Nepal, Bhutan and their neighbours

Two Himalayan countries landlocked between India and China

SUMMARY

Nepal and Bhutan are two poor landlocked Himalayan countries, sandwiched between a democracy and an authoritarian one-party state: India and China. After an authoritarian past, during the last decade, they have begun reforms in order to switch towards a democratic model.

After a long and complicated path, Nepal succeeded in adopting a new constitution in 2015. Its first post-constitution government is run by an alliance of communist parties. In Bhutan, the king has successfully steered the country towards democratisation, as confirmed by the October 2018 general elections.

While historically the two countries have nurtured solid relations with India, in recent years Beijing has expanded its footprint in the region considerably, challenging Delhi’s traditional sphere of influence and increasing its sense of encirclement. In 2017 this led to a crisis referred to as the ‘Doklam Plateau standoff’. There is currently a window of opportunity for Nepal and Bhutan to diversify their economic and security partnership and to rebalance their foreign policies between their two big neighbours.

The EU has been supporting the two countries on their democratic journey and tripled resources for both countries’ development for the 2014-2020 period. As they are among the world’s poorest countries, Nepal and Bhutan benefit from the EU’s ‘Everything But Arms’ scheme, which grants full duty free and quota free access to the EU single market for all products.
Introduction

Nepal and Bhutan are two landlocked Himalayan countries, sandwiched between a democracy and an authoritarian one-party state: India and China. They are separated by the Indian State of Sikkim and have historically nurtured solid relations with Delhi. After an authoritarian past, over the last ten years they have begun reforms in order to switch towards a democratic model. They are both on the United Nations list of least developed countries (LDCs) and members of the South Asian Association for Regional Cooperation (SAARC), whose secretariat is based in Nepal’s capital, Kathmandu. Nepal is comparable in area to Greece and its population of 29.3 million are mostly Hindu. Nepali citizens can work in India without legal restriction and can travel to India without a passport or visa. Nepal is a country prone to natural disaster: a severe earthquake in April 2015 provoked 9 000 casualties and wreaked massive damage in the country’s central area, triggering a wide international response, including from the EU. Bhutan is similar in area to Switzerland, but with a population of just 800 000. Bhutan is a monarchy that has long been cut off from the rest of the world, with no diplomatic relations with any of the United Nations Security Council’s permanent members. It is known for the concept of ‘gross national happiness’ and for its glamorous royal couple. India guarantees its security and accounts for almost 90 % of its trade. Bhutan is the only carbon-negative country in the world: it stores more carbon than it emits.

Map of Nepal and Bhutan

Source: EPRS.

Nepal’s challenging path towards a constitution

Nepal experienced a ten-year-long Maoist insurgency against government forces from 1996 to 2006. Since then, two topics have characterised the state-building narrative: the peace process and the constitutional process. After a temporary autocratic takeover by former king Gyanendra, pro-democracy protest and an alliance of political parties led to the king re-establishing the House of Representatives (HoR) in 2005, after which a peace agreement was signed between the seven-party alliance and the Maoists. In 2007, an interim constitution was established and in 2008 the constituent assembly was elected and Nepal was officially declared a republic. Over the next four years the constituent assembly failed to find a consensus on a new constitution and it was dissolved in 2012. In November 2013, a new constituent assembly was elected. The four main parties forged an agreement extending the interim constitution’s deadline, and in February 2014, the constituent assembly elected a new prime minister, Sushil Koirala. By September 2015, the parties had agreed to a new constitution that was announced by then President Yadav and subsequently adopted. The
political system that Nepal is creating through this new constitution includes four principles: republicanism, federalism, secularism and inclusive democracy. Freedom House’s ‘Freedom in the World 2018’ report considers Nepal a ‘partly free’ country.

The 2015 federal constitution

The constitution transformed Nepal into a federal state, creating seven unnamed provinces with their respective legislatures, and a bicameral Federal Parliament. The parliament and the assemblies jointly elect the head of state for a once-renewable five-year mandate. Ms Bidya Devi Bhandari is the country’s second elected president since October 2015. The constitution requires the president and the vice-president to represent different genders and ethnic communities. It also mandates that the president appoint the leader of the majority party in the lower chamber as prime minister.

The 275 members of the lower chamber (Pratinidhi Sabha, House of Representatives, HoR) are selected using a mixed system: 165 are directly elected through constituencies, in a first-past-the-post system, and 110 through national closed lists based on national party vote share. The upper house (Rastriya Sabha, National Assembly, NA) consists of 59 members, not directly elected: each of the seven provincial assemblies selects eight members, while three are appointed by the president.

