Nepal in crisis

Growth and stagnation at the periphery

**Historical Antecedents**

**1. The petty hills states**

The area that is now the Kingdom of Nepal was divided, during the **seventeenth** and **eighteenth centuries,** amongst numerous **petty hill states** whose rulers, in the majority of cases, were of **Thakuri caste** and claimed descent from **the ancient Rajput families** who ruled Rajasthan before the early Muslim conquests in India in the **ninth** and **tenth centuries**.

The nobility, as well as the courtiers, clients, officials and generals of these petty states, tended to be 'high caste' Hindus (Brahmin and Chhetri) of Indo-Aryan extraction while the subject classes, who were taxed and obliged to serve as soldiers in order to maintain the State and the ruling classes, included the majority of the indigenous Mongoloid population (whose tribal structure and small chiefdoms had been only partly destroyed by the establishment of these Hindu kingdoms) and also the 'low caste' artisans (e.g. blacksmiths, leatherworkers, and tailors) and small farmers who accompanied the warrior-leaders in their gradual migration into and within the Nepalese hills from the eleventh century onwards.

The immigrants brought with them a new technology of production arid of warfare. The prevailing systems of agriculture before their arrival had consisted of Tran’s human pastoralism and shifting cultivation, using hand implements only, while the new arrivals brought the plough and the techniques of wet rice cultivation.

The hill people of Nepal had previously relied in war primarily on light bows and arrows, easily fabricated within a household economy; the newcomers brought swords and other metal weapons, requiring special skills and techniques in manufacture, repair and use.

The establishment of the petty Hindu kingdoms meant a significant development in technology and in the division of labour in society and the emergence of a class structure and a state apparatus.

The size and power of any petty state depended on a variety of factors:

* On the ability to appropriate (in the form of taxation)surplus produced by farmers and others;
* On the ability to maintain an effective army to defend borders and to encroach upon the territory of other rival states;
* And on the capacity to control and exploit particular local advantages, such as mineral deposits or trade routes.

In the hills the majority of producers were involved in pastoral activities or in shifting cultivation, but the valley and parts of the Tarai were rich in such resources as timber and ivory, and were amenable to rice cultivation.

For this reason, control over areas of terai was important as a means of deriving revenue for the state treasuries.

But if the labour productivity of the hills and capacity to generate revenue for the state were low, the hill' people nevertheless provided the majority of soldiers for the army.

Different in certain respects from other petty states were the three kingdoms which had their capitals in the fertile Kathmandu Valley.

Here; as nowhere else; flourished a genuine urban economy and society, in which the production of cloth and metal ware as commodities was to be found, and which was the base for major trading operations between Tibet and India.

The Newar (an indigenous ethnic group) rulers of the Kathmandu Valley kingdoms recruited mercenaries when necessary and grew rich by virtue of the agricultural potential of the valley itself; control over the major long-distance trade routes, craftwork on traded commodities and, for some periods, control over parts of terai.

During the eighteenth century the rulers, of other petty states encouraged Newar, traders to settle in their territories to promote trade and small-scale"Industrial' production as well as to develop building and decoration in the attractive, distinctive Newar style.

**2 The expansion of Gorkha**

Around the beginning of the seventeenth century a junior member of the royal dynasty of Lamjung-a petty state in the western hills was able to replace the tribal (Magar) chieftain of Gorkha and establish a Hindu kingdom.

Throughout the seventeenth century the new rulers of Gorkha managed to consolidate and extend their control over the local population, enshrining their political domination in legal codes and by the end of the century the Gorkha state had expanded, to the north as far as borders of Tibet, to the south virtually to the terai, and to the east to the very edge of the Kathmandu Valley, subjecting to its rule the local Gurung and Magar tribes.

Gorkha continued to expand and to strengthen its position at the expense of the Valley Kingdoms during the first half of the eighteenth century until in 1744, after several attempts, it was able to, annex Nuwakot, a small trading centre through which passed a the improved equipment and weapons of the Gorkha army following visits by the ruler, Prithivi Narayan Shah, to India, to procure firearms and to recruit technicians to assist in their local manufacture; and also by the careful maintenance of peaceful relations with the relatively powerful states of Lamjung, Tanahun, and Kaski further west (cf. Regmi, D.R., 1961 : 292).

Control of Nuwakot enabled the ruler of Gorkha to derive significant benefits from the long-distance trade, while increased funds and improved equipment helped in the suppression and control of other areas further east, including the passes of Kuti and Kerung, which constituted the main routes for the Tibet-Kathmandu trade.

The conquest of Makwanpur in 1762 enabled the ruler of Gorkha to extend his growing empire into the flat productive lands to the terai and also to control the southern routes between the Kathmandu Valley and India.

