

Nepal

Status Index (Democracy: 2.0 / Market economy: 2.1)		4.1	Ergebnis Management-Index		3.6
System of government	Parliamentary democracy (susp. 10/4/2002)		Population		24.1 mill.
Voter turnout	65.8 % (Parl. elec. 1999)		GDP p. c. (\$, PPP)		1,310
Women in Parliament	7.9 %		Arbeitslosenquote		2.9 % (2000)
Population growth^a	2.3 %		HDI		0.499
Largest ethnic minority	12.74 %		UN-Education Index		0.50
			Gini-Index		36.7 (1995-96)
Data for 2001 – if not indicated otherwise. ^a Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.					

1. Introduction

The parliamentary elections of May 1999 ended an almost five-year period during which governments changed in rapid succession, each of them lacking a majority in Parliament. Although the Nepali Congress (NC) had an absolute majority of seats in Parliament after these elections, power struggles within the party kept the political situation unstable. Making matters worse, the Communist Party of Nepal (Maoist), or CPN (Maoist), stepped up the “people’s war” it had begun in February 1996.

Another setback came on 1 June 2001, when King Birendra and most of his family were massacred. After a brief period of negotiation between the government and the Maoists, Nepal’s democracy—which had existed only since 1990—fell into almost complete disarray. A state of emergency was imposed, lasting for nine months; parliament and local political bodies were dissolved; the prime minister and his cabinet were dismissed in a royal coup. In the aftermath of these political developments, Nepal’s economy has plunged into depression. Its ambitious development goals are out of reach. Tourism—the backbone of the economy—has dropped off by half over the last two years. This assessment of the status of transformation to democracy and a market economy during the last five years (1998-2003) comes to the conclusion that Nepal has definitely lost ground on the path toward its goals.

2. History and characteristics of transformation

The democratic transformation began in early 1990 with a people's movement (*jana andolan*) that within just two months brought down Nepal's *panchayat* system, which allowed no political parties. That council-oriented system—established after the 15 December 1960 coup led by King Mahendra, the father of the current monarch—had been intended to give the king's absolute rule an air of democracy. The constitution introduced on 9 November 1990 gave sovereignty to the people, converted Nepal to a constitutional monarchy, and established a multiparty democracy with a bicameral legislature, an independent judiciary and a balanced catalog of fundamental human rights.

The NC won the first free parliamentary elections in May 1991, taking an absolute majority of the seats in parliament. The Communist Party of Nepal (Unified Marxist-Leninist), or CPN (UML), founded when two communist splinter groups joined forces in early 1991, established itself as the second significant party force. The third-strongest party was a loose alliance of extreme leftist, Maoist-oriented parties known as the Samyukta Jana Morcha Nepal (SJMN) or United People's Front Nepal. The conservative forces of the former *panchayat* system gathered in two parties with the same name, Rastriya Prajatantra Party (RPP) or National Democratic Party, which differed only in their respective leaders, Lokendra Bahadur Chand and Surya Bahadur Thapa. After they lost badly at the polls in 1992, the two parties merged.

The NC government under Prime Minister Girija Prasad Koirala collapsed in mid-1994 because of dissension within the party. In the next elections, held ahead of schedule in November 1994, no party won an absolute majority; this led to chaotic conditions in the following years, with frequent changes of government. The elections of May 1999 (likewise slightly early) once again gave the NC an absolute majority in parliament, but only because the CPN (UML) had split into factions. Despite its parliamentary majority, longstanding rifts within the NC made the pursuit of stable and constructive policies impossible; three NC governments under different prime ministers failed within as many years.

The Maoist rebellion that had erupted in February 1996 in a few mountainous districts of west-central Nepal caused more and more problems for the Nepalese government. Its instigators were radical forces that had been active in Parliament as part of the SJMN in the early 1990s but went underground in 1995 to establish the CPN (Maoist). Early in 1996, this party presented the government of Prime Minister Sher Bahadur Deuba with a list of 40 demands, most of them based on the "directive principles and policies of the state" outlined in the constitution (Articles 24–26). Only a few—abolition of the monarchy, establishment of a republic, election of a constitutional convention to draft a new constitution—actually threatened to rock the foundations of the state.

