

**Near East and
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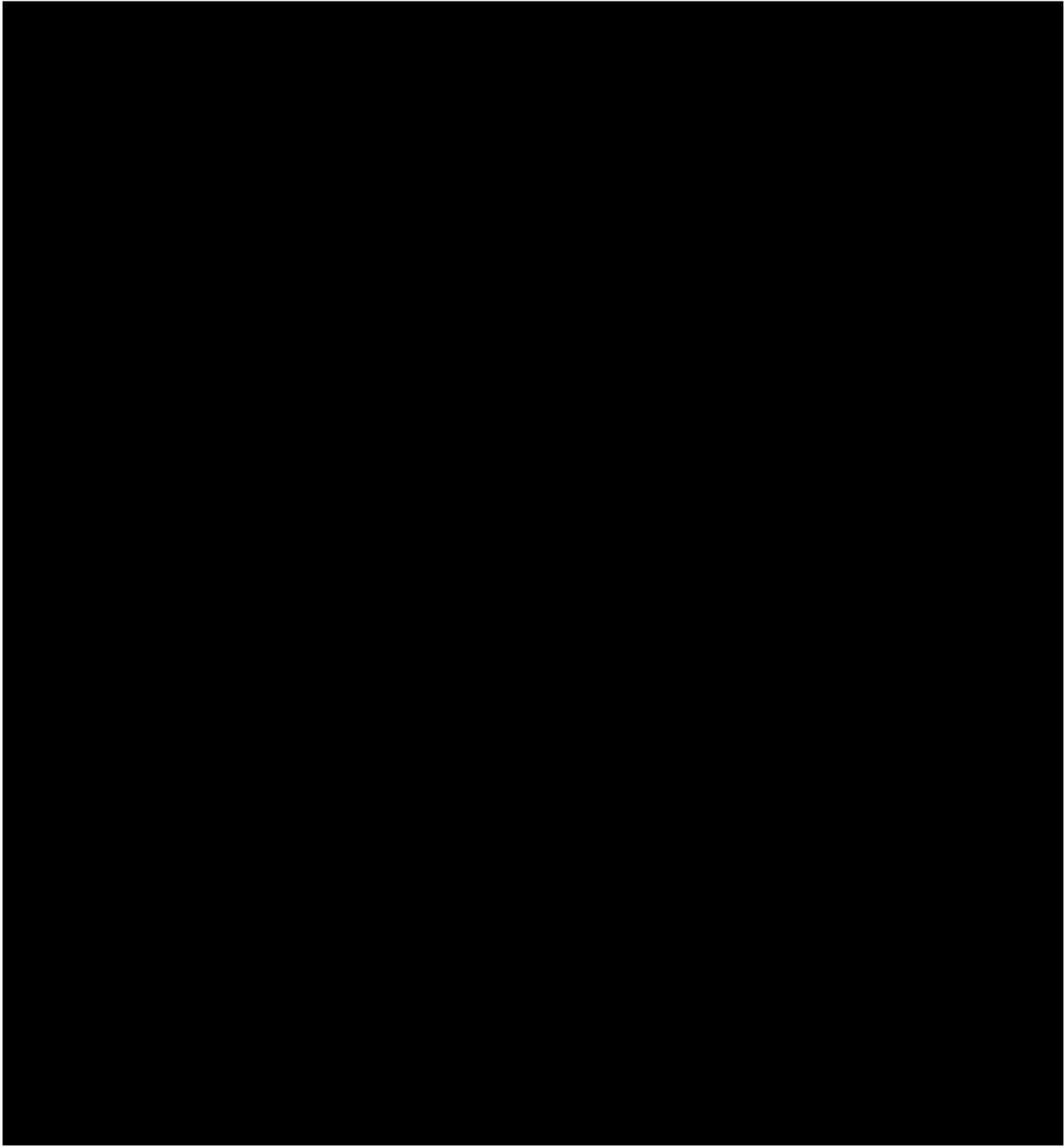
