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MONARCHY, DEMOCRACY, DONORS, AND THE CPN-MAOIST MOVEMENT IN NEPAL: A LESSON FOR INFANT DEMOCRACIES

This paper reviews the current political crisis in Nepal in historical, socioeconomic, and geopolitical contexts. On the basis of facts and figures, on the political side, it is concluded that democracy must grow from within and the structures that develop must represent existing political forces within the country. Similarly, efforts at globalization must take into account the nature of the economy. Globalization is viewed as a multi-dimensional process creating a culture of unlimited wants and massive dissatisfaction with conditions of deprivation. This situation creates fertile ground for insurgency of all kinds, as evident from the current global situation, which includes Nepal. In this context the paper sees very little prospect for agreement with the Maoists, who have a completely socialist agenda.

INTRODUCTION

Nepal is facing an all-round crisis, encompassing all aspects of life—economic, social, political, and cultural. An insurgency led by the extreme left Communist Party of Nepal (CPN–Maoist) has been going on since 1996. The insurgency has spread in various intensities to all 75 districts. The United Nations National Development Program (UNDP) estimates (quoted by the World Bank, 2004) that significant conflicts are raging in 36 districts (see map, opposite page), creating a third degree security problem for the donors, and 15 districts are affected less intensively by the conflict problems, the second-degree security problem. Only 24 districts are considered moderately secure for the donors and government officials who work there. Civil society organizations or individuals need permission from and pay levies to the Maoists to work in rural areas in most parts of the country [see Haddix-McKay, this volume]. About 10,128 people have died as of March 2004 (Informal Sector Service Center [INSEC], 2004). Thousands have been rendered homeless, thousands of women and children have lost their livelihood providers, and hundreds of children have been orphaned. Physical infrastructure worth US\$ 250 million has been destroyed (Dhungel, 2004); tourism and manufacturing growth have been severely affected; transport costs have risen for both exports and imports; and a substantial part of the budget has been diverted from development to maintaining security. Economic growth has slackened significantly.

Inquiring into the genesis and rapid growth of this

movement is a complex task. The current crisis may be attributed to multiple causes, political, economic, and social.¹

FAILURE OF DEMOCRATIC STRUCTURES

Nepal was ruled by the autocratic Rana family in the name of the king from 1846 to 1950, and by the king himself until 1990. A brief period of democratic experimentation during the 1950s ended in a royal coup in 1960. For thirty years, the country was ruled by the king directly, with a façade of elected institutions called Panchayats at the village, district, and national level: the Panchayat system. The current phase of democratic governance began in 1990, when then-King Birendra gave in to the popular demand for democracy. A new democratic constitution, promulgated in 1991, was a compromise between the king and the leading political parties of the time. Both the Nepali Congress (NC) and the Left United Front (whose important leaders are now in either The Communist Party [United Marxist-Leninist, CPN-UML] or the insurgent Communist Party of Nepal [CPN-Maoist]), played major roles in these negotiations. The constitution established a democratic system of governance with the King as the constitutional Monarch, and set forth fundamental rights of speech, association, and political participation without discrimination on the basis of sex, ethnicity, caste, race, or religion for all citizens. The guiding principles embodied in the constitution make women's equality and elimination of all kinds of economic and social inequities a priority. The Left

Nepal's failure in participatory governance has been monumental. The responsibilities for this failure are attributable to all the political parties, the elite groups, and—not least—the donors.

Front accepted the constitution, though with reservations even at that time about the Monarchy. The debate has continued.

The provision identifying Nepal as a Hindu Kingdom, and priority accorded to Nepali language, were also debated as the constitution was developed. The issue of a federal-versus-unitary state was raised weakly by the Madeshis (people native to southern plains), and has acquired more strength recently with the support of many *janajati* groups (ethnic communities, which constitute about 32 percent of the total population). The constitution also specifies that all political parties must put up at least 5 percent female candidates

for election to the House of Representatives (lower house). The upper house, to which members are nominated by the political parties on the basis of their respective strength in the lower house, must have at least three women among the 60 members. The constitution guarantees equal rights to all citizens, but the citizenship chapter of the constitution and subsequent Acts discriminate against women in several ways. For example, the constitution does not recognize maternal descent for natural citizenship rights, or treat the foreign spouses of male and female citizens equally. Similarly, equal property rights are guaranteed to all citizens within the laws, which themselves may discriminate against women. Citizenship is also an issue for recent migrants to Nepal, who acquired it only after 1962: their children and other dependents who were minors at that time have no right to Nepali citizenship. Although according to the constitution, Nepal is a Hindu Kingdom, people may practice other religions, but may not convert others. Primary education is to be available in the mother tongue, and people have a right to protect their own language and culture. The guiding principles make the state responsible for protection of all Nepal's languages and culture, but only Nepali is recognized as a state language.

Thus there are certain inequities embodied in the constitution itself. But more fundamental problems lie in functioning of democratic institutions and in mechanisms for dealing with legitimate grievances raised by the people. Under the democracy such institutions are comprised of the political parties, civil society, local self-government, free-and-fair elections, and the rule of law (Dhal, 1990). Nepal's failure in participatory governance has been monumental. The responsibilities for this failure are attributable to all the political parties, the elite groups, and—not least—the donors.

After 1990, people had high expectations that political leaders would pay much more attention to the people's



PHOTO: DAWN STIEF

problems than in the previous system. During the democratic movements of 1989-1990, the leaders spoke of changes in everything from the drinking water problem of Kathmandu to freedom from poverty, without anticipating that they would be held immediately responsible for such promises.

Further, Nepal has been swamped by international human rights organizations and non-government organizations (NGOs). Their support for particular causes (e.g. indigenous people in a country where the concept is totally out of context; the right of education in the mother tongue, where there are more than 60 languages, many of them without scripts; or the right of conver-

sion, where conversion is mostly by Christian Missionaries from outside the country), has encouraged an explosion of expectations. Such issues were exploited extensively both by the CPN-Maoists and the monarchist groups, who were opposed to the democratic changes of 1990. All these issues may be legitimate from a democratic perspective, but they put an inordinate stress on Nepal's infant democracy.

The political parties and the donors remained oblivious to the brewing turmoil. While the donors offered assistance and pushed for market oriented reforms and privatization, the political parties in power, both in government and in opposition, operated in an ideological vacuum. The Nepali Congress, which ruled the country for 11 out of 14 years after 1990, was a social democratic party in principle. It lost its ideological ground in the face of the international assault on the mixed economy and its principles. The CPN-UML also had to grope for its ideological anchor as the socialist/communist systems were dismantled. All the democratic channels for political participation, elections, media, local governments, and NGOs—e.g., farmer's groups, women's groups, professional associations, various ethnic/caste groups, trade unions etc—became bogged down in the parochial struggles of the groups and political parties devoid of principles. Thus, most institutions that might have exerted democratic checks and balances became dysfunctional, leaving the field entirely to the CPN-Maoists.

POLITICAL PARTIES

Nepal's political spectrum includes multiple parties and many divisions. (Chart 1 outlines the current political party scenario.) But most can be classified in two major groups: left, which ranges from the extreme left to the social democrats of various shades; and the so-called democratic forces, from republicans to monarchists. Major groups on

the left are the Communist Party of Nepal (United Marxist-Leninist—that is, CPN-UML—social democrats) and the CPN-Maoists. The two Nepali Congress Parties (NC) and the Nepal Sadvabana Party (NSP), those with representation in the outgoing Parliament, have a democratic platform allowing minimum power to the King. NC (D) and Rastriya Prajatantra Party (RPP) believe in democracy within the present constitution and thus are closest to the position of the King. Other smaller party positions lie somewhere in between these major positions.

Political Spectrum and Parties in Nepal (see Chart 1.)

Political parties are the most important channel for people's interaction with the governance process (Budge and Keman, 1990). Parties in functioning democracies usually seek office with a set of policies, then try to implement them once in power. But in Nepal, political parties have shown only office-seeking behavior. Party politics was banned between 1960 and 1990, and political parties had to function underground. This led to a situation in which the parties advocating democratic governance in the country did not practice democracy in their internal functioning. Although the constitution explicitly states that there must be a law under which parties would function (Covenant, 113), its promulgation took five long years (Rajbhandari et al., 2000) and it is still not implemented.