When the government did not respond, the Maoists in western Nepal began a “people’s war,” targeting security forces, government facilities and those they saw as “enemies of the people.” The movement increasingly found support among the impoverished and largely disadvantaged masses of the rural population, for whom the country’s formal conversion to democracy had brought neither advantages nor better prospects, but instead mounting frustration with the unbridled power politics, nepotism and corruption of the established party leaders. Within a few years, the Maoist movement spread throughout the country. At the same time, the violent encounters between Maoists and security forces grew more and more brutal on both sides.

A brief cease-fire and dialog after the massacre of the royal family on 1 June 2001 ended in November 2001 with a renewed escalation of violence. The Deuba government declared a state of emergency, curtailed basic rights (in some cases drastically) and mobilized the army. International developments also played a significant role. Making the most of geopolitical changes after 11 September 2001, Deuba secured pledges from Western heads of government (such as Bush and British Prime Minister Tony Blair) to provide Nepal with modern weapons and other military equipment to suppress the Maoist rebellion.

Despite these promises and the ensuing partial deliveries, nine months of a state of emergency did not suffice to quell the insurgency. The army went after the Maoists with the utmost brutality, deliberately killed anyone they considered a Maoist, took hardly any prisoners and—as Amnesty International and similar organizations repeatedly confirmed—disregarded basic human rights. In the core areas most affected by the rebellion, the population saw itself increasingly in the crosshairs of Maoists and security forces, each accusing them of cooperating with the other. This triggered a mass exodus to the cities and to India.

In May 2002, when it became evident that the conflict could not be solved militarily, many members of Parliament from all parties were reluctant to prolong the state of emergency. Therefore, on the recommendation of Prime Minister Deuba, King Gyanendra dissolved Parliament, set new elections for 13 November and issued a decree extending the state of emergency for three months. Again, the parties fought with each other and within their own ranks about the legality of this procedure. As a result, the NC split into two groups, one led by Girija Prasad Koirala and the other by Deuba. Shortly before the local elections scheduled for July 2002—which could have been held in many districts, and especially in the cities, despite the Maoist insurgency—Deuba cancelled the elections nationwide and replaced the elected bodies with government officials. This triggered major protests from donor countries, which saw their local development projects endangered.

When it became clear that parliamentary elections could not be held as scheduled because of the continuing Maoist rebellion and the resulting lack of security,

Deuba and the leaders of other parties agreed to ask the King, under Article 127 of the constitution, to postpone the elections and form a government with representation from all parties. King Gyanendra, who had announced shortly after his coronation that, unlike his slain brother, he intended to be an active monarch, seized this opportunity to stage a coup. Accusing Prime Minister Deuba of failure to carry out his duties, the king claimed sovereignty and assumed executive authority. He disbanded the Deuba cabinet, postponed parliamentary elections indefinitely and appointed a new government—led by royalist Lokendra Bahadur Chand of the Rastriya Prajatantra Party (RPP)—largely made up of technocrats and dissident members of major parties, but not the party leaders.

Except for the RPP and the Nepal Sadbhavana Party (NSP), whose chairman was appointed deputy prime minister, the parties refused to cooperate with this government. Thus, the two sides to the conflict had become three: the king and his security forces, the political parties and the Maoists. The first sign of movement along the entrenched fronts came with a cease-fire agreement between the government and the Maoists on 29 January 2003.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

In transforming its political regime, Nepal has made hardly any progress since 1990. Shortcomings remain in political representation and rule of law. Democratic stability has definitely lost ground, most recently to an extent that threatens the system.

3.1.1 Political organization

(1) *Stateness*: Nepal has problems with its state identity because the state is linked with the religion, language and culture of the upper Hindu castes, especially the Brahmans (*Bahun*), who dominate the government elite. The constitution is in part contradictory: Article 11 stresses the fundamental equality of all citizens, regardless of religion, race, gender, etc., but citizenship depends solely on the nationality of a person's father. Women have only limited rights.