Military excursions sent against Gorkha by the Nawab of Bengal and the British East ‘India Company in the 1750s were repulsed, although the East India Company was able to retrieve, temporarily, certain areas of the terai over the territories surrounding the Valley, the expanded Gorkha state was able to impose a virtual siege and by 1769 the three kingdoms~-Kathmandu, Bhadgaon, and Patan, had been taken over with little further military opposition from their predominantly mercenary troops.

The subsequent, transfer of the capital from Gorkha, in order to take advantage of the peculiar location arid agricultural wealth of the Newar Kingdoms, marked the establishment of central government in the Kathmandu Valley, where the center of power has remained to the present day.

**By 1775**

the area controlled by the ruler of expanded Gorkha state--now more meaningfully referred to as the State of Nepal (a term only applied to the Kathmandu Valley previously)--included the whole of the eastern terai, the eastern hill region as far as the Tista river bordering Sikkim, the central terai, and a small part of the western hill region.

Control over the rich terai and Kathmandu Valley, and over the major routes in central and eastern Nepal of the Tibet-India long distance trade, enabled the new state to move westwards in its next phase of expansion.

**By 1789**

all of the western hill states, which between 'them numbered some forty-six distinct political entities, had been effectively annexed, conquered, or reduced to vassal status and much of the western terai now also came under the control of the central government in Kathmandu.

**By the end of the eighteenth century**

Virtually the entire area that is now Nepal had been incorporated into a loosely articulated hegemony that may be characterized as a tributary state.

The ruling class consisted, as did that of the petty states which the new empire superseded and incorporated, predominantly of Thakur's under Shah kings, with Brahmins as courtiers and cleints for the most part. Thus the 'ruling class was identified very largely with the 'high caste' Chhetris and Brahmins, an association that remains close to the present day.

The center of the new empire was Kathmandu, populated mainly by **Newars**, but with the majority of government officials being high caste' Hindus.

The **Newars remained, however, active in commerce**, both as large **merchants** and as **petty traders**; and in **manufacturing,** both in artisan and in commodity relationships with consumers.

The State was maintained largely by the appropriation of surpluses in the form of taxes based on landholding from the direct producers, the peasantry; these taxes were often collected by local lords, who were granted the right by the ruler himself to collect those revenues and to appropriate for themselves a significant portion as à reward for services rendered or to ensure loyalty in the future.

However, state officials, who were subject of periodic transfer, were also appointed by the center to supervise this.

Those granted rights of local taxation were generally obliged to keep law and order within the area under their jurisdiction, to maintain the simple trails and ferries without which even rudimentary communications and transport would have been impossible, and to raise levies of troops when so required for the purpose of central Government.

This system resembled the Europe feudal system in so far as it involved Partial sovereignties under an overall monarchy, each local lord was able to appropriate surplus direct from the peasants; but in so far as many areas were not under the jurisdiction of a local lord but consisted of an independent peasantry, controlling the means of production and its distribution save only for the obligation to pay taxes to the central government, there are significant differences from 'classic' feudalism.

The ruling class was able to draw, not merely on revenues from production within Nepal, but also on revenues exacted from trade.

**The terai,** even at this early period, was a major source of animals and vegetable exports to India and thus of revenue to central government, which imposed a form of trading tax on such exports, as well as on the imported goods rapidly becoming more popular among the privileged Nepalese.

The long-distance trade between Tibet and India which passed through Nepal afforded further opportunities for the rulers of Nepal to amass personal fortunes.

Agricultural production, in the hills in particular, was rarely sufficient for the development of regular marketable surplus over and above that taken in taxes. As a result, despite the circulation of money in many areas, the extent to which commodity production developed in the countryside was extremely limited, as were the possibilities for accumulation by farmers.

The local lords themselves were not legally landowners, but were only granted temporary and alienable rights to appropriate surpluses produced in their domain; they were, as a result, not inclined to invest heavily in the land themselves or even to promote, beyond a minimum; increased productivity among the peasantry.

The opening up of new land was at this time a far more attractive alternative for income generation to meet the problems of any locally declining surplus. Munitions were produced in various localities in the hills and mining operations provided revenue for central government as well as raw materials for munitions and for the mint.

As such activities tended to be monopolized' by central government or carried out on a contractual basis, opportunities for systematic private local accumulation were virtually non-existent.

**During the late eighteenth and early nineteenth centuries,**

**The inter-related phenomena of population growth and the introduction of maize during the nineteenth century were associated with a gradual reduction in the importance of pastoralism and a corresponding increase in settled cultivation in the hills.**

The difficulties faced by local lords and by central government which were associated with the **low Density of population**, the correspondingly **inadequate agricultural production,** and **low level of revenues extracted from the peasantry**, grew slowly less.