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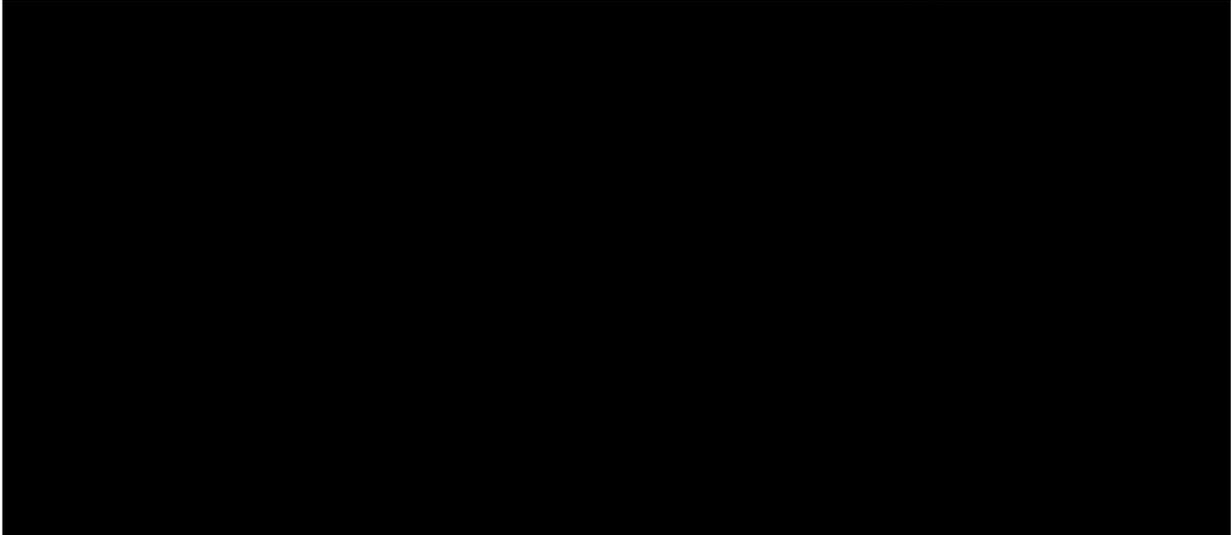