The country witnessed a disappointing period characterized by unprincipled and shifting alliances among political parties grabbing power and unwilling to sit in opposition in the Parliament. Parties bribed parliamentarians in order to stay in power or pull down the government in power, and were unwilling to face the electorate when out of government. There was blatant misuse of public resources in one's party's interest; favoritism and nepotism in allocation of public resources; unprincipled interventions in bureaucracy and other public enterprises; and extensive corruption. Major political parties were exposed as incapable of democratic governance (Acharya, 1998; Institute for Integrated Development Studies [IIDS], 1996). There were 12 governments in 12 years between 1990-2002 (Dhungel, 2004) and major political parties split and re-combined.

Parties also fostered a culture of corruption and graft.

Political parties promoted corruption at the individual and party level, and showed neither transparency nor accountability in their functioning, in their selection of candidates for elections, in election of party presidents and other party officials, nor in their funding sources and expenditure allocations (Thapa, 2002).

Judging by their behavior during the decade, major political parties in Nepal have lacked a clear philosophy—except for gaining power. The Nepali Congress, which started by advocating social democracy and a mixed economy, veered to the right with globalization policies that further marginalized the poor. In a country where the majority of the population is poor, lacks primary education and the skills demanded by a modernizing and globalizing economy, and faces severe competition from imported labor in the job market, unrestricted liberalization without any effort to expand job opportunities for Nepali nationals was bound to be unpopular.

The United Marxist-Leninists were also not able to accommodate their concern for the poor within the framework of a globalizing economy. Their economic and political manifestos were not much different from those of the Nepali Congress. The Rastriya Prajatantra Party (RPP), a collection of ex-Panchayat leaders, is slightly right of the Nepali Congress. Its policies may veer to the right or left as political expediency requires. The Nepal Sadvabana Party (NSP) advocates the sectarian interests of the Madhesia population without showing any originality in its economic programs.

Because of the practical similarity in the economic policies advocated by the major parties in parliament, differentiating among them has been difficult.² The degree to which each party agreed to adhere to the national interest was one such element, manifested in the politics of water resources and relations to India³. Another major issue was the efficiency of governance bureaucracy, which deteriorated rapidly after 1991, because of party politics (Khaflle, 2002, Rajbhandari et al., 2000).

In sum, credibility became a major problem for all political parties. They made extravagant promises and raised unrealistic expectations when out of power, and once in power found themselves in complete confusion when they had to implement policies exactly opposite what they had demanded when in opposition.

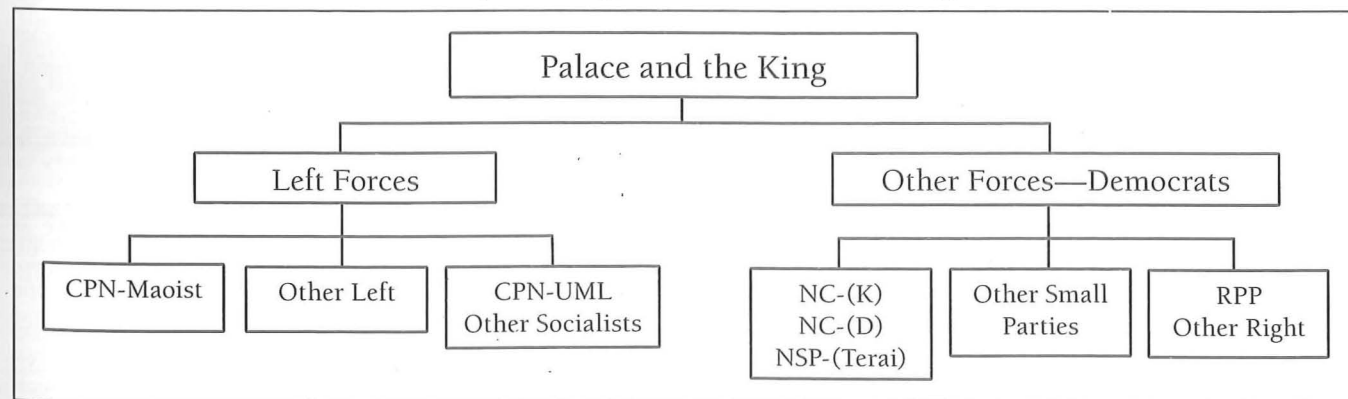


Chart 1. Current Political Spectrum

VOTING AND THE ELECTORATE

The voter turnout in parliamentary elections in Nepal was quite high (60-70 percent). Nevertheless, this turnout was often attributed to vote buying, and, sometimes, to illegal practices such as booth-capturing, one person voting in the names of others, etc. This was possible because voters were unaware of national issues. A study completed in 1992 (IIDS, 1993) reported that more than 47 percent of the 1780 respondents tabulated were not aware of the tenure of office or the number of members in the House of Representatives, the number of votes required to amend the constitution, or the process of selection of the Prime Minister. Only about 19 percent of them intended to vote as per their party association. The decisive factor reported in their voting behavior was the candidate's personality, defined as his honesty, likeability, and past contributions. Nearly half of the respondents had no electoral involvement at all. Nevertheless, about 28 percent were involved in the electoral process. A later study (1996) drew similar conclusions.

LOCAL SELF-GOVERNMENT

Local governments also channel citizen participation in day-to-day governance. Many of the matters of vital interest to ordinary citizens, such as drinking water and sanitation, the environment, and management of schools and health facilities including hospitals, are usually allocated to local governments. These issues are of immediate concern to citizens. Moreover, local leaders are more approachable. Their activities are scrutinized and judged by the local population directly, on day-to-day basis. Therefore, in their own interests, local leaders need to be alert and responsive to local needs. In many cases, they may be recalled by their constituents. Modern complex governance requires that people at higher levels of decision-making have time to concentrate on the national and international policies affecting the nation. For efficient management of day-to-day affairs, people close to the issues at hand need adequate autonomy in decision-making. People should be as close to the process of governance as possible.

In Nepal, local self-government got its start in 1975. But not until the Local Government Act of 1993 did resource management and development planning devolve to local bodies, which were to function as local self-governments, though without legislative or judicial powers except in matters of resource mobilization (in limited areas). However, a fundamental problem left unattended was the role of the bureaucracy, recruited and managed centrally but stationed in districts and villages and expected to function under the local-self government bodies. Further, because of overwhelming party interventions even in the recruitment of secretaries at the village level, and in the face of the Central Government's reluctance to relinquish centrally implemented projects, bureaucracies became dysfunctional (Dahal, 2001).

THE PRESS AND THE MEDIA.

Mass media plays a powerful role in the modern world in shaping public opinion. Mass media can generate awareness of issues, promote a high level of mass participation in the decision-making process, and activate and maintain a public mechanism to regulate, balance, restrain, and control the powers of the decision makers (See Aditya, 1996). In modern democracies the media—the fourth estate—is supposed to be above partisan politics, acting as keepers of social conscience, raising a voice for justice and equity, protecting the interests of the underdogs, and generally protecting the democratic value system. However, in practice the mainstream media remain under control of various groups within the ruling elite even in developed democracies (see Greider, 1992; Cohen and Solomon, 1995).

Nepal's private sector media, suppressed during the 30 years of the Panchayat era, have yet to mature as a channel of public participation in the process of governance. First, media suffers from the political fragmentation observed in the society. There is no independent source of funding, and the media is bound to toe the lines of individual politicians or political parties for specific favors. Most of the media are viewed as instruments of partisan politics or foreign parties. Moreover, they lack professionalism and access to information. Ambivalence in His Majesty's Government's media policy has compounded problems (Aditya, 1996; Pokharel, 1998). Most media lack a balanced perspective on gender and equity. Naturally, the party in power and their leaders' speeches dominate the government media. International TV channels propagate modern consumerism and the values of a globalizing economy, trivializing violence, and presenting the viewpoint of the dominant powers.

