamese newspaper *The Sentinel*,

99. Government of Nepal, Ministry of Finance, *Economic Survey 2017/18*, unofficial translation, July 2018, p. 57.

100. *Ibid.*, p. 67.

101. *Ibid.*, p. 71.

102. *Ibid.*

103. *Ibid.*

104. *Ibid.*, pp. 70-71.

105. Source: Nepal Rastra Bank - Central Bank of Nepal.

106. *Ibid.*

107. Source: *Repubblica*, 29 December 2018, p. 10.

108. 'Nepali rupee drops to over 18-month low', *The Himalayan Times*, 28 June 2018; 'Nepali rupee depreciates to all-time low', *The Himalayan Times*, 29 June 2018; Paban Raj Pandey, 'Should Nepal remain pegged to Indian rupee?', *The Statesman*, 24 November 2018; 'Rupee tumbles to record low', *The Kathmandu Post*, 29 June 2018.

109. Paban Raj Pandey, 'Should Nepal remain pegged to Indian rupee?'.

110. 'Nepal bans Indian currency notes above Rs 100 denomination', *The Indian Express*, 14 December 2018.

Chinese tourists could pay in Chinese yuan in Nepal.<sup>111</sup> Moreover, a few days after this decision, Nepal Central Bank set at INR 100,000 the amount that could be spent by Nepalese citizens in India through credit cards, debit cards or prepaid cards.<sup>112</sup> It is clear that both decisions directly affected trade relations between the two countries.

## 6. Conclusion

The agreement between the forces of the extreme left has proven to be the basis for the birth of a political force now at the centre of Nepalese republican life and the core of its foreign policy. With a government that controls two-thirds of the MPs, the likelihood of constitutional reform in favour of the Madhesi population, which have always been strongly linked on the cultural, social and economic level to neighbouring India, is much closer. However, beyond the courtesies and the important railway project to connect the Bihar to Kathmandu, the geopolitical gaze of the Oli government seems to be towards the People's Republic of China. The Belt and Road Initiative provides the means to avert the country's ancient risk of isolation.

### Abbreviations:

BRI = Belt and Road Initiative

CPN-MC = Communist Party of Nepal (Maoist Centre)

CPN-UML = Communist Party of Nepal (Unified Marxist-Leninist)

FY = Fiscal Year

FSFN = Federal Socialist Forum-Nepal

INR = Indian Rupee

MOU = Memorandum of Understanding

NC = Nepali Congress

NCP = Nepal Communist Party

NPR = Nepalese Rupee

RJPN = Rastriya Janata Party-Nepal

111. 'China Casts A Long Shadow Over Nepal!', *The Sentinel*, 30 December 2018.

112. 'Central bank tightens Indian rupee spending for cardholders', *The Kathmandu Post*, 26 December 2018. The limit does not apply to hotels, hospitals and drug stores. *Ibid.*