People of Indian birth or ancestry living in the Tarai region, which borders India, are often denied citizenship even after generations. Members of the numerous ethnic groups and the so-called untouchable Hindu castes experience manifold discrimination. The political process is only formally secularized. The administrative system is weak, riddled with corruption and urgently in need of reform. Because of the many years of Maoist conflict, public safety and order are not assured.

(2) *Political participation*: Until 1999, universal suffrage, the right to campaign for public office and properly conducted elections were the rule. However, since 1991 obstructions and minor irregularities have increased from election to election. Whichever government was in office often attempted to gain advantages from its position; this became especially evident in the local elections of 1992 and 1997.

The military, always loyal to the king, has become a power factor as the Maoist uprising has escalated, and especially since the king directly seized power on 4 October 2002. The state media are subject to government influence; some of the private media are partisan in nature. Since 1990, political and civil society organizations can form freely, but the state of emergency declared in November 2001 brought restrictions, some of which remained even after emergency rule was lifted.

(3) *Rule of law*: The 1990 constitution prescribes the separation of powers. Under the constitution, the king has only formal status as part of the executive and legislative branches; he does not have direct decision-making authority in these two areas. This is the crucial sense in which the king's actions on 4 October 2002 were unconstitutional. At present, the constitution is no longer in force; Nepal has no elected Parliament, no elected local bodies, no elected government officials. The people have lost their sovereignty.

The judiciary is independent in principle, but the Supreme Court has occasionally issued politically influenced decisions. Most recently, the government and the security forces have repeatedly disregarded judicial directives. Rampant political and bureaucratic corruption counts as one of the main reasons for the difficult political situation. The first serious attempts to combat corruption came in mid-2002, when even former cabinet ministers and their family members were called to account. However, no final court decisions have yet been made in these cases. Civil liberties are compromised, although to a lesser extent than political rights, by the discrepancy between government behavior and legal norms, as well as by the occasionally selective application of established law by administrative authorities and security forces.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: Between May and October 2002, Nepal's democratic institutions were gradually rendered ineffective. Even before that, their institutional efficiency had been hampered when competing political majorities prevailed in Parliament and the government—as had been the case almost constantly since the start of democratization (1990-1991). The wrangling between

the government and the stubborn majority opposition in Parliament often led one side or the other to initiate political blockades.

To make matters worse, all the parties were prone to fissures within their ranks, caused less by ideological dissension than by the party leaders' jockeying for power. Nepal's political actors often abused the country's democratic institutions. In general, political disputes tend to spill into the streets, where they are waged with an excessive number of demonstrations and strikes.

(2) Political and social integration: All of Nepal's political parties lack adequate democratic and participatory mechanisms. Most are personality-oriented organizations with a centralist structure. All power is concentrated in the party headquarters in the Kathmandu valley; any participation at the local level, in rural areas, is very limited. None of the established parties make any effort to achieve balanced popular participation in their own leadership posts or in the country's political institutions. The upper castes—the Brahmans and Chhetri, especially the former—dominate in all areas.

Ethnic groups, the Tarai population and women are significantly underrepresented; the Dalit groups, regarded as untouchable, are not represented at all. Although every party's platform proclaims commitments to end political, social and economic discrimination against and exclusion of major population segments, the statements are nothing but empty talk, forgotten as soon as the polls close.

The constitution prohibits political parties from representing the interests of the ethnic groups and the untouchable Hindu castes. However, its well-formulated catalog of basic rights has contributed to the establishment of numerous civic organizations. Little by little, these have managed to improve slightly the situation of traditionally disadvantaged groups and to create greater awareness of their plight. Both voter turnout—always relatively high—and voting habits demonstrate that the people of Nepal have understood democratic norms and procedures better than the candidates who seek to represent them. Dissatisfaction with established party politicians runs high. This also explains the relatively strong support for the Maoist demands and the indications, at least, of approval for the antidemocratic steps taken by King Gyanendra.