NON-GOVERNMENT ORGANIZATIONS (NGOS) AND COMMUNITY-BASED ORGANIZATIONS (CBOS)

NGOs, following Walzer (1996), may be defined as "non-state power oriented-people's associations and organizations." This definition excludes political parties. NGOs in developed countries are primarily focused on participation in the process of governance rather than in development per se, e.g., advocacy for environmental protection and consumer protection, the anti-nuclear movement; such organizations act as genuine channels of participatory democracy. But in developing countries, NGOs and CBOs are organized and viewed primarily as channels for effective delivery of services (Korten, 1992).

In Nepal also, NGOs and CBOs have been more active as important avenues for development promotion than for political participation. Their modalities of operation, scope of work, funding sources, and their strength and weaknesses as development institutions have been analyzed in detail (Bhattachan, 1998; Acharya, 1997). Only a few of them such

as Child Workers in Nepal (CWIN), the Informal Sector Service Center (INSEC), and some women's NGOs have been successful in raising issues and acting as advocacy groups. Women's groups have been able to raise general awareness of women's rights. However, on political action they have fallen short.

All sister or allied organizations of political parties, including those of students, women, and labor (trade unions), have only recently started to act together to advance their group interests. Nevertheless, party alliances still predominate (Dahal, M, et al, 1999; Acharya, 2004), and their advocacy has not yet been converted into voting blocks. They have also become part of the unprincipled politicking. Only since the late nineties have ethnic/caste based groups started to act as advocacy groups.



PHOTO: DAWN STIEF

THE MONARCHY AND THE ARMY

In Nepal, traditionally the monarchy as an institution has been viewed as the symbol of national unity and stability, and a strong barrier against intervention by neighbors. The monarchy has used this position several times to its advantage to maintain or reestablish its command over the country. So far, the Army has been viewed as its protector. Most of the Army Command comes from the Ranas, and a small section of the population who have benefited from serving them, although the Hill ethnic communities and Chetris constitute the rank and file. The Nepali Congress, which ruled most of the time during the democratic periods, never tried to modernize it. Rather, its leaders were in competition for the favor of Ranas, who dominated the Army and had command over most of the country's wealth. Even when the regime changed in 1951, the wealth amassed by pilfering the government treasury and indiscriminate land grants during the Ranas' 104-year-old rule was never returned to the treasury or the people (Regmi, 1976). In early years foreigners also were in contact only with the Ranas, as only they spoke English and matched their life styles. India played a crucial role in ensuring the Ranas were not treated harshly. The first government after the revolution of 1951 was headed by a Rana prime minister. India played the middle-man role in this settlement (Shah, 1990, volume II).

After 1990, the Army was still left untouched. The political parties mostly ignored it, not thinking about its democratization, which they are now making a slogan: The clash with democratic government started only when the Army

command, presumably with the King's consent, refused to move against the CPN-Maoists unless the political parties were united in their demand and imposed emergency.

During the Panchayat era, particularly after King Birendra's ascent to the throne, there were constant rumors that the palace was a divided house. Some of the royal family members wanted to treat the dissenting political forces more harshly. During the democratic movement of 1990 this division of opinion continued. However, the late King chose to make peace with his own people and did not bow down to the Indian demand to surrender to them. He agreed to a constitution, which made the country a constitutional monarchy with multi-party democracy. This was not to the hard-liners' liking, and they were always ready to

find fault with the government and create instability where possible. Whether this was a planned move or just the expression of dissatisfaction, however, cannot be established. All political forces including the CPN-Maoists used each other for advancing their own agendas.

INTERNATIONAL SCENARIO

India and China

Sandwiched between India and China, Nepal has great economic opportunities but very little space for its own independent policies and programs. Nepal has a much more intricate relationship with India than with China. China has been largely concerned with the stability and neutrality of Nepal and is therefore happy to support the establishment, no matter who is in power. Even throughout the Panchayat era, when it supported many revolutionary movements around the world, China's policies were neutral in Nepal. However, it did contribute to economic development by assisting in building roads, and establishing large import substitution industries. During the Cultural Revolution in China, Maoist literature was translated and distributed widely in Nepal and used to train left cadres. The short-lived, violent left movement in Nepal during the late sixties was also an offshoot of the Naxalite movement in India, which was probably supported by China. But currently China has clearly condemned the Maoists and by all indications has nothing to do with the insurgency.

India is a different matter.⁴ Apart from economic dependency on India for access to the outside world, Nepal deals with continuous Indian intervention in Nepal's political

affairs. Nepal's political elite preserved their internal autonomy by assisting the British against India's independence struggle during Rana rule, and the Indian establishment has never made peace with the fact that Nepal was left as an independent nation when the British left India. Some Indian Congress leaders had wanted to annex Nepal as they did Hyderabad. But Nehru, with his vision of Panchasheel, did not agree to direct annexation. Nevertheless, a very unequal treaty was imposed on Nepal. Nepal's Rana rulers, who negotiated with India for their protection in the new regime, signed this Treaty of Friendship in 1950. This treaty will never lapse unless abrogated unilaterally, or changed by agreement of the two nations.

The treaty forces Nepal to give priority to Indians in competition with foreigners for exploitation of natural resources, in acquisition of property, and in investment opportunities on a par with Nepali citizens, and to allow citizens free mobility to each other's countries⁵. Moreover, it also provides that when buying arms or going to war, the two countries will consult each other. In reality, India never consults Nepal on anything, while Nepal is kept under India's continuous surveillance. Even the US needs India's permission to send arms to Nepal. The democratic movement in 1990 was supported by Indian leaders, not from their love for democracy, but because Nepal was trying to move beyond this treaty by imposing a work permit requirement for all foreigners, including Indians, who sought to work in the Kathmandu Valley, and because Nepal tried to import some small arms directly from China. Since 1950, the position of each party on this treaty has become a constant factor in Nepalese politics.⁶

Further, the Indian establishment is not satisfied with this treaty. They intervene continuously in Nepal's inter- and intra-party competition and between the King and the political parties. They support one or the other and keep them fighting, and negotiate unequal treaties when they are divided. Thus, India's support for democracy in Nepal has always been half-hearted and partisan, motivated by the desire to put a particular leader or party in power. Most rulers, whether Ranas, kings, or prime ministers, have given in to such Indian pressure in the past. There have been only a few exceptions. The last King Birendra, one of those, chose to negotiate and give in to the democratic forces, rather than bow to India in 1990.

Even today, according to close observers and Nepalese authorities, including the ex-Prime Minister Soorya Bahadur Thapa, India is supporting both the King and the CPN-Maoists to pressure the King for more unequal treaties, particularly to establish a priority claim on Nepal's water resources. The King is giving in slowly. Thus, though the CPN-Maoists named abrogation of the 1950 treaty as well as the Mahakali Treaty with India among their major demands, now they have put the country under more Indian influence. There is no guarantee that the Indian establishment will not force Nepal into India's security umbrella before they move effectively against the CPN-Maoists. They need the King in

Nepal for stability and the democratic structure to intervene in Nepal's political affairs.



PHOTO: DAWN STIEF

Disintegration of the Soviet Socialist Block and Left Strength in Nepal

After the disintegration of the socialist block, the left was completely demoralized in the international arena. But the communist parties of various shades together won only slightly fewer seats than the Nepali Congress (NC), and constituted a powerful block in the Nepalese Parliament elected in 1991. The CPN-Maoists also had nine seats of their own. The left forces in South Asia and the movements like Revolutionary Internationalist Movement (RIM) watched the left's success in Nepal with great interest. But with the about turn of the CPN-UML on economic and social policies, and their intolerance of other left forces, ensuing intra-party and inter-party wrangling on forming the Government, extensive use of money and muscle during the subsequent elections, and finally the use of the Army by the NC government to subdue the social movement for implementation of even the existing laws, combined to belie the hope for a peaceful transition to a more socialistic economy. The forces in Nepal preferred to start an armed insurgency, most likely with the advice and help of Indian and international insurgent forces.