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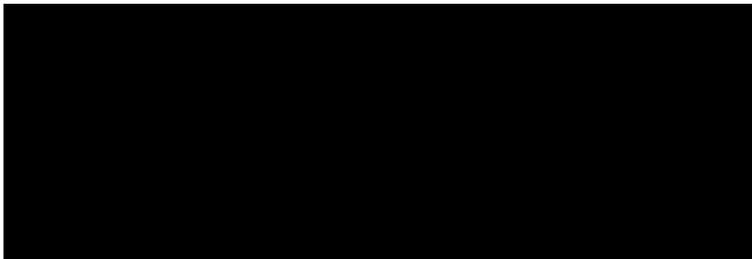
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Nepal: The Development Dilemma ■

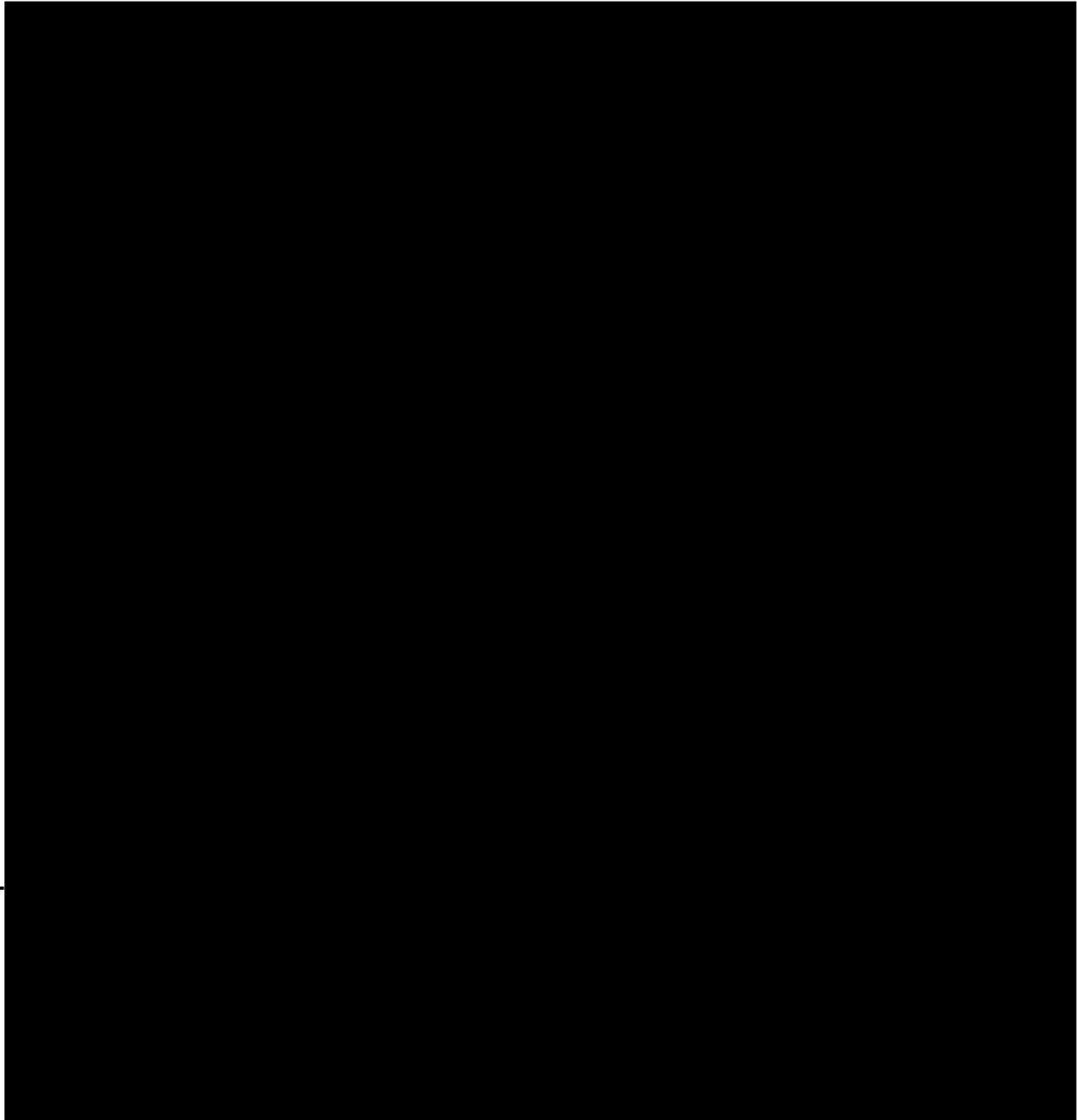
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Nepal: The Development Dilemma

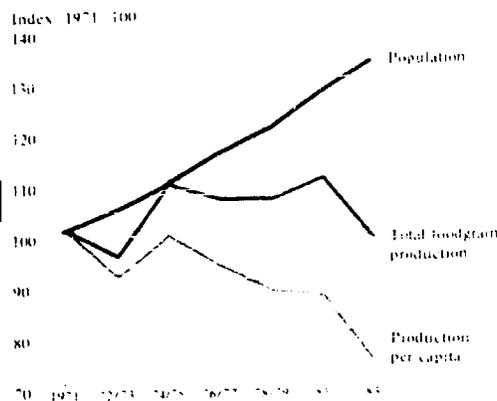
Nepal is facing economic and demographic pressures that seriously threaten the nation's development and the continuation of the government of King Birendra. Despite increasingly large amounts of Western aid, economic growth has foundered and the agricultural sector has deteriorated. Nepal's economic problems are directly linked to unprecedented population growth that has put enormous strains on the fragile political structure. We believe King Birendra's halting efforts to institute democratic reforms may be overtaken by his inability to improve the country's demographic situation and economic performance.