There are indications that by mid-19th century such intuitions as **slavery** and **forced labour** were becoming less necessary as the total **number of peasants** needing to supplement inadequate farm production by laboring increased.

The expansion of the state apparatus, and of conspicuous consumption of **imported luxury goods** **by the nobility**, were considerable during 19th century and the surplus required for the maintenance increased accordingly.

Land grants were made in increasing numbers throughout the century, particularly in the terai, to promote immigration, settlement, and the opening up of virgin land for cultivation.

It was during the first decade of the nineteenth century, however, that the State of Nepal came up against the limits to growth on the basis of territorial expansion alone.

Already towards the end of the eighteenth century Nepal had become involved in wars with Tibet and China to the north, and now the problems were in the south and west.

The Sikhs to the west and the British East India Company to the south prevented further expansion; and the war of 1814-16 between the British and the Nepalese removed Nepalese control over some areas of the tarai, marked the start of British efforts to liberalize trade, and especially allowed the East India Company easier access to the north-south trade from Tibet.

The personal weakness and youth of successive Nepalese monarchs during the, first half, of the nineteenth century were associated with the growing power of a fraction of the aristocracy, and the first forty years of the century were characterized above all by the control of Nepal by prime minister Bhimsen Thapa under a form of military dictatorship.

After his death power was seized (after a short period of internecine strife) by one of the members of the powerful Rana lineage- Jang.Bahadur Rana- -who thus initiated a century of government by this one branch of the ruling class, under the institutional form of a hereditary prime minister ship, but effectively through the creation of a new ruling dynasty, the Ranas.

**3. Nepal under the Ranas**

**The treaty of Sugouli**, contracted in 1816 after the war with the British in India, obliged Nepal to relinquish all her acquisitions west of the Mahakali river and east of Mecchi river; these rivers were then fixed as Nepal's boundaries.

A British resident was appointed for Kathmandu, and Nepal was forbidden to have direct communications with any western power except Great Britain.

It was not until 1923 that this treaty was abrogated and the independence of Nepal fully recognized by the British government.

For nearly a century, then, Nepal was a kind of political dependency of Great Britain, an arrangement that had benefits both for the British and for the rulers of Nepal,

**The former were** guaranteed a self-manning buffer against possibly hostile powers to the north, a regular supply of soldiers from the hill regions of Nepal (the famous Gurkhas), a small but growing captive market for manufactured goods, and, probably even more important, at certain times raw materials and primary products from both Nepal and Tibet.

**The latter** were guaranteed a minimum of support and protection, and- more importantly~-virtual insulation from outside pressure for change.

The decline of Chinese power during the latter half of the nineteenth century meant that Nepal was in no position to pursue a balance of power policy-there being no longer any semblance of a balance of power between China and British India.

After 1850 Nepal could probably not have maintained her limited degree of juridical independence without the concurrence of the British government in India.

British policy with regard to other such states, for instance Egypt, Ethiopia, Afghanistan, and Persia, was not to incorporate them into the empire but to allow them a measure of internal autonomy in exchange for a preponderant influence in these countries' foreign and trade policies.

The Ran rulers were convinced that they would be hard-pressed to withstand a determined British assault on the vulnerable terai areas from which they drew so much of their revenue and they therefore acquiesced in this arrangement.

Given this acquiescence on the part of the rulers of Nepal, there wäs little advantage to the British in occupying the territory.

Nepal under the Ranas remained, therefore, a dependency, but never became a colony of the British.

This issue of Nepal as a 'semi-colony' is taken up again in more detail in Chapter 4 in the discussion of contemporary dependency relations.

Administration under the Ranas had two main furictions : the collection of revenues and the maintenance of law and order, the latter primarily in order to facilitate the former.

According to Goodall (1966 : 609), the revenues of the State were not distinguished from those of the Ranas and treasury surpluses were regarded generally as their personal income.

Jang Bahadur helped the British suppress the Mutiny in 1857-58 and received in return a few districts of the western terai (Naya Muluk) previously annexed by the British, which then served to provide income which he and his brother appropriated personally. Kumar (1967 : 87) estimates that between 25 per cent and 50 per cert of total state revenue was appropriated personally to the Rana prime minister.

Just as public revenues were treated as part of the ruler's private purse; so top appointments in the bureaucracy, including the important post of district governor, were consulted personally by the 'prime minister'.

**Districts were graded (A, B, and C) on the basis of a combination of factors such as their distance from the capital, their population, and their revenue potentíal; and the prime minister's-closest kinsmen and most loyal followers were retained in Kathmandu or sent to govern the more important or turbulent districts, while those of lesser status, or whose presence in the capital was not desired, were assigned to the least sought-after posts in the remote districts of C grade.**

Few who were not members of the ruling dynasty were ever entrusted with the most senior administrative posts, or with high rank in the army, but the 'personal patronage' basis for official appointments permeated the entire bureaucracy, from Kathmandu to the remotest district, and from the highest official to the most menial petty functionary.