At this moment, it is hard to prove such conjecture, but there are many signs. There is CPN-Maoist representation in the RIM high command, and Nepal's outgoing prime minister recently made a categorical statement that CPN-Maoists broke the last negotiations because they were directed to do so by RIM (Kantipur, 2004). A few years ago the CPN-Maoists signed a pact with Indian CPN-Maoists, stating that when their respective countries are liberated from the capitalist system, Nepal and India will form a South Asian Commonwealth. Nepalese and Indian authorities believe that the insurgents are collaborating in planning and executing their actions across borders. The two left insurgent groups

in India, Peoples' War Group (PWG) and Maoist Communist Center of India (MCC), have now united into a Communist Party of India (Maoist-Leninist)—CPI (ML). In 2003 a Maoist communist party, the Bhutanese Communist Party (MLM), was formed in Bhutan (www.nepalnews.com, October 14; Shrestha, 2005). Both parties have promised to work in collaboration with CPN (Maoists) in Nepal. India only recently has woken to this reality of insurgency cooperation and co-ordination.

According to Lenin, imperialism should be hit where it is weakest in order to start international socialist revolution. It seems from their activities that the International Revolutionary movement has singled out this part of the world, in particular Nepal, as the best place to rouse their movement. Nepal had undergone an intensive revolutionary underground campaign in the late sixties and seventies. The democratic forces were quite weak. The Monarchy, smarting from the 1990 change of regime, could be used tactically against democracy. The poor peasantry and service castes, rapidly losing their traditional livelihood sources because of the invasion of factory-produced goods and globalization, could be readily lured to the utopian ideas of a communist state and equality.

ECONOMIC POLICIES AND INCREASING DIFFERENTIATION

Even though political mismanagement and the ensuing frustration provided the immediate background for the Maoist insurgency in Nepal, the continuing economic exploitation of the service castes and other ethnic groups by the landed class, and further impoverishment of rural areas and certain sections of the population, played a crucial role in its rapid spread⁷.

Economic Policies

Much literature identifies the traditional economic exploitation of disadvantaged ethnic communities and Dalits by the high castes as the primary cause of their support for CPN-Maoists.⁸ But such literature rarely deals with the impact of globalization policies on traditional patterns of exploitation, and consequent acceleration of class differentiation. Neither does it go into the precise economic processes by which this differentiation is taking place. The emphasis is on the traditional social structures, and impact studies of donor-funded programs⁹.

Nepal started its modernization venture with planned development in 1956. Early years were devoted to building physical and social infrastructure. Benefits of growth were spread very unevenly. Even in 2001 an overwhelming majority of Nepal's population (86 percent in 2001) still lived in rural areas, and 20-21 districts remained unapproachable by roads. Moreover, most of the villages are still far from motorable roads, even if roads reach the district headquarters. More accessible rural areas benefited from the construction

of modern transportation facilities and social infrastructure. Although the economy grew 4-5 percent per annum during the eighties, disparity in income and access to resources was increasing.

The structural adjustment program, which in its initial stages primarily benefits the well off, was started in the mid-eighties, and accelerated after the democratic changes of 1990. The liberalization process encompassed all sectors of the economy: agriculture, industry, Foreign Direct Investment (FDI), trade and exchange rate policies, the financial system, transport and communications, etc. The policy reforms in the external sector were the most comprehensive and far-reaching. Nepal now has the lowest import tariff rates in South Asia, and full convertibility of Nepalese Rupees on current account. Its FDI policies are liberal (Acharya, K. et al., 1998). This process further deepened the existing cleavages and created new disparities.

The next section examines in some detail the process of impoverishment of these sections of the population. Before that a brief review of donor role in the economic policy-making process is presented, as government policies and programs in Nepal are formulated and implemented in close collaboration with the donors.

THE ROLE OF DONORS IN ECONOMIC DECISIONS

Donors often blame the leaders of the developing countries for failures of development programs. Nepal is no exception to this rule. Currently, past failures are blamed on inward-looking policies or inadequate liberalization. There is very little inclination among the donors to examine their own policies and programs for elements which might have led to accelerated mass impoverishment and disillusionment with the system and prepared a fertile ground for CPN-Maoist insurgency.

When Nepal embarked on its planned development in 1956, there were few graduates or even educated administrators. Since then bilateral and multilateral donors have played the major role in Nepal's policy making (Panday, 1999; Acharya, Khatiwada and Aryal, 2004). Even after 1990, with plenty of human resources and alternative opinions in the country, the major political parties, fearful the donors would withdraw and lured by offers of assistance, accepted whatever was offered to them instead of requesting aid for their own. Western donors are still so afraid of the Communist name that even a slightly-left-of-the-center party raises alarms. This was one of the factors in overthrowing the CPN-UML government in the mid nineties¹⁰.

The 1989-1990 movement for democracy in Nepal was successful only because it was widely supported by the left parties working underground in Nepal throughout the Panchayat era. The overthrow of the moderate communist party, the CPN-UML, with a social-democratic platform, discredited its ideology of peaceful ways to social revolution, and

strengthened the hard liners within the left. Many of the left cadres, who had been trained in Marxist ideology for the thirty years of Panchayat rule, were disappointed, and probably joined the extreme left. Currently nobody knows who the CPN-Maoist middle-level cadres are, while most of the Central Committee members were very much a part of the united left in the 1989-1990 movement. So there is very little ground now for the donors to blame the emerging disparities and discontent entirely on the traditional social divisions. Only after the Maoist insurgency are they starting to reexamine their policies and programs. But the focus is still on liberalization and privatization. Social policies still do not constitute an integral part of the agenda.

From a review of development cooperation, Rana and Sharma (2003) conclude that the country has been a major playground for development experimentation, without an internal vision and clear understanding about an effective mechanism to address the root cause of poverty in the country. This has resulted in:

- Failure to contribute substantially to poverty reduction;
- Creation of a persistent dependency on external aid;
- Division of the society into a few benefiting from the aid flow and the many deprived of such benefits; and
- Antagonism among the general population towards international cooperation, the very state apparatus that has fueled and escalated the CPN-Maoist conflict.

Firstly, although unequal income distribution and the need to base growth more broadly have been noted often since the mid-seventies (Chenery et al., 1974), these issues were relegated to the margin. Growth is still emphasized as the first priority. "People's participation" has been a constant part of the World Bank policy recommendations since the mid-seventies, but after twenty-five years, poverty in 100 countries has increased, not decreased, as noted by UNDP (2000), and the World Bank (2001) once again has had to emphasize that human poverty is a multi-dimensional problem that needs to be attacked simultaneously in all its dimensions. But whether a globalization process controlled by interest groups, whose primary objective is to make money for their own sake, can generate adequate resources for the mass of the population on the planet—and distribute them properly to ensure poverty eradication—is yet to be seen. So far the indications have not been positive.

World leaders and international development agencies love to dress the same old political commitments in new language and then forget about them. The ideas generated become a fad for a short time, forcing all aid recipients to rewrite their plans and programs in the newly fashionable language. By the time they conclude this exercise new fads are generated. Commitments made earlier are completely forgotten. For example the Social Summit, which committed both the donors and the developing countries to specific millennium targets to reduce poverty, is now almost forgotten by most developed countries. While enormous amounts are spent on wars with illusory objectives, very few devel-

oped countries have fulfilled the target of contributing 0.7 percent of their GDP as aid to developing countries, which was agreed upon 30 years ago.

Donors emphasize theoretical assumptions. Individual examples of success are presented as general phenomena, rarely examined as specific ground realities. Nepal is a very clear example of this. A few policy examples in Nepal are the emphasis on agriculture, liberalization of external trade, and FDI flow and governance.

Emphasis on agriculture in Nepal has almost become a cliché by now. From the First Plan in 1956, agricultural growth has been emphasized, but with limited success. Agriculture to a large extent still depends on the vagaries of nature, and average land productivity has declined rather than increased since the seventies. The major factors in Nepal's agricultural stagnation are lack of infrastructure and competition from lower-cost, subsidized Indian products. While the first factor started to receive attention in the last decade, the second is still ignored in policy analysis. Propagation of high value crops cannot be a short-term solution to mass poverty generated by low competitiveness of mass-produced crops. Even Nepalese vegetables and fruits cannot compete with Indian products that are supported by low infrastructure cost and multiple subsidies. This has implications for both agriculture and manufacturing. Even the orange juice manufactured in Nepal is not based on Nepalese oranges, although Nepal is supposed to produce the best oranges.