While the constitution has been criticised for not being as progressive as the interim constitution, and has also faced complaints from minorities (especially the Tharu and Madhesi) and some Indian politicians regarding the borders of the provinces and federal legislative competencies, it provides for extensive rights for women and minorities. For example, it specifies that a third of each party’s representatives in the Federal Parliament must be women, and defines five out of eight provincial deputies to the NA by their belonging to an underrepresented demographic group (one disabled or minority ethnicity representative, three women and one Dalit). The constitution also prescribes the protection of socially disadvantaged groups.

The 2017 elections and the first post-constitution government

After the second constituent assembly came to the end of its term, the first parliamentary election since 1999 took place in a two-stage process in November and December 2017. The EU welcomed the peacefulness of the electoral process. The leftist parties won a two-thirds majority and formed a government under Khadga Prasad Sharma Oli. The four parties presented below are represented in the Federal Parliament, supplemented by five independent representatives in the HoR.

Nepalese Communist Party (NCP). The NCP resulted from the May 2018 merger of two influential communist parties that had previously vied for control of the government, the CPN (UML) and the CPN (MC). The former stood for left wing, Marxist-Leninist ideology, while the acronym in the latter’s bracket stands for Maoist Centre. The Marxist-Leninists were more state-focused and had generally supported multi-party democracy as a way of introducing a communist-oriented socialist society. The Maoists, meanwhile, had played a central role in the armed insurgency from 1996 to 2006 and are considered to be more focussed on ethnicity-rights and advocating revolution through a Nepalese form of communism referred to as the ‘Prachanda Path’. The two parties are ideologically connected in their opposition to Indian influence in Nepal and the aim of building stronger relations
with China. The merger (already decided before the elections) together with a much smaller third party, brought the seat number for the new NCP party up to 174 of the 275 HoR seats and 42 (including three presidential nominees) in the 59-seat National Assembly.

**Federal Socialist Forum, Nepal (FSFN).** This progressive party, founded only in 2015, united a previous socialist party and two regionally and ethnically based parties. The effort was seen as an attempt to provide a left-wing alternative to the communist parties, while also being an important tool to advance the interests of marginalised groups, such as the Dalits and ethnic minorities. The FSFN is part of the governing coalition, which controls 190 of the 275 seats, under the leadership of the communists.

**Nepali Congress (NC).** In the 2017 elections, the Nepali Congress party, founded in 1947, lost much of the vote share it had won in the 2013 elections. The party mixes nationalist principles with social democracy, positioning itself as a centre-left, reform-oriented party, while simultaneously being the most free-market party in the parliament, as Nepal’s Federal Parliament does not have any centre-right or right-wing parties. In foreign policy, the NC is traditionally friendly towards India and favours the non-aligned movement when it comes to international alliances.

**Rastriya Janata Party Nepal (RJPN).** The smaller of the two opposition parties represents the rights of various minorities, especially those of the Madhesi people. The insufficient protection of their rights and development was also a reason for the party leader, Mahato, not joining the government coalition. In comparison to the FSFN, the RJPN is more centrist. Tellingly, the party does not bear the term 'socialist' in its name and is more focused on regionalism and ethnic rights.

**Bhutan, hermit kingdom turned young democracy**

Bhutan adopted its first constitution and held its first elections in 2008, making it one of the youngest democracies in the world. The transition from absolute to constitutional monarchy was driven by king Jigme Khesar Namgyel Wangchuck, the fifth ‘Druk Gyalpo’ (Dragon King), but had already been prepared by his father Jigme Singye Wangchuck, who abdicated in his favour in 2006. Democratisation was a reaction to pressures from society – to a large extent due to tensions with the ethnic-Nepali population – as well as the regional environment (Delhi’s influence). According to Freedom House’s ‘Freedom in the World 2018’ report, Bhutan is a ‘partly free’ country.

**Bhutan’s political system**

Bhutan has a bicameral system consisting of the National Council (Gyelyong Tshogde, the upper house) and the National Assembly (Gyelyong Tshogdu, the lower house) – both serve a five-year term. The National Council consists of 25 members – 20 representing the dzonghags (districts) and five appointed by the king. It is an apolitical body: candidates contest as individuals and not as representatives of a political party. The most recent elections took place on April 2018. The National Assembly is directly elected by the citizens and consists of a governing and an opposition party. The constitution prohibits the formation of a coalition government. Elections are conducted in two rounds according to a ‘first past the post’ system. In the primaries, no party is allowed to field candidates and the polls are conducted among all parties. The two parties with the highest number of votes compete in the second round; the winning party forms the government and appoints the prime minister.