Senior officials in the district administration, such as those in-charge of the law courts and the land revenue Office-\_-the twin pillars of local administration--were officially appointed by their respective central departments in Kathmandu or, more precisely, by the Ranas at the head of these departments who also fixed the number of personnel in each district branch office and their salaries.

Often, however, recruitment, particularly to the lower ranks, was the prerogative of the governor himself and the highest turnover of official personnel would occur föllowing the arrival of a new governor-an event which usually took place every few years.

In one districts during the final 47years of Rana rule, governs spent an average of 2.7 years in office and even in a year where no change took place at the top as many as 10 per cent of government servants would be removed to make way for new appointees (cf. Caplan, 1975 : 34).

The granting of government employment as a form of patronage was probably important as à means of ensuring the co-operation of important local families in the maintenance of law and order and the adequate collection of taxes in the villages.

There were no rules regarding qualifications, nor any formal competition for administrative posts; all appointments, furthermore, were regarded as valid for one year, and could therefore be renewed or terminated after such time.

Uncertainty regarding government employment, at all levels, ensured that considerations of patronage and clientship rather than merit or efficiency determined the period of time any individual held a particular post and the possibilities for promotion.

It served at the same time to limit the ability of any government local official to construct a regional power base given the fact that the majority of top officials came from, and hoped to return as soon as possible to, Kathmandu.

The absence of any guarantee of regular. Or continued employment ensured that the majority of those in the bureaucracy made the most of their time in office to line their own pockets and to build up those personal contacts most likely to benefit their careers in the long run, rather than being concerned (other than minimally) with the problems of stimulating the local economy.

In any: case, the functions of the bureaucracy were primarily extractive and repressive rather than productive, in the sense that the bureaucracy was concerned with the collection of revenue and the maintenance of law and order rather than with increasing productivity and improving the country's economic base. In many respects the structure of the administration under the Ranas in Nepal resembled that of the Moghuls in India (cf. Moore, 1969 : 317-30).

**4. Nepal and British India**

The extent of trade between Nepal and neighbouring Indian states at the time of the foundation of the Nepalese state was around Rs: (IC) ½ million per annum, according to British East India Company sources. This sum appears small compared with over Rs. (IC) 3 million that the Company had agreed to pay into the British National Exchequer in 1767, and the initial agreement between the Nepalese rulers and the, Company simply aimed-at securing some revenue from a 2½,per cent ***ad valorem*** duty on traded commodities.

However, this arrangement foundered on the unwillingness of local officials to abide by agreements. Buchanan (1928 : 575) describes the situation around 1809 where ***'Gorkhalese*** [are) acting reasonably towards merchants despite the fact that the merchants will suffer less and push the trade further, if left entirely to their own exertions' and goes on to describe an example where merchants based in Company-controlled territory made cash advances to 'Nepalese farmers for crops.

The farmers were then ordered to sell to a Nepalese: collector at a lower price. Not only had the Indian merchants lost their advances but, to add insult to injury, the Nepalese collector then offered the rice to the merchants at the price they originally offered to the farmers: Buchanan's figures suggest a considerable balance of trade surplus (not including specie) in Nepal's favour, met at this time by move merits of silver into Nepal which were largely concealed- since 'no man in either country wishes it to be known that he deals in a property to tangible by men of power in Nepal, and by robbers in the territory of the Company' (Buchanan, 1928: 574).

Turning now to India's trading relationship with Britain (which, of course, was to affect Nepal's political and economic development profoundly, albeit indirectly), it is clear that between 1820 and 1850 India remained firmly in surplus on the trading account, the structure of this trade however altering significantly as net exports of Indian cotton manufactures turned into net imports of Lancashire piece goods, and indigo, raw cotton, and opium exports grew.

Even as early as the 1820s this shift in composition of exports produced localized collapses of the economy as new sources of primary commodities were opened up and others abandoned; this in addition to the well-known eclipse of large number of handlooms weavers.

But at the same time as India was undertaking this transformation whilst maintaining a balance of trade surplus over-all, the Indian National Debt was increasing as the imperial connection removed the control of Indian resources into British hands.

Despite the securing of lumbering concessions granted to contractors resident in Company territory, the military expansionary phase of the East India Company in the first eighteen years of the nineteenth century led: it into a war against the expanded Nepalese State.

It is interesting to note that immediately prior to the war in 1815 the Company seems to have been able to recruit four 'Irregular Corps of Nepalese', totaling some 5,000 men to take part in the invasion of Nepal!