Since Nepal is a small country, the emphasis on agriculture and trade was correct at the macro level. But the employment/income multiplier of trade was never examined in Nepal's specific labor market context. Except for a few cases such as carpets, knitwear, and pashmina shawls, the direct and indirect multiplier effects of the manufacturing industries have been largely exported. As a consequence, the reasonable GDP growth rates since the early eighties had little impact on employment and income generation for the poor and disadvantaged sections of the rural population. Moreover, accessibility of the vast Indian market, always assumed in donor advised macro-economic policies, has been elusive since the early sixties¹¹ (Acharya, 1995; Khan, 1999).

It is assumed that with liberalization, larger FDI will flow automatically to Nepal. But in reality, FDI comes to Nepal only if its products can enter the Indian market freely, or in more favorable conditions, than products from other countries. And more than 75 percent of FDI flow to Nepal is from India, which comes not only with capital but labor as well. So except in a few cases, the multiplier effect is largely exported.

This blindness continues today among the larger donors. For example, the World Bank (NDPR, 2004) is talking about land market, privatization, liberalization of exit policies for organized sectors, Export Processing Zones, and expectation of high FDI inflow even under the current situation of conflict, when the rural areas are largely under the control of the insurgents, and the land of larger land-holders has been confiscated and distributed to the tillers. Privatization is pushed

incessantly, even in sectors such as drinking water, health, and education. Ceilings on land holdings are supposed to be lifted, and exit policies for labor made easier without any program for redeployment of labor. These are fundamental issues to which most of the left forces, including the CPN-Maoists, are opposed. Hoping for negotiated settlement with the CPN-Maoists on the one hand and pushing these issues incessantly on the other creates a paradox.

While there is no dispute that without growth, equity cannot be achieved, emphasizing growth and addressing the equity issues with small-scale programs such as micro-credit is no help. The first priority should be to make growth inclusive. As long as the growth path itself generates new inequities and deepens the existing ones, small add-on social protection programs are inadequate to redress the inequities. Such relocation of priorities is likely to give a different policy package from the emphasis on growth as the first priority. For example, in Nepal a general liberalized trade regime is likely to draw most economic activities to regions and districts with advanced infrastructure facilities, as in the last decade. In the context of social upheavals, relocating new economic activities to the Mid-West and Far-West regions must be a priority, which would not emerge if growth were accorded the first priority. The problems of poverty and socio-economic exclusion in these areas are too big to be addressed by add-on packages of social protection.

Currently donors are talking about governance. But governance is made into a completely technical problem. Privatization is supposed to plug all leakages, which is not supported by practice, as evident from cases of massive corruption in developed countries as well. Privatization mostly converts practice considered illegal under state control into legal practice, e.g., commissions for agency work. Further, the focus in governance is often limited to education and health-services delivery, where the problem is supposed to be solved by further privatization and larger government expenditure. Other important governance issues never get attention. In Nepal, equally important are land management, citizenship, customs and border management, police and judiciary. All these services have been a fertile ground for corruption. Even land entitlements are not kept properly; people have been cheated and public land has been transferred to political workers. Grant of citizenship has been converted into a money-minting exercise, while for authentic Nepali citizens, specifically for women and the *dalits*, the process has been converted into a nightmare. All this has important and widespread impact on people's everyday life, which

feeds their resentment of the system. No donor wants to pay attention to these issues.

Similarly, in spite of commitment to decentralization in their programs, donors have wasted huge amounts of money on strengthening the district bureaucracy without making sure that the work and powers of the central bureaucracy are transferred to them. On the other hand they have contributed substantially to raising the pay scale of the central bureaucracy. The Participatory District Development Program, which was supposed to strengthen the bottom-up planning process, is now mostly geared to providing micro-credit to the groups organized under the program (Acharya and Wright, 2000).



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Thus, although Nepal has received a continuous flow of substantial amounts of external resources in the last 40-45 years, the use of these resources has remained highly inefficient and the impact on poverty alleviation marginal at most. External aid might have actually accentuated the problem of poverty by increasing regional, inter-community, and inter-personal disparity in income and human development.

PROCESSES TRIGGERED BY ECONOMIC POLICIES

Erosion of the Village Livelihood Systems

Until recently the village economy used the service castes and paid for them in cash or in kind. With the onslaught of factory-made plastic utensils, bags, textiles, farm implements, and many other goods, these castes have lost the market for their skills. With the decline of the role of the household as an organization of production, manufacturing activities have been increasingly externalized, and both male as well as female workers have lost control over the production process configured by self-employment, and have been transformed into wage laborers, with few alternative employment opportunities. In this process, women and the poor were affected more, since newly emerging organized industries needed not only more capital but also more educated and mobile laborers.

On the other hand, as land holdings were divided and subdivided among the landed households because of population pressure, the agricultural labor market has also shrunk for the landless service castes. The service castes have no big landlords in need of labor to employ them as agricultural labor. The middle class, instead of investing in land, is set on selling the land to send their children abroad. Or they are converting land to forestry, fruit orchards, or some other plantation with a long gestation period, eroding the food se-

curity system of the villages. The poor are left with no access to resources or alternative employment.

Further, the ban on traditional crops like hashish, and on small-scale alcohol manufacturing by women for the local market, without alternative crops or enterprises, as in Rolpa and Rukhum has been noted by other authors (Gersony, 2003) as being among important causes of the Maoist movement, which started in these districts. Failure of the Rapti Rural Development project to address the needs of the poorer areas further aggravated the problem. Similar conclusions can be related to Siraha and Sarlahi, the Terai districts of CPN-Maoist concentration. Ethnic women's frustration and opposition over the State's ban on local production of alcohol was already noted in 1977 (Molnar, 1981). While the local production of alcohol is banned, FDIs and nationally owned factories can produce and distribute alcohol freely.

Until about 1980, Nepal had relatively free land, where the poor and lower middle class had user rights. They could easily move and occupy government land with impunity. National forests were accessible to all for grazing animals, fuel, and fodder. It was disastrous for the country, for the land and forest resources were being exhausted fast. For the poor, however, it was a means of livelihood. They could move to higher-level land. Although land with low productivity, it was a resource.

Further large tracts of private and sometimes also public land have been enclosed by the powerful and strong in the name of commercial agriculture. This process parallels the 16th century enclosures in England (see Polanyi, 1957 for the analysis of the events). Then, in England, the poor flocked to the cities and found employment there; even then the English government had to pass the infamous Poor Laws. But in Nepal the poor have nowhere to go.

Earlier, the poor could raise and graze livestock on community land. They could gather berries and fuel for sale and earn their livelihood. All this stopped with the introduction of lease and community forestry. It is true that these measures have helped to regenerate the forests to some extent, but they have also closed the avenues of livelihood to many.

Community forestry is one of the main strategies adopted by the government for forestry management in recent years since the Seventh Five-year Plan, but particularly after 1990. Traditionally, raising calves for breeding and other animals for meat was a more practical and accessible activity for the landless, and for marginal households and women. Small livestock-raising has been the main activity of the poor in all micro-credit programs. But with the emphasis on improved stock, commercial livestock-raising, and enclosure of public lands by the village elite, community forests and free public grazing lands have disappeared and such small-scale livestock rearing activities have become impossible. In most cases relatively better-off households in the village have monopolized the community forests. The poor households did not understand its importance in the beginning and did not participate on a large scale. There is no more community

land left. This factor has limited the scope of livestock-raising as a poverty alleviation strategy in remote and difficult areas, precisely those areas where poverty is concentrated.

The erosion of the more or less food-self-sufficient households and the village economy without alternative, equally productive avenues of employment and income, has had a very traumatic effect on poor households.

Limited Impact of Export or Other Non-agriculture Sector Growth on Alternative Employment and Income Opportunities

With the construction of roads, market penetration in the hinterland was begun in the 1960s and 1970s. However, protection of local producers and cottage and household-level industries also formed an important part of the development strategy then. With more focus on liberalization, the evaporation of a local market for locally produced products and services accelerated significantly.

The organized non-agriculture sector was not able to generate a wide enough labor market to absorb the labor freed by the erosion of the village livelihood systems, although it grew faster after the liberalization, and its contribution to GDP went up by about 20 percentage points in the 20 years since 1980. The contributions of manufacturing, trade, restaurants, hotels, and construction particularly have increased in proportion to the decline in agriculture (see Dahal et al., 1999; Panday, 1999; Khan, 2000; Acharya et al., 2004). The general conclusion is that these policy packages have reduced the role of agriculture in production and increased the market penetration into the household economy, without substantial positive impact on the employment opportunities and livelihood options for the poor in general and the women in particular.