3.2 Market economy

Nepal has made little progress in transforming its economic order. The course of economic reform depends entirely on the efforts of the international donor community. In recent years, domestic political instability and the effects of the Maoist uprising have even set the process on a downward track.

3.2.1 Level of socioeconomic development

The key indicators show a persistently low level of development. Measured in terms of HDI, the country's level of development does not permit adequate freedom of choice for the vast majority of its citizens. Poverty and lack of education, as well as ethnic and gender-specific discrimination lead to fundamental social exclusion. The escalating Maoist conflict has also hindered development in recent years. Particularly in the country's least developed regions, the already minimal infrastructure was largely destroyed.

Around 76 % of the economically active population live in rural areas and depend on subsistence farming. The contribution of agriculture to the GDP fell from 70 % in 1974-1975 to 38 % in 2000-2001. Today, industry contributes 19 %, and services 40 %, to the GDP. The poverty indicators have changed little since 1991. Income disparities are severe; the bulk of the population is poor. An estimated 40 % of the population lives below the poverty line of \$77 per capita; an additional 30 % has an income only slightly higher. There are also definite regional differences; while 44 % of the rural population counts as very poor, this figure is only 23 % in urban areas. Social and economic imbalances remain a major problem. The poorest 20 % of households receives less than 8 % of total household income, while the richest 20 % of the population takes in more than about 45 %.

3.2.2 Market structures and competition

The foundations of a competitive market economy exist *pro forma*, but their practical implementation remains uneven. Between 1990 and 1995, the national economy was reorganized and increasingly deregulated. State enterprises were largely privatized, e.g., Bansbari Shoe Industry, Brikuti Paper Industries, or their privatization was planned, e.g., Royal Nepal Airlines Corporation. The banking system and the capital market experienced the greatest deregulation. While these areas were operated exclusively by the state until the mid-1980s, today they are almost entirely in private hands, in part with international participation.

Only a very few business magnates exert influence on political decision-making. Nepal has a well-functioning capital market, overseen by a Securities Exchange Board. Restrictive foreign trade practices, once customary, were steadily liberalized after 1990 in favor of the private sector. Previously, the state secured its foreign exchange earnings by requiring letters of credit in the export business. When the tourism industry flourished, Nepal had no foreign exchange problem; as a result, this letter-of-credit requirement was partially lifted. However, foreign

currency reserves have dwindled in recent years, which may force the state to return to stricter regulation of foreign trade. One factor to be kept in mind is that trade between Nepal and India is always subject to special regulation (free border traffic); the restrictive requirements mentioned above do not apply here.

3.2.3 Stability of currency and prices

On paper, the central bank's inflation and currency policies did not change during the period under study, but the government's unstable situation took its toll. The independence of the national bank suffered because its management functions were politicized. Nepal's total foreign debt rose noticeably during the period. Its foreign currency reserves are shrinking because of the drop-off in tourism.

3.2.4 Private property

Property rights and property acquisition have been further reinforced and are adequately defined. The privatization of state companies has advanced in recent years. The acquisition of private property in Nepal by foreigners is restricted, except for native Nepalis living abroad (non-resident Nepalis, NRN), who are free to purchase property and invest funds.

3.2.5 Welfare regime

Nepal has no welfare regime except the social networks based on family structures. Private initiatives are limited to isolated cases at best.

3.2.6 Strength of the economy

From the macroeconomic standpoint, Nepal's situation has never been so precarious. The repercussions of 11 September 2001, the prolonged Maoist conflict and political instability have devastated the Nepalese economy. Economic growth has come to a standstill. Limited mobility hampers the domestic market. Developments in the service sector were likewise negative.

In the area of foreign trade—for example, in the clothing industry, tea production and the carpet industry—Nepal failed to fully utilize its export potential. While GDP growth hovered at 4 to 6 % in the first four years of the period, the GDP fell in 2001-2002 for the first time (see table on macroeconomic fundamentals).