The availability of mercenary troops from the area and the attempts of the Nepalese rulers to control access to raw materials and markets by not allowing non- Nepalese to move around Nepal are two major characteristics of the following 130 years.

**During this period Nepal's trade with India grew several fold but there is no evidence that Nepal suffered comparable problems requiring reconstruction of trade patterns, and whilst restrictions were imposed on Indian merchants as regards both location and trading conditions, they did not appear so irritating as to require further intervention by the Company.**

The bloody transfer of power between different factions of the ruling dynasty in Nepal in the early 1840s took place at a time when the company's attention was concentrated elsewhere and, although extremely frail excuses were used to justify Company's intervention in other.

Indian states, the combination of timing, location, and speedy resolution preserved the Nepalese state as independent on the terms of the Treaty of Sugouli (1816).

In 1846 a strong pro-British ruler emerged who regularized the flow of recruits to the Indian Army and trading arrangements on the lines suggested by the Company officials in 1834.

By 1850 considerable resources were concentrated in à relatively small number of Nepalese hands with trade expanding on the basis of a continuing balance of payments surplus and, whilst net emigration existed, it was probably not at such a level as to leave an unduly high dependency ratio in Nepal (indeed, recruitment to the Company's Indian army was reduced in this period).

**The assistance given by the Nepalese army to the British in India (9,000 Nepalese troops were at the relief of Lucknow)** in putting down the popular rising in the state of Oudh during the Sepoy Rising of 1857-8 consolidated the external position of Nepal and a set of preconditions for autonomous development in Nepal appeared established.

From the Sepoy Rising to the end of the nineteenth century the rise of a domestic class of capitalists occurred in India, despite managerial posts still being heavily dominated by Europeans; and alongside there was also the development of an identifiable proletariat who relied on wares for income.

The degree of commitment of this labor force has been debated but certainly labour supply never appeared a constraint to manufacturing investment.

This important change took place Dispite

(a) The increasing drain owing to wars, administration, debt servicing, and currency realignment,

(b) The 'managing agency system of organizing companies

(c) Slow growth productivity in agriculture

(d) Uneven development of communication network

(e) The tendency for “laissez-faire policies” to be adapted to the special interests of Lancashire mill-owners among others, and

(f) The Bombay stock market collapse around 1865.

**Capitalist industrial its importance within the economy as a whole was limited?**

Nevertheless, it is easy to underestimate this change in its impact upon the Indian economy, directly in terms of changing productive forces available to Indian society and indirectly through the role played by the new classes in creating a national independence movement.

With regard to effects of these developments upon Nepal, railway construction in India produced enormously increased revenues from Nepalese timber sales and Indian urban industrialization meant that a buoyant market for food grains existed which was facilitated by transport improvements.

Annual values of trade which approximately trebled in the fifty years from 1835 to 1885 had trebled again by the end of the century, with the value of Nepalese exports double that of imports: This strong trading surplus was produced with riq internal transportation improvements and in a period in which, emigration grew to the extent that in 1900 just under a quarter of a million people of delared Nepalese origin were recorded in the Indian census.

This number had increased by over 30,000 in the period 1900 to 191} with no increase in Indian army recruitment.

An indication of the opportunity potential provided by this situation is that by using the balance of trade surplus to purchase textile mill machinery. during these years, the Nepalese could have employed all those who moved to India in the period 1900-11 (using contemporary Indian figures for finance capital required per work place); in fact, the most notable act by the Nepalese rulers in this period was to mount a successful military expedition into Tibet (1854) which established a temporary tributary relationship between Tibet and Nepal.

**Population increase and an absence of any expansion in employment opportunities led to the physical expansion of subsistence farming in Nepal and to emigration.**

Over 50,000 recruits offered themselves as soldiers for the Gurkha regiments in the First World War and when 11,000 were discharged immediately at the end of the war only one-third returned to Nepal.

By the early 1930s about one Nepalese-born person in twenty was living in India according to Nepalese and Indian census estimates. This proportion has remained almost constant through to the 1960s; during which time the population of Nepal almost doubled.

The 1920s were notable for the first tentative steps by the Nepalese rulers to develop the productive potential of their situation by purchasing foreign expertise:

The first modern college was set up, a ropeway was constructed linking the Kathmandu Valley with India; and some mineral exploration was undertaken.

The British proved willing to remove the restrictions on Nepalese diplomatic relationships with other nations, and with this formal alteration of Nepal's political status (in 1923) came the removal: of all restrictions on trade between Nepal and India. Indian capitalists now had easy access to a growing market in a period when their productive capacity was rising fast whilst world trade was tending to become more restrictive.