For liberalization or accelerated growth of the modern sector to benefit the masses, it must generate adequate and more productive employment for them. Increased employment is the only channel through which the benefits of globalization may trickle down to the poor. The problem of job creation is acute in Nepal. A majority of the unemployed are not educationally prepared to take advantage of the expanding modern labor market, and also face severe competition from migrant labor from India.

Unemployment also exists within the lower middle class with small pieces of farmland and comparatively higher reservation prices of labor. In spite of the emerging unemployment problem among the educated youth from the lower middle class, this group is not willing to work as physical labor within the country. Nor do they want to go back to farming—and hence they provide a fertile ground for the CPN-Maoist recruitment, as well as a source of migrants to overseas.

Reinforcement of traditional factors of differentiation

Market penetration and globalization have reinforced some of the traditional differences in access to resources, knowledge, and power, based on ethnicity, caste hierarchy, and gender.

Traditionally, Nepalese society had multiple social divisions based on ethnicity, geography, and caste. Gender is another cross-cutting factor. According to the 2001 census, there were 100 ethnic/caste groups and sub-groups in Nepal. The first dividing line that can be drawn is between the castes and ethnic populations, who consist of a few major and many minor groups with less than 500 in number. Forty-eight such janajati groups are registered in Nepal. While the Hindu population is organized on the basis of caste hierarchy, the ethnic population has no such caste divisions in principle, although social differentiation within the groups do exist in practice in some groups, for example among the Newars. In 2001 the caste groups constituted 57.5 percent of the population, the janajatis 37.2 percent, and the religious minorities 4.3 percent (Appendix Table 1; for details see TPAMF, 2004).

There is a similar diversity in native languages of the population. Ten languages, including those spoken by at least 1.5 percent of the population, accounted for 90 percent of the population (Appendix Table 2). It is one of the dividing factors between the Madheshis (plains people) and the hill people. Madheshis, although within the Hindu caste hierarchy, speak north Indian local languages, while ethnic groups have their own languages. Nepali is the mother tongue for 49 percent of the population, the *lingua franca* for other communities, and the only language allowed in official transactions. This has become a contentious issue for all non-Nepali speakers. Non-recruitment to the Army is another issue raised by the Madheshis.

The ethnic and Madheshi populations want a federal state structure along linguistic divides, use of local language in local government business, and more equitable representation in the political and administrative echelons of power (Gurung, 2003).

The Hindu group is divided into multiple groups by caste, which often overlaps with class. Brahmins are at the top of the hierarchy and the *Dalits* (traditional service castes, or untouchables at the bottom). Recent information on comparative socio-economic and political status of various

groups shows that *Dalits* and some of the ethnic groups, particularly from the Terai and remote areas, had almost zero access to higher education and positions of power. As discussed above, economic modernization and the structural adjustment programs had a disproportionately intense impact on them and increased the traditional differentiation in their access to resources, knowledge, and employment opportunities. They are agitating for more equitable access to resources, education, and power.

Although nearly 81 percent of the population has declared itself Hindu in the 2001 Census, a large group is Buddhist. People also practice a number of other indigenous religions. The issue of the Hindu State, which was taken up originally only by the recent Christian converts, has now become a contentious issue for most non-Hindu ethnic elites in the country, who claim their own religion or Buddhism.

These sources of conflict overlap with crosscutting issues such as poverty and gender, which tend to intensify the problems of socio-political disadvantage. Gender discrimination cuts across all castes, ethnicity, geography, and class. Women are discriminated against not only socially but even in law. There are 54 laws and 120 by-laws and clauses which discriminate against women (FLWD, 2000), in spite of the fact that Nepal's constitution says that any law contravening the International Agreements to which Nepal is a party is void. Major areas of legal discrimination include citizenship and property rights. More equitable access to resources, education, and power form the major points of their demands.

OVERALL IMPACT

As a consequence of the multiple factors discussed above, Nepal was not able to make any significant gains in reducing income poverty, especially in rural areas in the last three decades. Even a World Bank (Prennusi, 1999) estimate put 42 percent of the Nepalese below the basic-needs poverty line in 1995/96—that is, unable to meet their basic needs of minimum calories, shelter, drinking water, basic education, and primary health care.

Table 1. Long-term Issues for Nepal

Political	Socio-Cultural	Economic
A. Governance Structure	Status of languages other than Nepali	Neo-liberal
1. Position of Monarchy	Hindu or Secular State	Social Democratic
2. Decentralized or Federal	Social status of Dalits	Socialist
3. Representation of social groups in Power structure	Legal and Status of Women	
	• Citizenship	
	• Property	
	• Other	
B. Foreign policy Overall—Relation to the World powers	Citizenship issue of the Indian emigrants	
1950 Treaty with India		
India-Nepal border		
Other unequal treaties		
Gorkha recruitment		

Traditional divisions entwined with class differentiation and the urban/rural/regional divide have combined to produce deeper differentiation in access to resources, education and power structure (See Appendix Tables 3 and 4 and TPAMF, 2004 for details) and resulted in mass frustration for the service castes, poor women, and many youths from all communities, especially disadvantaged ones. New conflict points generated by such developments cut across gender, caste, and ethnicity, and include the rural/urban divide in access to resources, highly educated/uneducated or semi-educated in access to new sources of livelihood, the capitalist/feudal divide among the haves, capitalist/worker divide, lower peasantry/capitalist/feudal divide, and the like.

The fact that liberalization has led to a more dualistic world economy has also been noted by UNDP in 1995 Human Development Report (HDR):

“Since 1980 there has been a dramatic surge in economic growth in 15 countries, bringing rapidly rising incomes to many of their 1.5 billion people, more than a quarter of the world’s population... Over much of this period, however, economic decline or stagnation has affected 100 countries, reducing the incomes of 1.6 billion people—again, more than a quarter of the world’s population. In 70 of these countries average incomes are less than they were in 1980—and in 43 countries less than they were in 1970”.

It labels this growth as: “jobless—ruthless—voiceless—rootless—futureless.”

Nepal is a clear example of this dualistic development. No wonder the Maoist insurgency in Nepal is finding support from the impoverished rural population. Most insurgencies in history have been peasant movements, and the Maoist movement is one of them¹². CPN-Maoists are finding their main recruits from the service castes, disadvantaged communities and women, who have been the major losers in the accelerated market penetration of the rural economy, partly as a consequence of market-oriented development and partly because of structural adjustment policies. The World Bank (2004) itself had to accept the link between the development indicators by districts and the intensity of the Maoist insurgency in its recent policy review paper.

PROSPECTS FOR A NEGOTIATED SETTLEMENT

Thus the issues for a negotiation with the CPN-Maoists are multiple and are both short and long term. CPN-Maoist insurgents, with their communist propaganda of equality in all fields, have been able to exploit all these grievances. Their agenda of socio-political change is framed accordingly. A major question is whether agreement with CPN-Maoists is possible in this scenario.

In an immediate perspective the negotiations seem to be deadlocked between CPN-Maoists wanting a Round Table Conference with the King’s direct participation and Constituent Assembly, with the palace/Government not responding to the first and not agreeing to the second. Issues on the agenda for negotiation in the longer term are summarized in the table

below. It clearly shows that the Maoist agenda for a socialist state and Republic are likely to remain as points of disagreement on any longer term perspective. Of the three contending parties—the democratic forces, the Army/King or the CPN-Maoists—who will surrender will depend on military strength on the one hand and popular support on the other.