Candidates cannot be older than 65, be married to a foreigner or be employed as a civil servant. They also must hold a university degree. Monks and nuns – whose number is estimated at around 30 000 – do not enjoy any political rights. Even in the new democratic system, the king has retained...
many powers, including the right to block legislation passed by both chambers of parliament or to
dismiss the cabinet or prime minister. The parliament cannot amend any of his constitutional
powers; it can, however, adopt a motion for him to abdicate, which would then be submitted to a
referendum. The constitution establishes that the Druk Gyalgo must retire at the age of 65.

Bhutan's National Assembly after the 2018 elections

The third parliamentary elections for the National Assembly took place on 15 September (primaries)
and 18 October 2018. Two of four parties were eliminated in the primaries, among them the
governing People's Democratic Party (PDP). In the second round, the newly founded centrist-left
Druk Nyamrup Tshogpa (DNT) won against the opposition party Druk Phuensum Tshogpa (DPT).
The election campaigns had a strong economic focus, with DNT promising to reduce
unemployment and public debt. The political parties stated publicly that they were banning
'sensitive' issues, such as foreign policy and national security, from their campaigns after Bhutan's
relations with India, and Indian fuel subsidies in particular, dominated the 2013 campaigns.

DNT party leader Lotay Tshering, a former doctor, became prime minister in November 2018. Of the
47 parliamentarians, one holds a PhD and 26 are postgraduates. Voter turnout was as high as 71 %,
with record female voter turnout of 50.8 %. Furthermore, seven out of ten female candidates were
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India and China, who is the best friend now?

Mindful of its defeat to Beijing in the 1962 war, Delhi considers the two Himalayan countries – as
well as other areas northwards – part of its sphere of influence, a 'buffer region' providing protection
from direct confrontation with China. Beijing has territorial claims in this area however: when in
February 2019 Indian Prime Minister Narendra Modi visited the north-eastern border state of
Arunachal Pradesh ahead of general elections, the Chinese lodged a complaint as they consider this
state as part of China under the name of Southern Tibet.

Nepal and Bhutan have traditionally had people-to-people connections with India, strengthened
through diplomatic and policy action in trade, education and infrastructure building. By contrast,
South Asia was for a long time a marginal area in China’s foreign policy, until it realised its
vulnerability should a foreign power block the Malacca strait, through which most of its energy
supplies transit. China has therefore expanded its footprint in Nepal and Bhutan and started to
challenge Delhi's traditionally exclusive links with them. This situation offers the two Himalayan
countries a window of opportunity. Beijing has also agreed the China-Pakistan Economic Corridor
(CPEC) of infrastructure projects with Pakistan. This is part of the Belt and Road Initiative (BRI) and
passes through the disputed territory of Kashmir. Analyst Yang Xiaoping has described the situation
as a ‘growing overlap between India’s strategic backyard and China’s strategic periphery’. This has
increased India’s sense of encirclement by China, which, with a view to protecting both shipping
and the Chinese diaspora from unforeseen events, has increased its presence in the Indian Ocean.
Examples of this include China's military base in Djibouti, the construction of the Gwadar port in Pakistan (and, allegedly, a naval base in Jiwani) and control of Hambatota port in Sri Lanka.

A turning point in India-Nepal relations was the five-month unofficial Indian blockade that began in September 2015. This came immediately after Kathmandu's adoption of the new constitution, which had displeased Delhi because the demands of the Madeshi minority living in the border area had not been met. India halted oil, cooking gas and other essential supplies from passing across the two countries' 1,580-kilometre-long open border. This provoked a new humanitarian crisis just months after the great earthquake Nepal had experienced. India's image among Nepalese citizens suffered a blow, as Delhi's sole interest appeared to be in protecting its stake in the hydropower sector and interfering in Nepalese politics. Public sympathy shifted towards the Chinese, who had helped the country after the earthquake.