Nepal maintained an over-all balance of trade surplus in the inter-war period despite increase in imports of mass manufactured commodities for general use, which suggests that handicraft industries were suffering.

The declining size of the surplus, however, heralded the slide towards chronic deficit which has marked the post-Second World War situation.

An important component of Indian economic crises since 1900 has been a tendency towards deficient demand for mass consumption of low quality commodities produced by factory method.

The presence of a captive Nepalese market capable of absorbing over 1 per cent of total Indian exports (by value) and over 5 per cent (by value) in sectors such as cotton fabrics, transport equipment; and pharmaceutical products, is thus not insignificant, although it can only be an element in the resolution of such crises.

The few attempts to set up, industries in Nepal and the limited importation of foreign skills indicate that industrial capitalism was not able to make any significant headway.

The social change that would inevitably have resulted, had there been a development of indigenous capitalism, would have threatened the position of the ruling class.

The continued strength of this class vis-a-vis the relative autonomy of the Nepalese state ensured that considerable revenues from taxation, levies, and the sale of timber continued- as in the case of the princely states in India where these revenues nowed outside either in the purchase of luxuries or in the form of investment in British Indian firms and industries.

**Thus the view of Nepal during the twentieth century as 'isolated' is not valid.**

Although nominally independent, Nepal has been (and is) profoundly affected by its progressive integration into the capitalist-dominated economy of India, even if the effects of such integration were modified by the interests of a landowning class, which used the perpetuation of a juridically independent state to their own advantage.

The situation in Nepal, as India approached independence, has been well summarized by a Nepalese writer and administrator.

The growth of trade and to some extent small industries could not.... be maintained in the new Terai towns after the extension of the Indian railways across the border.

Grain surplus passing through the new towns increased, but at a decreasing rate over the years. This was bound to happen for three socio-economic reasons.

***First,*** *agricultural technology was then even more primitive than it is now.*

Therefore, once the potential agricultural surplus for the given level of technology was exploited further increases in production were at best very slow and came primarily through the reclamation of wasteland and forest areas.

***Second****, . economic development was not then a national goal.*

The socio-economic structure was essentially feudalistic, and entrepreneurship among the people was frowned upon.

The ruling class was not only afraid to technical innovation, but also feared changes in the values and aspirations of the common man.

It recognized that the development of industries would create conditions favorable to the formation of organizations which would lead to à new awareness among workers regarding the sharing of political and economic power.

Therefore no efforts were made to start consumer goods industries that could have potentially exploited the new monetization of the regional economy and the increased purchasing power of the people.

***Third,*** *a trade treaty was signed with British India in 1923. The Treaty allowed for practically unrestricted import of British goods into Nepal.*

Naturally it had the effect of discouraging the establishment of new industries and the continued operation of ancient handicrafts, and cottage industries.

Thus the points along the country's southern border were not able to generate forces of long-term growth and the region's economy finally seems to have followed the path visualised in the Ricardian Theory of the Stationary State (Lohani, 1973 : 204-5).

When, in 1947, partition took place and India became an independent republic, the basis for absolutist Rana rule was so seriously undermined that three years later it was effectively challenged with the support of the new Indian government and the monarchy was reinstated as supreme authority in Nepal.

Up till this time the Ranas had relied on their special relationship with the British to prevent a base for opposition being founded in India to challenge their regime--an effective alliance of interests between the ruling class of Nepal and Brittsh imperialism in India.

The new popular forces that came to power in India were suspicious of the autocratic regime to the north, much as they were of the princely states in India itself, and sympathized with the small but rapidly growing 'radical' movement under the leadership of the Nepali the growing strength of China and its supposed ambitions in Asia, particularly after 1949.

Thus, when the Nepalese king Tribhuvan sought asylum, first in the Indian Embassy in Kathmandu and later in New Delhi in 1950, identifying himself with those opposed to the continuation of Rana rule (some of whom were members, of Rana families at that time out of favour) and thereby capturing the leadership.of the new democratic movement in Nepal, his action was warmly welcomed in India as substantially improving the chances for the emergence in Nepal of a reformist but relatively. stable regime closely tied to India economically and politically.

Following Tribhuvan's move, armed insurrection broke out with the active support of the Indian government, and the ruling Ranas, unable in part because of poor communications within Nepal to- quell the disturbances and recognizing the inevitability of formal political change, agreed to the return of Tribhuvan to Nepal as king and head of state and the establishment of a constitution involving wide suffrage.

But the political nature of these changes failed to involve the mass of the people in the process--so urgently required--of restructuring the economy……………………

**5. Politics, Parties, and the Palace**

When King Tribhuvan returned from India early in 1951 he was obliged to recognize a growing popular movement and expressed his intention to act as constitutional monarch and to create an advisory body to draw up a new constitution for Nepal along democratic lines. In the meanwhile, the Interim Government Act of 1951 restored legal and constitutional powers to the king.