The issues of structural discrimination have been aggravated in the last decade because of political corruption, lack of social perspective in economic policies of structural adjustment, rising expectations of the masses, and social traditionalism among the politicians. Economic policies fostering dependency on foreign aid and foreign employment have led to the emergence of new classes, “fragmented personalities”, and “multiple states” leading to contradictory decisions, constant shifts in inter- and intra-party political coalitions to exploit the state resources, growth of non-competent bureaucracy, and radicalism among the overdeveloped non-productive classes. In Nepal this radicalism has resulted in the CPN-Maoist insurgency. This radicalism found ready ground for its activities among the impoverished masses. (See Table 1 for the long-term issues that need a solution)

As for finding compromises acceptable to the conflicting parties, the most difficult issues seem to be those related to the monarch, state structure, and foreign (specifically relating to India) and economic policies. Currently CPN-UML, NSP, and NC have joined hands to form a government, which also has two King’s representatives. The government can hardly move towards negotiations with the CPN-Maoists without the King’s (Army) concurrence. The mother NC together with splinter left parties and splinter NSP are still agitating, presumably for restoration of the dissolved House, while the King and the government want to conduct new elections. There are differences within the government as to what to do first: negotiate with the CPN-Maoists or hold an election.

In spite of the differences in language used by various political parties, there is an agreement on the issue that the system needs to be more equitable and participatory, taking into account the caste hierarchy, the ethnic and the geographical divisions, and gender. A meaningful devolution of power redrawing the boundaries and reducing the number of districts or a federal structure may be debated. Reservation of seats in the National Parliament or a more powerful Upper House representing and having the decisive voice in ethnic, linguistic, cultural, and gender issues may also be considered. The need for strengthening the prime ministerial system guaranteeing the fundamental rights, rule of law, etc. is also mostly agreed upon.

Differences are large on the political agenda. Although all major parties agree on the question of vesting sovereignty in the people, different parties interpret this clause differently. The parliamentary parties want to reduce powers of the Monarchy accorded by the 1991 constitution. The outgoing government, which was much closer to the King’s position, proposed development of the monarchical system in accordance with its status and dignity defined by the 1991 con-

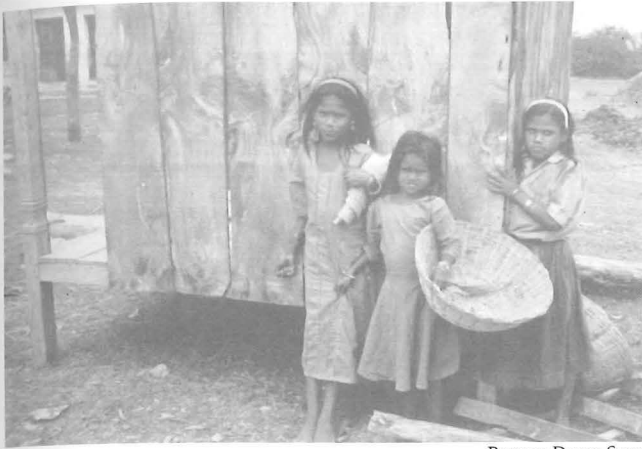


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stitution, although it has not made clear what 'development of the system' means. According to the King's one interview, he wants a more active role in governance, using his powers to draw the attention of the authorities towards dissenting views of various sections of the population. He wants to play a constructive role to strengthen the democratic system within the constitutional framework. Political parties are very suspicious of this constructive role.

Of particular importance is the de-facto structure and command of the Army. The parliamentary parties and the CPN-Maoists contend that it is currently controlled by the palace. They seek to transfer its control fully to elected government, after giving it a national character, whereas the establishment claims that the Army is already under the control of the Parliament. Additionally, the NCP-CPN-Maoists demand to include its insurgent army and militia in the Army's reorganization. This is a tricky issue, which needs to be resolved before any election can take place.

The CPN-Maoists wish to determine the King's future through referendum or an elected constituent assembly, and propose amendment of any provision of the constitution through referendum. The establishment, on the other hand, has said that the sacrosanct elements of the constitution should not be subject to referendum.

On the state structure the differences are also quite significant. The CPN-CPN-Maoists have offered the right of self-determination to ethnic groups (whether it means the Soviet or Chinese model). The five parliamentary parties and the establishment would accept the plurality existing in the country but they would deal with it within the unitary state structure by empowering local self-government to decide local matters.

Foreign policy, particularly the degree of closeness to India, is another point of discord. NCP-CPN-Maoists would like to revoke the 1950 Treaty with India, as well as what they call unequal treaties with the western countries, and close the Gorkha recruitment centers. No other party would go to that extent.

Similarly, the CPN-Maoists and other left groups prefer a secular state, while the democratic front of all hues and

colors would only make the interpretation of existing provisions on practice of religion more liberal.

In spite of the principle of gender equality to which all parties pretend to agree, equality in citizenship rights is not even on the negotiating table. Even the so-called revolutionary CPN-Maoists have not been able to go beyond the conventional Marxist approach to women's issues. It is not free of patriarchal value systems (Pettigrew and Shneiderman, 2004). To go by historical evidence from the former socialist bloc and China, a socialist or a Marxist regime makes women's choices more limited by curtailing individual freedom on marriage, family life, children, etc. It does provide some space for participation in public life, but still excludes them from decision-making positions.

The major difference between the CPN-CPN-Maoists on the one hand and the other two parties on the other is on economic policies. While the CPN-CPN-Maoists demand a total socialist agenda of change, the CPN-UMN and other left parties seem to be more for a more mixed economy, while the democratic parties and the establishment are for neo-liberal economic policies. That seems to be the crux of the problem in the long run.

LESSONS

Importing institutional structures does not establish democracy. Democracy must be context-specific and evolve out of internal conditions. The structures that develop must represent existing political forces within the country.

Current capitalist commercialization and globalization is not only an economic process. Although economics does form the foundation for other aspects of globalization, it is a multi-dimensional process creating a culture of unlimited wants and massive dissatisfaction with conditions of deprivation. Economically, globalization creates massive economic disparities, hitting the poorest the hardest. People can not tolerate for long the increasing deprivation on the one hand and unprecedented affluence on the other. Politically globalization concentrates resources and power among the rich and powerful, both globally and nationally, reinforcing traditional inequities. For globalization to advance smoothly it must grow out of a country's economic needs and competitive capacity. If imposed from outside it is bound to cause massive socio-economic dislocations.

The only way the structural adjustment and privatization programs can have a positive impact on poverty is through increased private sector investment and FDI and the employment-income-employment multiplier cycle. The masses are supposed to benefit from this expansion of opportunities by investment in education. But this cycle is affected by multiple other social, political, and contextual economic factors, which are conveniently ignored in the economic models. The assumed transmission mechanism rarely materializes, unless specific social, political, and structural factors are taken into account. Nepal may be taken as a glaring example

where these assumptions did not materialize. By now it is clear that all East and South Asian countries so often presented as examples of market-led development were really led by the State (Klitgaard, 1991).

While the growth path itself generates new inequities and deepens existing ones, to expect minor add-on social protection programs such as micro-credit and food-for-work to redress the inequities is very unrealistic. These programs are often too small to have an impact on mass scale employment loss. Moreover, micro-credit can work only when there are adequate market opportunities as in Bangladesh, not in the inaccessible areas like those where Nepal's poor live. In Nepal, multiple government and NGO/INGO programs with micro-credit supplied less than five percent of the total rural credit and covered less than 3 percent of the borrowing population (Acharya et al., 2003).

Emphasizing just growth and looking at the macro picture only without specific attention to groups who suffer from these policies is bound to generate political upheavals. The growth path itself must lead to more equitable distribution of opportunities and access to resources. This can be achieved only if there is a mechanism in place for participatory democracy in reality and not a system dominated by the traditionally powerful and the strong socio-economic groups and the rising capitalist class.

Small countries like Nepal have very little space to maneuver. They cannot opt out of the global system. The choice for them is not integration or no integration in the world economy. They are already integrated into the world economy, one way or another. The issue is that of changing the terms of integration to benefit the masses and not only the international/national capital and the few who control it.

Globalization policies must be rooted in the country-specific realities and perceived to be just and leading to overall improvement in the living standards of the masses. In Nepal much of the macro-economic policymaking has failed to yield the results expected of them, precisely because the models used for policy conclusions do not incorporate adequate dimensions of Nepalese, and the international contextual reality, such as market constraints on exports, India or overseas, or the free flow of labor and capital between India and Nepal.

Similarly democracy is about balancing interests of various groups. One cannot impose policies in abstract and hope that everything will go well. In this age of democratic aspirations and equitable development, our model cannot be Korea, Taiwan, Singapore, Indonesia, China, or Cuba, where political freedom was totally suppressed during the early stages of economic development. The political economy of development must be at the center of all economic policies.