Under the first Oli government, Kathmandu initiated investment, transport, energy and trade agreements with Beijing – including assistance to its army. China has since overtaken India in its traditional position as biggest foreign direct investor in Nepal (it was responsible for more than 80% of foreign direct investment (FDI) in the 2017-2018 period). In March 2016 Nepal and China signed the Transit and Transportation Agreement (TTA), enabling Kathmandu to access Chinese sea and land ports and ending its dependence on India for goods and trade; the TTA protocol was signed in September 2018. Nepal formally joined China's BRI framework in May 2017. In June 2018, the two countries agreed on a memorandum of understanding to build a railway connecting Kathmandu with Tibet. In order to avoid confrontation with India, China proposed trilateral cooperation with India and Nepal, but Delhi did not adhere to the idea. Meanwhile India-Nepal bilateral ties improved in 2018 and Kathmandu seems eager to maintain balanced relations with its two powerful neighbours. India’s Prime Minister Narendra Modi – whose 'Neighbourhood First' concept is a pillar of India's foreign policy – visited Nepal three times in four years to recalibrate bilateral relations. In the 2017-2018 fiscal year, China and India earmarked similar amounts of aid for Nepal (US$ 58.7 million and 56.8 million respectively); the EU allocated US$ 116.1 million.

However analysts argue that the Communist Party victory in the 2017 elections and the return of Oli as a prime minister (having played the anti-India card during the electoral campaign) may favour Beijing's interests. As a possible sign of this, Nepal did not take part in the first ever anti-terrorism military exercises under the BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation), an Indian initiative, on September 2018, whereas it joined China in a similar exercise later that month. Also, the Nepalese government has continued to deny Tibetans permission to commemorate National Uprising day (10 March) – China is worried about the possible pro-Tibet activities of the 20,000 Tibetan refugees living in Nepal.

Bhutan is linked to India by a Friendship Treaty revised in 2007. Most of its foreign trade is with India (89.6% in 2017), to which Bhutan sells mostly electricity from hydropower. Bhutan is also the first recipient of India's foreign aid (US$ 4.7 billion in 2000-2017), accounting for more than half of total assistance from abroad in 2017. In June 2014, as soon as he was nominated India's prime minister, Narendra Modi visited Bhutan's capital Thimpu for his first trip abroad. This related to Bhutan's move to engage in a new set of talks on border issues with China, provoking alarm on the Indian side. Bhutan is trying to reduce its dependence on India, especially for petrol imports and subsidies, and aims to diversify its foreign relations. Bhutan has no diplomatic relations with China – a United Nations Security Council member. When Beijing annexed Tibet in the 1950s its relations with Thimpu cooled, as the Bhutanese had strong

**The Bhutanese refugee crisis**

Nepal and Bhutan established formal diplomatic relations in 1983, however their relations were soon strained by the Bhutanese refugee crisis. In the early 1990s, Bhutan began to deport members of an ethnic Nepalese minority, the Lhotshampa, based in the country's south and who allegedly made up to one sixth of Bhutan's population. They have been living mostly in refugee camps in eastern Nepal; Nepal is not a party to the UN refugee convention and protocol and rejects their local assimilation. Kathmandu would like to resume talks with Bhutan (stalled since 2003) for the repatriation of the remaining 6,500 refugees. The UN Refugee Agency (UNHCR) succeeded in relocating more than 100,000 refugees (the United States alone took around 85,000).
cultural, historical and religious ties with Tibet. However, Bhutan (a country that attracts little FDI: US$10 million in 2017, mostly from India) considers that Chinese investment could reduce its economic dependence on India. In turn, China is trying to gain influence in Bhutan by using soft power, e.g. increased tourism and cultural exchange, and through frequent high-level visits to Bhutan. In 2018, China also invited Bhutan to join the Belt and Road Initiative (BRI). It is unlikely that Bhutan will risk its relations with India in favour of Chinese relations; Prime Minister Tshering's first trip abroad was to India. However, it seems that India would be ready to accept Bhutan establishing diplomatic relations with China, as long as its core interests are secured.

The 2017 Doklam Plateau standoff
The Doklam Plateau (known by the Chinese as Donglang) is an uninhabited area in the Himalayas overlooking the tri-junction between India, China and Bhutan. It is claimed by both Bhutan and China, which, following the 1959 invasion of Tibet by China’s People’s Liberation Army (PLA), have been negotiating on border issues since the 1980s. India does not claim the territory but considers it a buffer zone that, if controlled by Beijing, could put the PLA in a strategic position in the event of conflict – it would threaten the Siliguri Corridor, a strip of land connecting India’s mainland to its North-eastern states. When in June 2017 the Bhutanese authorities found Chinese personnel were building a road on the plateau they issued a protest. India sent troops immediately to halt the work and these were met by Chinese troops. The standoff ended in late August 2017 following diplomatic talks to defuse the crisis. It has been suggested however that the Chinese have since built an alternative road in South Doklam.