The Ranas, though officially ousted from power, nevertheless retained very considerable influence in the circles of government and in the army.

This was reflected in the composition of the first cabinet created by the king a coalition of Ranas and members of the Nepali Congress.

The attempt to forge a political alliance between such fundamentally opposed camps was doomed to failure, and the next Cabinet consisted almost entirely of Nepali Congress members, the Ranas retiring from the limelight of formal politics to strengthen their position' elsewhere in 'the corridors of power'

During the next decade numerous political parties sprang up, many of them essentially the personal following of a particular political figure rather than popular movèments in any sense.

Experimentation characterized Nepalese government and politics during the next few years as Cabinets were formed and dissolved, Advisory Assemblies established and re-established, and parties created and fragmented.

The frequent changes in Cabinet and the general ineffectiveness of the Advisory Assemblies served primarily to strengthen the power-of the Palace and those who had the ear to the king.

In 1954 the king proclaimed that supreme rights in the legislative field should be vested in him, pending the drawing-up of the Constitution, and that all powers exercised by ministers and their subordinates according to the rules established and enforced by royal authority should always be regarded as proper and valid and should not be questioned by any court.

After the death of King Tribhuvan in 1955 his son and successor, Mahendrra, declared his concern not simply to continue with such experimentation but to hold general elections as soon as possible.

When drafted in 1959 the Constitution provided for a monarchy with residual and emergency powers, but allowed for a parliamentary system of government with party representation.

The elections of 1959 gave overwhelming victory to the Nepali Congress, which took seventy-four seats. The predominantly ex-servicemen's party supported by the Ranas gained nineteen seats, the United Democratic Party four seats.

A Cabinet was formed, under B.P, Koirala, and the first popularly elected government was officially in power. But not for long.

The uncertainties of government during the previous seven years had made the implementation of major reforms (even had they been strongly desired) very difficult and the economy had remained largely stagnant while the various parties and pressure groups struggled in Kathmandu to mould the future political system of Nepal.

The idea of economic planning had been accepted early and the First Five Year Plan drawn up for the period 1956 to 1961. However, no new industrial venture of any significance came into being during this period, and indeed several of those industries established in the terai under the extraordinary conditions of the Second World War had gone into liquidation immediately after the War.

In 1950, Nepal had signed a trade and transit treaty with India which assured a virtual domination of Nepal's economic life by India and a perpetuation of the unequal relationship between the two countries. In the period between 1956 and 1963, for example, Nepal's imports from India rose by about Rs. 430,000,000 while her exports rose in the same period by only about Rs. 190,000,000, increasing the balance of trade deficit from Rs. 72,000,000 to Rs. 310,000,000.

In agriculture, attempts were made to alter the very complex structure of land tenure, essentially with a view to maximizing revenue from the land, by removing land grants which had been exempted from tax by the Ranas (and thereby attempting to erode their economic base) and only incidentally to improving productivity and the condition of the producers.

The one area in which considerable improvement was made and in which foreign aid-giving countries were encouraged to invest was that of transport and communications.

The lesson provided by the events of 1950-1, when the Ranas-largely through their inability to move troops swiftly within the country-were unable to put down armed insurrection within Nepal, and their dependence on the operation of the India railways for east-west communications, were not lost to the king.

Indeed, we would argue that considerations of internal security provide a major underlying motive for the government's concern with the development of a modern transport system, although the objectives of economic development and political unity are frequently invoked.

**The first priority** **in transport development** was the establishment of a reliable air service and by 1956 a fair-weather internal air network was in operation linking Kathmandu with Biratnagar, Bhairahawa, Sima, and Pokhara.

This was extended over the next decade to provide access to even the remote parts of the country.

Road construction began more slowly, and by 1956 the total of fine- weather motorable road (impassable in the monsoon) was only 365 km, with all-weather road a mere 259 km.

The most important road built during this period was Tribhuvan Rajpath, constructed with Indian aid and connecting Käthmandu to India by, way of the railhead at Raxual in Bihar.

The government that came to power in 1959 was openly concerned to implement reforms designed to 'modernize' the administration, and to encourage economic and political development to take place through popular participation.

Its manifesto included radical agrarian restructuring; a fully planned economy; the elimination of discrimination and privilege in recruitment to the civil service and the army, and in other walks of Nepali Congress had observer status at the Socialist International and was a member of the Asian Socialist Conference.