3.2.7 Sustainability

Because of definite regional differences and severe income gaps between various population groups, Nepal's economic growth cannot be described as balanced. During the period under study, the National Planning Commission placed particular emphasis on fighting poverty. However, the results are meager at best. The very promising policy of promoting balanced regional development through decentralization fell victim to domestic political developments. The lack of sustainable development is one of the major reasons for the Maoist movement.

Another is the unjust income distribution between urban and rural areas—a gap that widened during the period under study. Fundamental environmental awareness exists in Nepal, chiefly thanks to international attention and private initiatives at particular sites. The government has created a setting for the national economy and business that provides institutional support for consideration of environmental concerns. In the area of higher education, research and development, Nepal has reached its highest level to date in both the public and the private spheres. However, equal opportunity does not exist, because the state sector still lags far behind the private sector.

4. Trend

(1) *Democracy*: The criteria of a state monopoly on the use of force, an effective administrative system, functional courts and public safety and order were not fully met even before the period under study. When the state of emergency was declared in November 2001, the situation deteriorated dramatically. Until 1999, democratic elections were generally held properly and on schedule.

This changed in 2002. First, in July, the local elections were postponed indefinitely; in November, the parliamentary elections met the same fate. At present, Nepal does not have elected authorities either at the local or at the national level. Citizens' options for organizing and the free activity of social organizations were largely in place after 1990. These were only slightly restricted after the state of emergency was declared, but freedom of opinion and freedom of the press were drastically curtailed. The enforceability of civil liberties also lost ground; both the Maoists and the government security forces disregarded the basic human rights guaranteed by the constitution.

Corruption remains widespread; the anticorruption policy introduced in 2002 has yet to demonstrate its effectiveness. Although the governing party held a majority in Parliament again after 1999, it failed to produce stable and goal-oriented policies. The parties' irresponsible political behavior and King Gyanendra's

illegitimate seizure of power finally dealt the deathblow to Nepal's fundamental constitutional institutions. The parties' achievements in political and social integration have remained low. The influence of civil society on democratization and development is progressive but still inadequate. Surveys clearly indicate a high level of dissatisfaction with the political, social and economic development processes.

(2) *Market economy*: The fundamental developmental indicators show a definite deterioration of the already low level of development during the period under study.

The institutional environment for market-economy action has worsened, although the organization of the economy and competition has improved. The pace of reform slackened significantly, especially during the last two years of the period under study. Measured in macroeconomic terms, economic development lost momentum compared with the previous period. In view of the current crisis conditions, it is unclear when the state's development policy will again show a positive trend.

Table: Development of socioeconomic indicators of modernization

	HDI	GDI	GDP index	UN Education Index	Political representation of women	GDP per capita (\$, PPP)
1998	0.474	0.449	0.41	0.46	1.3 %	1,157
2001	0.499	0.479	0.43	0.50	7.9 %	1.310

Sources: UNDP, Human Development Report, 2000 and 2003.

Table: Development of macroeconomic fundamentals (1998-2002)

	1997-98	1998-99	1999-2000	2000-01 ^a	2001-02 ^b
Growth of GDP in %	2.9	4.5	6.2	4.8	-0.6
Export growth in %	21.5	29.7	39.7	11.7	-14.6
Import growth in %	-4.9	-1.7	24.0	6.6	-7.7
Inflation in % (CPI)	-8.4	11.4	3.5	2.4	2.9
Unemployment in %	6.8	8.0	4.1	1.1	2.9
Budget deficit in % of GDP	-5.9	5.3	4.7	5.9	n.a.
Current account balance in billions of rupees ^c	10.9	9.8	14.4	5.2	-1.7

The fiscal year in Nepal always begins in mid-June.

^a Preliminary estimate; ^b Based on the first six months; ^c Current exchange rate: \$ 1 = 78.3 Rs.

Sources: Ministry of Finance, *Economic Survey*, 2002; The World Bank's World Development Indicators, 2002; The World Bank's World Development Report, 2003; UNDP Macroeconomic Indicators of Nepal, December 2002, Nepal Rastra Bank, Research Department, Kathmandu, Nepal.