Agricultural Stagnation

After more than 30 years of foreign aid and economic development programs, Nepal remains one of the world's poorest countries. Owing to Nepal's rugged topography, which divides the country into three altitudinal zones—mountains, hills, and plains or *terai*—only about 14 percent of the land area is under cultivation in a country where the overwhelming majority of the labor force is employed in agriculture. In our view, a stagnant agricultural sector and growing population pressure on the country's scarce resources will increase the potential for political unrest and challenge the administrative abilities of Nepal's leaders.

In our opinion, agriculture presents the most intractable problem for Nepal's economic planners. Agriculture accounts for over 60 percent of the gross domestic product and provides employment for over 90 percent of the population. Even though agriculture has been given priority in development planning, particularly during the last decade, performance has been unimpressive. Overall foodgrain production has been stagnant since 1971, growing less than 1 percent per year. During the same period, population outpaced foodgrain production with a resulting decline in per capita output.

Nepal: Food Production and Population Growth, 1971-83



Recent World Bank and Asian Development Bank studies attribute Nepal's poor agricultural performance to the extension of cultivation to less fertile land and inadequate use of modern agricultural inputs as well as credit and land tenure constraints. These studies suggest that Nepal's agricultural policies have been deficient in providing economic incentives for farmers to invest in more modern production techniques. In addition, we believe agricultural development projects have suffered from inadequate design, implementation, and coordination among both donor countries and the Nepalese Government, further inhibiting agricultural growth.

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Increasing population pressure coupled with stagnant economic performance threatens Nepal's fragile environment, eroding the resource base for future agricultural productivity. Rapid population growth has forced villagers to cut down forests to provide fuel, fodder, and new land for cultivation. A recent UN study estimates that since 1963 about 50 percent of Nepal's forests have been lost. Steep slopes, poor vegetation cover, and torrential monsoon rains have contributed to increasing soil erosion. As precious topsoil washes downstream, it raises river beds, causing flooding in Nepal's productive *terai* lowlands.

Lackluster agricultural performance has also contributed to Nepal's growing balance-of-payments and budget problems. Since 1980 budget and balance-of-payments deficits have doubled. Although these shortfalls in part reflect increased development expenditures by the government, declines in agricultural output and decreasing rice trade with India have reduced revenues and increased balance-of-payments problems. In 1982 growing budget deficits spurred inflation, which was an influential factor in the removal of Prime Minister Thapa's administration.

In our view, Nepal's spiraling economic and demographic problems have increased dependence on concessional foreign aid. In 1983 foreign aid, mostly in the form of grants and low-interest loans, comprised nearly 52 percent of the development budget. We believe this has cushioned the impact of budget deficits and, in some cases, underwritten poor economic performance. A senior Nepalese administrator has reported that overreliance on foreign aid has caused government planners to focus on short-term projects at the expense of a realistic, long-term strategy for development.

In our judgment, the country's poor economic performance over the past few years has forced the government to rethink its development strategy. The Nepalese Government recently announced a New Economic Program in an attempt to halt the country's economic slide. The seven-point program focuses on increasing agricultural productivity, promoting exports, and limiting imports while reducing deficits and inflation.

In our analysis, Nepal's vast hydroelectric potential offers a means of reducing budget and foreign exchange shortages while providing electrical power for industry and irrigation necessary for economic growth. Development of this resource, however, requires the cooperation of India, which has been reluctant to finance and equitably share electricity and water resources. This has delayed construction of key hydroelectric installations, raised costs, and reduced economic benefits.

The Growing Population Burden

With a population of more than 15 million in 1981, Nepal is overpopulated in terms of its available natural resources. Nepal's population growth rate has doubled in the last 20 years. the current annual rate of 2.5 percent is the highest in the country's history. Since the 1950s, mortality has declined substantially because of improvements in public health, particularly malaria control, while fertility has remained at traditionally high levels of more than six children per woman, according to a 1976 UN estimate. Because of its youthful age structure—over 40 percent of the population is less than 15 years old— projects population growth to remain above 2.4 percent annually for the rest of the century to reach 25 million by the year 2000. The expected rapid population growth will cause more intense competition for farmland and firewood and the consequent destruction of more forests.