The EU, Nepal and Bhutan

Nepal
The EU has had a delegation in Kathmandu since 2002 and has been a strong supporter of Nepal’s peace and democracy process since 2006, in close cooperation with the international community, including through election observation missions. The EU is a key donor to the Nepal Peace Trust Fund (NPTF). It is also the biggest provider of development aid to Nepal: it earmarked €360 million for the 2014-2020 Multiannual Indicative Programme, tripling the amount for the previous budget period. The EU supports Nepal mainly in three areas: education; sustainable rural development; democracy consolidation and decentralisation. Following the 2015 earthquake, the EU contributed to recovery and reconstruction in accordance with Kathmandu's Post-Disaster Recovery Framework (PDRF): it provided a first tranche of €50 million and committed to provide a further €50 million later. ECHO, meanwhile, is a member of the Nepal Risk Reduction Consortium (NRRC), which is aimed at increasing the resilience of vulnerable communities to natural disasters. The European Investment Bank (EIB) finances projects on access to electricity to rural communities and on electricity transmission power.

As Nepal is a least developed country, it benefits from the Everything But Arms (EBA) scheme granting full duty free and quota free access to the EU’s single market for all products. Trade is recovering after the slowdown provoked by the earthquake: in 2017, the EU's exports to Nepal totalled €285 million, while imports amounted to €95 million (mainly textiles). The EU is Nepal’s third biggest trading partner after India and China.

In a June 2015 resolution, the European Parliament expressed its solidarity with Nepal following the earthquakes. In January 2016, in a resolution on the EU's priorities for UNHRC (United Nations Human Rights Council) sessions, Parliament welcomed the entry into force of the 2015 constitution, while also expressing hope that concerns on the political representation of minorities and citizenship law would be addressed in the future. MEPs regretted the lack of accountability for human rights committed during the civil war and urged Nepal to accede to the International Convention on the Protection of All Persons from Enforced Disappearance. They also condemned the limitations placed on the fundamental freedoms of Tibetan refugees. In June 2017 the Parliament adopted a resolution on statelessness in South and South East Asia, referring also to Nepal and Bhutan.
Bhutan

EU-Bhutan relations date back to the 1980s. The head of the EU delegation to India is concurrently accredited to Bhutan, and sometimes visits the country jointly with EU Member State ambassadors to India. The EU-Bhutan Multi-Indicative Plan (MIP) for 2014 to 2020 totals €42 million – triple the sum for the previous period. Its main objective is to strengthen Bhutan’s democracy. The MIP also supports sustainable agriculture and forestry: the country has limited land available for agriculture and therefore faces food security issues that make it dependent on food imports from India. In December 2014 the EIB and Bhutan signed a framework agreement on capital investments. The EU is providing €4 million for the three-year EU-Bhutan Trade Support Project signed in May 2018 aimed at diversifying the country’s exports in partnership with the International Trade Centre (the World Trade Organization-UN joint agency). ECHO has been active in Bhutan since 2011, providing support for projects aiming to enhance the capacity of local communities to mitigate and minimise the risk of future natural disasters. When it comes to trade,5 in 2017 EU imports from Bhutan amounted to €13 million, and exports to Bhutan totalled €14 million, well down on the 2015 figures (€51 million imports, €65 million exports). The EU, together with South Korea, is Bhutan’s second trading partner, far behind India (China is in eighth place). Also a least developed country, Bhutan benefits from the EBA scheme.

ENDNOTES

1 Bangladesh, another country in the region, has the same area as Nepal but a population five times greater.
2 Data provided by the European Commission, DG TRADE.
3 The Truth and Reconciliation Commission (TRC) and the Commission of Investigation on Enforced Disappeared Persons (CIEDP) were established in February 2015 to investigate human rights abuses committed during the civil war. Despite several extensions of their mandate, the shortcomings underlined by Supreme Court were not addressed and, according to human rights NGOs, they have so far failed to secure justice and accountability.
4 The Dalit, or ‘untouchables’, are a caste that is traditionally discriminated against in India and Nepal. The caste-based discrimination and untouchability system was officially abolished in Nepal in 1963. The Nepalese constitution prohibits untouchability and discrimination on grounds of caste, and recognises such practices as an offence punishable by law. However, Dalits continue to face severe discrimination and violence. The European Parliament mentioned Nepal when it condemned caste-based discrimination in a resolution adopted on 10 October 2013.
5 Data provided by the European Commission, DG TRADE.

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