5. Transformation management

5.1 Level of difficulty

The low level of economic and social development, the underdeveloped fundamental market-economic structures, the poorly educated society, the seething undercurrent of ethnic and religious discord, the highly polarized conflict over income distribution, the lack of political majorities, the inefficient state administration, and the challenges to the state monopoly on the use of force because of the Maoist insurgency—even at the start of the period under evaluation, these offered unfavorable conditions for the continuation of the transformation begun in 1990-1991. Therefore, in terms of structural socioeconomic conditions that dominate the political process for the long term, the level of difficulty of transformation must be considered high.

Granted, all those in positions of political responsibility like to talk about democracy, but they have not managed to put its principles into practice. The population's education level may remain very low by international standards and may also exhibit regional and gender differences, but compared with the 1980s, the level of education has improved considerably. This has led to an enhanced political awareness in the civilian population. The critical response to the political conduct of their elected representatives clearly illustrates this positive development. However, this altered awareness has also opened their eyes to Nepal's economic and social disparities and brought ethnic, religious and social conflicts into the public arena.

5.2 Reliable pursuit of goals

Faced with an unstable political situation, the Nepalese government was unable to implement its economic reform strategy. The extreme partisanship of Nepalese officialdom contributed to this failure. Nepal's reform goals achieved a measure of consistency only under pressure from international organizations and financial donors, whose contributions represent some 60 % of Nepal's total budget. The government continues to give priority to combating poverty. Politics during the period under study focused exclusively on retaining power; as a result, the expectations of the country's social and economic actors were not fulfilled.

5.3 Effective use of resources

The government has made very little use of available personnel and organizational resources to pursue its transformation policy. During the period under study, resources intended for development were continually and increasingly misappropriated to finance military expenditures. Some public services had to be discontinued, especially in western Nepal. Even in regional comparison, the corruption rate in Nepal is above average. The most corrupt areas include the civil service, customs, the police and the judiciary. In mid-2002, the Commission for the Investigation of Abuse of Authority (CIAA) introduced a massive campaign to fight corruption, which may be considered a positive sign. Available cultural resources are not used to the country's advantage; rather, they are more often misused to block reforms.

5.4 Governance capability

The reform policies of one government after another ran aground where planning and implementation diverged. As a rule, the goals set in the five-year plans were far too ambitious. In recent years as well, hardly any lessons were learned from past mistakes. Political instability and frequent changes of government fostered this negative tendency.

The absence of political majorities between 1994 and 1999 and continuous disputes within the governing NC after 1999 made the implementation of political priorities difficult. The opposition's almost unremitting refusal to cooperate with the government added to the difficulty. As a result, innovative political approaches—such as those broached when Sher Bahadur Deuba returned to office in mid-2001—were quickly doomed to failure. Even by the end of the 1990s, the Maoist rebellion had made it almost impossible to pursue purposeful reforms in rural areas.

After the state of emergency was declared in November 2001, the government focused entirely on domestic security, in the process diverting resources earmarked for development and reforms. After parliament was dissolved at the end of May 2002, domestic policy no longer followed an identifiable course. The Deuba government spoke of the goal of holding parliamentary elections in mid-November but made no actual preparations for elections. Although the royal coup and the installation of the Chand government in October 2002 took place with the professed goal of reviving the process of democratization and reform, this failed when all the major parties refused to cooperate. The Chand government has taken positive steps toward reform in certain areas, such as education and health, but its lack of legitimacy detracts from the significance of these initiatives.

5.5 Consensus-building

All major political and social actors agree on the goal of reform: a market-based democracy. The extent to which the Maoists might share this consensus is unclear (see below). The political elite has not made economic policy a priority. Economic developments have almost no place in the country's political discourse. As a result, the platforms of the various parties barely show any discernible differences in economic policy.