In the upper house or sènate the eighteen royal appointees who constituted half of its membership systematically opposed the programme and actions of the Nepali. Congress party and its government, while outside official political circles the comparatively radical views and intentions of the government aroused considerable fears among the nobility and other more conservative sections of the population, including the Palace itself, and pressure groups began to prepare for the defence of existing privileges against proposed government policy (cf. Pardhana, 1973 : 146).

In December 1960 the king, with .reference to article 55 of the Constitution, revoked the Constitution itself, dissolved the Parliament and the Cabinet, suspended the Fundamental Rights, and promised to institute (a more suitable forms of democracy' than that based on parties and parliament.

The prime minister, Koirala, was arrested, as were many other local and central party officials; and all political parties were banned.

It would seem that the "honeymoon' with popular democracy was over and that the conservative and *dirigiste* tendencies had reasserted themselves.

Higher ranking officers of the army and the police, as well as the secret service, were on the king's side, but not the overwhelming majority of the younger officers and civil servants.

Giving such a fundamental rift even within the bureaucracy it was inevitable that the next fifteen years were to see the monarchy performing a dangerous tightrope act to maintain political stability and existing privileges and yet encourage a modicum of economic and social developments.

**6. The tightrope act**

During the last fifteen years, since the assumption of absolute powers by the king and the institution of the **'panchayat system'** in the absence of directly elected government based on political parties, **the economic situation of Nepal has continued to deteriorate despite the increasingly large volume of foreign aid provided by India, the United States, China, and other countries.**

In the mean while, the level of political opposition to the present system based on control by the Palace, through the administration and the army and other branches of the state apparatus, with the support of the old nobality, has been kept down by a variety of means.

Perhaps the most important of these has been the massive growth in the bureaucracy-in terms of the number of employees- through expansion of the number of distinct departments and offices, in Kathmandu in particular but also latterly in the Regions.

This serves at the same time to absorb relatively well-educated and potentially dissident young men; to ensure that promotion and advancement depend generally on conformity as much as on technical ability and merit; and also to be seen to provide, for the more dedicated and idealistic, some chance of influencing the future of their country, albeit ( Although)within the strict limits imposed by the still highly personalized structure of the bureaucracy.

Other means include the continued ban on all forms of political organizations, enforced by an expanded police force and a pervasive security service, with imprisonment for political offences; **the creation and elaboration of a system known as 'panchayat democracy'**

**which provides a formal structure of representation, through a four-tier system of election to a number of seats in the National Panchayat; and the existence of so-called 'class organizations', such as those for 'peasants', 'women', etc. which purport to provide the structure for the representation of sectional interests.**

More effective than all these in Inhibiting effective organized political opposition is the fact that Nepal remains a predominantly agrarian economy and society in which the vast majority of the population live in small villages, producing primarily for their own domestic consumption on their own small-holdings or else share- cropping or renting the land of some large landlord.

If obliged to work outside agriculture to supplement their farm income- as many are increasingly-~-they tend to emigrate abroad on a temporary basis rather than move to the towns; the urban population in any case is small and the size of the industrial labour force even smaller.

The very nature of production in Nepal and of the social relations associated with the predominant forms that production takes inhibit the development of organized political movements capable of articulating mass demands.

Even so, there are increasing signs of unrest within the country as a whole, in the hills and in the terai as well as in the Kathmandu and social conditions do not improve rapidly, such unrest will become more pervasive and better organized.

**The ruling class in Nepal confronts a basic dilemma:** that of promoting the economic and social changes without which the country as a whole will collapse and bring about their own downfall, while at the same time preserving the essentially non-progressive political structure in whose absence their own privileged position becomes rapidly threatened.

Other countries in which similar situations exist, or have until recently existed, include Morocco and Ethiopia.

In such cases, unless radical changes take place-\_both in the extent of popular participation and, correspondingly, in the relations of production (the class relations) associated with the various forms of production that together constitute the economy-~-through a major shift in the distribution of power and of resources, the chances of future political stability and economic and social development remains extremely small.

The rulers of Nepal are obliged to walk a tightrope not only within Nepal but also in international affairs, which have come increasingly to affect not only internal politics but the economy. itself (through foreign aid).

**Nepal's position 'as a yam between two boulders' (Seddon, 1977)-in the words of Prithivi Narayan Shah, ruler of Gorkha in the eighteenth century- obliges its head of state to steer a careful course calculated to maintain amicable relations with both her giant neighbour : China to the north and India to the south.**

Throughout the 1960s, particularly during and since the Sino-Indian war of 1962, Nepal has managed to use this non- aligned position quite successfully, accepting aid from and maintaining relatively good relations with both.

However, the **increasingly hazardous economic situation** (presently to be documented in more detail), the **changing relations between India and China** which make the maintenance of non-aligned position between them very difficult, and **Nepal's heavy economic dependence upon India,** all make the continuation of these policies in the future extremely problematic.