Down From the Hills and Mountains

Growing competition for farmland coupled with declining trans-Himalayan trade has forced increasing numbers of tribal peoples to migrate from the higher altitudes. During the 1960s, census data show that the dominant migration stream was to the lowland *terai* opened up by the malaria eradication program. By the late 1970s, however, survey data show that the overwhelming majority of migrants from the hills and mountains were going abroad—primarily to India—in search of employment as the amount of reclaimable land in the *terai* declined. Unlike many developing countries, Nepal has yet to experience significant rural-to-urban migration.

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The Blurred Border

The recent sharp drop in the rate of migration of Nepalese tribals to the *terai* has not been matched by a drop in new migrants from India, and this is a source of growing concern to Kathmandu. Historically, this region has been dominated by peoples from the Gangetic plain who are ethnically and linguistically linked to peoples across the Indian border. Because the *terai* accounts for about three-fourths of government revenues, according to official statistics, Kathmandu fears that continued Indian immigration could lead to foreign domination of this vital region. To counter Indian cultural dominance in the *terai*, Kathmandu has sought to promote the Nepalization of the region through education and the extension of Nepali as the national language.

In our view the government will adopt policies encouraging greater Nepalization and reducing Indian influence in the region, perhaps by taking a more active role in the resettlement of tribals in the *terai*. We do not believe that the government will take active measures to discourage Nepalese from emigrating to India.

Internal Pressures

We judge that as Nepal's population continues to grow and shift and the economic climate continues to worsen, a complex set of pressures is being brought to bear on the government. Kathmandu's ability to respond to these pressures is being closely watched by Western aid donors and by Nepal's neighbors. We believe the stability of the country over the next few years will depend on how it balances the often conflicting demands of development and conservatism in this still largely feudal society.

King Birendra, we believe, has attempted over the last decade to accommodate moderate dissent while retaining substantive authority within the palace by introducing a cautious system of political and social reform. In our view, the King is the real focus of power and authority in the country and faces no substantial opposition. The King, however, has released the "genie of modernization" and may find that he cannot contain some of the changes that will be demanded. The spread of free education and the standardization of the national language, for example,

have brought a wide range of previously marginal groups into direct competition for increasingly scarce opportunities in the central government. Tribal groups that did not feel themselves to be Nepalese a decade earlier now consider themselves part of the national culture.

The King, we believe, most fears internal dissent arising from disaffected students in the urban areas and from Nepal's minute Communist Party. Accordingly, Birendra has outlawed all political parties in an attempt to control organized opposition.

Birendra, however, has not moved as decisively to answer the problems of national integration, and we believe he is not prepared to share political power with tribal and regional groups. In our view, he has failed to create a political structure that can respond to demands for increased representation in the national government. Failure to satisfy such demands, we believe, will soon become the most important threat to national stability.

Outlook

King Birendra returned from his state visit to the United States with a renewed sense of purpose, perceiving that he has US support for his recent international initiatives. We believe the King will attempt to institute a wide range of policy changes to gain control of recent economic and political problems. Birendra has laid the groundwork for change in the kingdom by replacing Prime Minister Thapa with Lokendra Bahadur Chand last summer, in part to deflect popular dissatisfaction with the country's economic woes. The King has also received a scholarly report on population and migration in the *terai*, which supports his new policy initiatives.

We believe the King will move to control Nepal's border with India, while attempting to create a positive economic and political relationship with New Delhi. Birendra is aware that Nepal's political and economic future depends on maintaining strong

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relations with India. The King's efforts to balance the demands of a growing and increasingly vocal population, to contain immigration, to increase the country's economic base, and to continue his modernization of the political structure all must be accomplished in the shadow of Nepal's huge neighbor to the south. [REDACTED]

US interests in Nepal derive from the country's role as a buffer between China and India. Although we do not believe that these two countries would seek confrontation in Nepal, prolonged internal instability could invite intervention. US-Nepalese relations following the King's state visit are strong, and we believe Kathmandu will turn increasingly to Washington for direction and support in resolving its immediate population and economic problems [REDACTED]

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