Apart from certain radical leftist splinter groups, all the political party forces identify with a constitutional monarchy, parliamentary democracy, a multiparty system and the goal of a free market economy. This applies even to the moderate communist parties such as the CPN (UML). The most adamant opponent of this course is the CPN (Maoist); the aim of its "people's war" is to construct a people's republic along Maoist lines. However, under the new openness to dialog announced in early 2003, even this party signaled its willingness to compromise. Nevertheless, it insists on a new constitution, to be devised by a constitutional convention elected by the people. When the state of emergency was declared in November 2001, an attempt was made to exclude the antidemocratic actors who can veto political decisions; that attempt failed, and the signs now suggest an effort to integrate these forces. But for this effort to succeed, the monarchy, the government, the political parties and the insurgents must find a way to bridge differences that so far have proved irreconcilable.

The government's initiatives to promote the representation of interests by forming national commissions—for example, of women or ethnic minorities—have as yet done little to eliminate social disadvantages. More effective, by contrast, has been the engagement of numerous NGOs that try to influence economic and social policy. Both in the legal status of women and with ethnic languages and cultures, these civil organizations have managed to implement small reforms in recent years.

Comprehensive reforms in these areas are still an uphill battle because the dominant upper-caste party elite refuses to allow the appropriate participation of all societal groups. In particular, this greatly affects the Dalits, whose lack of representation has only recently received greater public attention. Creating another source of unrest, conservative civil organizations have become more outspoken again after King Gyanendra's seizure of power. Yet another problem area is the task of addressing past injustices. In the seven years of the Maoist rebellion, especially after the state of emergency was declared, both the Maoists and the state security forces have committed gross violations of human rights. To date, the state has made hardly any effort to investigate these offenses; this makes it harder to achieve any reconciliation of victims and perpetrators.

5.6 International cooperation

No domestic political actors question Nepal's pattern of intensive international and bilateral cooperation. Rather, this pattern has become even stronger in recent years; for example, Nepal's entry into the WTO was vigorously pursued during the period under study. All of this accounts for Nepal's dependence on western donor countries. Chief among the external actors are India and international organizations such as the World Bank, the IMF and the Asian Development Bank (ADB).

The influence of the United States has grown in recent years; time and again, for example, the Nepalese government has changed its response to the Maoist rebels after visits by high-ranking American politicians. Nepal's posture in relation to its immediate neighbors, India and China, against the backdrop of domestic and/or regional conflicts has proven to be a difficult issue. Especially problematic are India's oft-repeated charges that Nepal allows the Pakistani secret service to engage in activities against India on Nepalese territory. Posing another major problem are some 100,000 refugees from Bhutan who have been living in camps in eastern Nepal for about twelve years. Because bilateral negotiations have brought no significant progress, Nepal has most recently made a greater effort to seek international mediation; once again, India's intransigence causes problems.

6. Overall evaluation

In view of the originating conditions, current status and evolution, as well as the key actors' political achievements (management), this assessment arrives at the following concluding evaluations:

(1) *Originating conditions*: The starting conditions for transformation were only somewhat positive. Even before the period under study, the market-economy

structures were limited in their functionality and effectiveness. Although the democratization process introduced in 1990 had redefined the state and national identity, it failed to engage all social groups appropriately.

Nepal held fast to the idea of a Hindu state, tying its national identity to the hierarchical thinking and culture of the traditional government elite, i.e., the upper Hindu castes. As a result, the ethnic minorities and the Dalits were excluded. Furthermore, tradition lent legitimacy to the continued discrimination against women. Nevertheless, the education system, though still backward, was significantly expanded; basic human rights were firmly established; and the constitutionally guaranteed freedoms of the press and of opinion were put to purposeful use. All of these efforts provided fertile ground for the development of political awareness, given the background of civic and democratic values.

Even at the start of the period under study, Nepal's transformation had stalled because successive governments lacked a majority in Parliament. With both the government and the opposition unwilling to compromise, a comprehensive reform policy was out of reach. Personal and partisan power-seeking led to arbitrary decisions that kept the economic situation unstable and that more and more people perceived as threatening to life and limb. This paved the way for the Maoist movement, which seized on the citizenry's dissatisfaction, highlighted the failure of the government and the established parties to observe the "directive principles and policies of the state" outlined in the constitution, and challenged the very form of the state defined in 1990.