Appendix Table 1: Ethnic\Caste Composition of the Population

	POPULATION GROUP	%	%	%
A	Caste Groups	57.5		
A.1	High Castes (A1.1+A1.2)		32.8	
A.1.1	Hill B/C+ (Brahman, Chhetri, Thakuri, Sanyasi)			30.9
A.1.2	Terai B/C+ (Brahman, Rajput, Kayastha, Baniya, Marwadi, Jaine, Nurang, Bengali)			1.9
A.2	Terai Middle Castes (Yadav, Teli, Kalwar, Sudhi, Sonar, Lohar, Koiri, Kurmi, Kanu, Haluwai, Hajam/Thakur, Badhe, Bahae, Rajbhar, Kewat, Mallah, Nuniya, Kumhar, Kahar, Lodha, Bing/Banda, Bhediyar, Mali, Kamar, Dhunia)		12.9	
A.3	Dalits		11.8	
A.3.1	Hill Dalits (Kami, Damai, Sarki, Gaine, Badi)			7.1
A.3.2	Terai Dalits (Chamar, Musahar, Dhusadh/Paswan, Tatma, Khatway, Bantar, Dom, Chidimar, Dhobi, Halkhor, Dalit/Unidentified Dalit)			4.7
B	Janajatis (Ethnic Groups)	37.2		
B.1	Hill Janajatis (B.1.1+B.1.2)		28.5	
B.1.1	Newar/Thakali			5.5
B.1.2	Other Hill Janajatis (Magar, Tamang, Rai, Gurung, Limbu, Sherpa, Bhote, Walung, Byansi, Hyolmo, Gharti/Bhujel, Kumal, Sunuwar, Baramu, Pahari, Adivasi Janajati, Yakkha, Chhantal, Jirel, Darai, Dura Majhi, Danuwar, Thami, Lepcha, Chepang, Bote, Raji, Hayu, Raute, Kusunda)			23.0
B.2	Terai Janajatis (Tharu, Dhanuk, Rajbanshi, Tajpuriya, Gangai, Dhimal, Meche, Kisan, Munda, Santhal/Satar, Dhangad/Jhangad, Koche, Pattarkatta/Kusbadiya)		8.7	
C.	Religious Minorities	4.3		
D.	Unidentified	1.0		
	Total	100	100	100

Appendix Table 2: Major Languages Spoken in Nepal

LANGUAGE GROUP	PERCENT POPULATION
Nepali (Hills)	48.6
Maithali (Terai)	12.3
Bhojpuri (Terai)	7.5
Tharu (Terai)	5.9
Tamang (Hills)	5.2
Newari (Hills)	3.6
Magar (Hills)	3.4
Awadhi (Terai)	2.5
Gurung (Hills)	1.5
Limbu (Hills)	1.5
Total	92.0

Appendix Table 3: Literacy Rate, Educational and Professional Attainment by Caste/Ethnicity, 2001

CASTE/ETHNIC GROUP	EDUCATION			PROFESSIONAL ATTAINMENT		
	Percent of 6 years +			Percent of economically active		
	Literacy	SLC+	Graduate+	Non-agric. occupations	Administrators, managers, politicians, high officials etc.	Professionals, Technicians, and associates
Hill/Terai B/C+	67.5	16.7	3.6	34.5	1.0	8.1
Hill B/C+	67.1	16.2	3.4	32.4	1.0	7.8
Terai B/C+	73.9	24.8	6.5	69.2	1.7	12.2
Terai Middle Caste	41.7	7.0	1.1	36.3	0.3	3.0
Dalits	33.8	1.3	0.1	30.7	0.1	0.6
Hill Dalits	41.9	1.4	0.1	30.9	0.1	0.7
Terai Dalits	21.1	1.1	0.1	30.4	0.0	0.5
Janajatis	53.6	6.9	1.1	31.7	0.5	3.3
Hill Janajatis	56.2	7.7	1.3	31.8	0.6	3.6
Newar/Thakali	72.2	20.3	4.2	58.0	1.7	8.4
Other Hill Janajatis	52.1	4.5	0.5	23.4	0.3	2.1
Terai Janajatis	44.8	4.0	0.5	31.3	0.2	1.9
Religious Minorities	34.5	3.1	0.6	48.4	0.2	1.7
Others	50.1	9.6	2.5	40.2	0.8	4.3
Total	53.7	9.4	1.8	33.6	0.6	4.6

Appendix Table 4: Female\Male Ratios of Education and Professional Attainment by Caste/Ethnicity, 2001

CASTE/ETHNIC GROUP	EDUCATION			PROFESSIONAL ATTAINMENT		
	Percent of 6 years +			Percent of economically active		
	Literacy	SLC+	Graduate+	Non-agric. occupations	Administrators, managers, politicians, high officials etc.	Professionals\ Technicians, and associates
Hill/Terai B/C+	72.5	46.0	20.5	104.8	0.3	3.5
Hill B/C+	72.8	45.9	19.5	110.4	0.3	3.4
Terai B/C+	69.1	46.1	29.9	31.7	0.6	7.8
Terai Middle Caste	42.4	20.3	11.2	46.6	0.1	0.8
Dalits	57.2	27.4	18.6	103.9	0.0	0.2
Hill Dalits	65.4	32.3	19.5	117.2	0.0	0.3
Terai Dalits	36.1	18.7	17.1	74.4	0.0	0.1
Janajatis	68.9	50.2	35.3	95.4	0.2	1.8
Hill Janajatis	73.1	56.4	39.1	99.9	0.3	2.1
Newar/Thakali	77.9	61.8	43.6	75.7	0.8	6.3
Other Hill Janajatis	71.4	50.5	30.6	107.2	0.1	1.1
Terai Janajatis	53.1	19.7	8.3	74.5	0.0	0.5
Religious Minorities	46.3	24.8	22.0	41.8	0.0	0.4
Others	61.2	46.6	32.3	80.2	0.3	2.6
Total	65.8	43.6	22.9	91.6	0.2	2.2



PHOTO: DAWN STIEF

ENDNOTES

1 [editors' note: Articles in Himalaya volume XXIII number 1 also explore this theme]

2 For example see Compilation of their Election Manifestos by the Poverty Watch Civic Forum, 1999.

3 Please refer to the IIDS Yearbooks, 1996 and 1997 for a review of the events.

4 This section relies primarily on newspaper publications in Nepal and India and a few books, which has been summarized by Dhungel in his recent paper (2004). [editors' note: See also Richard Bownas's paper in Himalaya XXIII:1 for more on this topic]

5 Even Kashmir and Assam may bar Indian citizens from buying land in their states, but Nepal cannot impose such restrictions on Indian citizens by this treaty.

6 See Shailendra Upadhaya, Tryst with Democracy 1991 and S.D. Muni, India and Nepal 1992

7 See Gersony, 2003 and Shneiderman and Turin, 2004, for in-depth analyses of specific districts within the Maoist hold.

8 For a recent summary, see Lawoti, 2003.

9 See IIDS, 2004 for a summary literature review.

10 The World Bank and the IMF seemed alarmed when the UML government declared an old age social security of about US\$ 2 per month, and budgeted NRS 200,000 to every Village Development Committee managed by the locally elected bodies. Currently these

lenders consider this as the best program (2004). The Prime Minister in office requested me to convince the South Asian Director of ADB that they were only social democrats. I carried the message to the Director, after which he came to Nepal to meet the government leaders. The World Bank in the meantime cancelled its already approved loan for the Arun Hydro electric project, which it said was because of environmental reasons. But many Nepalis were very skeptical, and the Arun Project cancellation became an indication of how international lenders would treat the government, if it remained in power. This became a good political issue, which the so-called democratic opposition, NC, picked up to oppose the minority government.

11 Current examples are tea, pashmina, and medicine, all of which are Nepal's comparative advantage products, on which India has been imposing import duties on one or another pretext, in spite of the free access facilities incorporated in the currently operating Trade Treaty.

12 For examples of in-depth case studies from Nepal, see Schneiderman and Turin, 2004 and Gersony, 2003

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