(2) Current status and evolution: The political decision-makers did not manage to continue the democratic transformation begun in 1990. Its consolidation slowed, stalled, and then gave way at the end of the 1990s to a definite breakdown of democratic values. When the first talks between the government and the Maoists failed and the state of emergency was declared, democracy was threatened from within. Faced with inadequate political representation and integration, inefficient government institutions, unbridled political corruption and violations of the rule of law, more and more citizens questioned the future of democracy in Nepal.

The events of 2002 finally dealt a deathblow to the democratic system introduced in 1990. Sovereignty passed from the people back into the hands of the king, who has cast off his constitutional obligations. The people have no share in decision-making at either the local or the national level. Despite these extremely serious developments, the political parties are unwilling to join forces in constructive action; instead, time and again they allow the king to manipulate them like puppets on a string.

Although Nepal commenced its transformation toward a market economy many years ago, a long road still lies ahead. The main reason for this slow progress is that the Nepalese society and economy remain deeply rooted in tradition. The

transformation process is primarily driven by a few interest groups and economic organizations as well as by the country's few large companies.

(3) *Management*: The verdict on the actors' relative management performance is mixed. The economic transformation process lost purposefulness, pace and promise during the period under study. The actors earn particularly low marks for management of reform in domestic politics: conflict management, the party system, support for democracy, institutional blockades, corruption.

7. Outlook

The overall picture of transformation is negative, underscoring many observers' estimation that transformation in Nepal has essentially failed. All the actors, including the monarch and the Maoists, repeatedly assert that they intend to keep Nepal on the road to democracy. If this is so, a fresh start must be made. After the king's intervention, the constitution of 1990 is definitely dead and cannot be revived. However, this does not mean that it was fundamentally flawed. The primary task will be to frame a new constitution, which should build on the foundations of the old one.

The Maoist's main demand—that a constitution be drawn up by a constitutional convention—could set a positive course, for this would confer legitimacy. It will be important to involve all social groups appropriately in this process and to rid the old constitution of its flaws, which were rooted in the traditional caste system and social order. A fundamental prerequisite here is to separate the state from culture and religion. Another worthwhile objective is to change the electoral system, because the current system puts smaller parties at a disadvantage and gives no voice to groups that suffer discrimination.

Affirmative action, in the form of reserved seats at the national and local level, could provide a way to better integrate the disadvantaged social groups. The political parties also need attention: They must open their doors to society as a whole and adopt democratic structures. The management skills of the political elite will be the critical factor in determining whether Nepal can, after all, continue on the road to democracy. Yet another challenge lies in bringing the political elite to open itself to new attitudes, indeed to a new generation.

The past twelve years have shown that Nepal's politicians and parties are not prepared to follow the "directive principles and policies of the state"—which, though clearly formulated in the constitution, are not enforceable in any court. The opposition must be shown ways to adopt a constructive posture on fundamental issues so that, in the future, categorical rejection will not make it impossible for the government to act when it lacks a clear majority. The Maoists' participation in the peace and renewal process will inevitably alter the partisan

political landscape, especially if that process can be shaped in such a way that the CPN (Maoist) evolves from a revolutionary force to a nonviolent democratic party.

One of the greatest sticking points will be the future role of the monarchy. The Maoists argue for a republic, but they have already hinted that, in the negotiations now being sought, they would accept a constitutional monarchy with clear limits. The events of October 2002 have demonstrated that many passages in the constitution regarding the power and rights of the monarch were unclear or even contradictory; examples include the specification of authority over security forces or the extent of royal power in the case of situations not governed by the constitution. For the latter case, clear provisions must be drawn up to ensure that the king can no longer take advantage of any such situation to suspend the entire political system.

The unrest of recent years has dealt Nepal enormous political and economic setbacks. Therefore, the immediate goal of transformation is not so much to achieve further development compared with the period just assessed but rather to restore Nepal to the conditions that prevailed ten years ago.