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Economic Issues in Peace Processes:

Socio-Economic Inequalities and Peace in Nepal

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Map of Nepal



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Executive summary

Over the past decade, the analysis of armed conflict has been filled with references to their economic characteristics. In contrast, however, most peace processes have tended to revolve around the military or political sphere with negotiators focusing on ceasefires and power sharing deals. As a consequence, important economic dimensions of armed conflicts – and their potential for peacemaking – often remain unrecognized. Together with studies on the peace processes of Sudan (north-south) and Indonesia (Aceh), this working paper is part of a project developed with, and generously funded by Political Affairs Division IV of the Swiss Federal Department of Foreign Affairs. The paper specifically explores the economic dimensions of peace processes in Nepal. The larger project analyzes the economic issues and tools in peace processes and identifies their implications for the management of peace processes and post-conflict transitions.

Achim Wennmann's work on Nepal begins with the recognition that the peace process in this case did not evolve as a consequence of socio-economic inequalities but rather out of pressures to change the nature of the state and the need to manage arms and armies. This seems at first counterintuitive if a peace process is understood as a vehicle to dealing with the so-called “root-causes” of a conflict. However, he goes on to show that, in the case of Nepal, the initial circumstances of the peace process – and not the conflict itself – largely influence the motivation for the parties' engagement in a process. While historical contexts are important for understanding the conflict, with regards to the management of peace processes, it may be equally – if not more – important to recognize and track the ongoing transformations of armed conflicts and groups.

The treatment of economic issues in the Nepalese peace process is in contrast to the case of wealth sharing in Sudan (see CCDP Working Paper Number 1). In Sudan, wealth sharing was part of a comprehensive process, while in Nepal there was an implicit understanding between the parties to delegate the economic sphere to the post-conflict phase. Economic issues were placed towards the end of a step-by-step process, relegated to become part of “normal politics” once the nature of state had been changed. In the case of Nepal, it is argued, this was possibly a wise choice because talks on economic issues in such an ideologically diverse context as Nepal may have increased divisions within and between the parties at a time when unity was essential to conclude the peace agreement. While this strategy contributed to Nepal's historic political changes, the omission of economic issues has had significant consequences. It placed enormous pressures on the Communist Party of Nepal-Maoist (CPN-M) to deliver the promised economic development and to translate the absence of armed violence into tangible economic opportunities for Nepal's marginalized communities.

The paper is structured along three transversal themes that are part of the backward and forward looking functions of peace processes. In terms of the former, these themes include the role of the economic characteristics of armed conflict in the engagement of armed groups, and the treatment of economic agendas and conditions that are conflict drivers in peace process negotiations. In terms of forward looking functions, the paper asks if and how the inclusion of economic issues in a peace process can support post-conflict transitions. Overall, the case study is a potent reminder that the principle targets of peace processes – armed conflicts and their consequences – sometimes have important economic characteristics, which should be recognized by peacemakers in order to facilitate a lasting peace.

Keith Krause
Director, CCDP

Author's acknowledgements

This case study is part of a research endeavour that began at a 2005 workshop on the subject of incomplete negotiations, organized by the Processes of International Negotiation (PIN) network in Vienna, Austria. This workshop raised questions as to the possibility of developing an economic perspective on peace negotiations. It also coincided with an interest in the Swiss Federal Department of Foreign Affairs (FDFA) to better understand such a perspective within its mediation support activities. Joint deliberations led to a pilot study that began to chart the economic dimensions involved in the mediation of peace agreements. The study – entitled *Money Matters: Economic Dimensions of Peace Mediation* – was published by the Programme for Strategic and International Security Studies (now the CCDP). Recognizing the potential complementarities of economic aspects of mediation with existing initiatives on constitution building, dealing with the past, and decentralizing governance, a second phase was jointly elaborated to deepen the understanding of economic issues by looking at their treatment in three specific peace processes. I thank the Swiss FDFA and specifically Murezi Michael for the continuous and generous support given to this project.

The present case study reflects the outcome of over one year of analyzing case specific material and conducting conversations with area specialists including, when possible, those engaged in the peace process. I thank Günther Bächler, Canan Gündüz, Jennifer Hazen, Oliver Jütersonke, Judith Large, Jana Krause, Thania Paffenholz, and Mark Segal for helpful conversations and comments on previous versions of this paper. I am grateful to Daniel Warner for making available material from previous research at the Graduate Institute of International and Development Studies on peacemaking in Nepal. I also gratefully acknowledge the comments from the participants of a workshop on the economic issues in peace processes in Geneva, Switzerland on 13 February 2009. Special thanks also go to Meghan Pritchard at the CCDP for her invaluable work editing the manuscript and overseeing the publication process. Finally, I thank my wife Soledad for her steady support.

Even though this report has undergone a careful review, any errors and omissions of fact or judgement are of course my own.

List of acronyms

CPA	Comprehensive Peace Agreement
CPN-M	Communist Party of Nepal-Maoist
CPN-UML	Communist Party of Nepal (United Marxist-Leninist)
PLA	People's Liberation Army
RNA	Royal Nepalese Army
SPA	Seven Party Alliance

Introduction

Nepal's peace process has been accompanied by a puzzle: while socio-economic inequalities were a major catalyst for the outbreak of the civil war and a central agenda item for one of the belligerents, they hardly factored in as an issue in the peace process. Instead, the peace processes focused on political and military issues such as the abolition of the monarchy, the establishment of a constituent assembly, and the management of arms and armies. It was only after the 2008 election and the victory of the Communist Party of Nepal-Maoists (CPN-M), that economic issues have become the main issue in the peace process. The United Nations observed that "the election is only a milestone in the peace process (...). The real work of addressing the nation's deeper socio-economic difficulties and drafting a constitution (...) only begins now" (UNSC, 2008b, p.15).

Together with studies on Sudan (north-south) and Indonesia (Aceh), this case study is part of a larger project that attempts to establish an evidence base on the management of economic issues in peace processes. The project stresses the importance of conflict-induced economic transformations, as well as the economic agendas and conditions that shape the organization and dynamics of armed conflict. It connects the political economy of conflict with the study of peace processes and seeks to distil implications for peace mediation practitioners.

This case study highlights that the Comprehensive Peace Agreement (CPA) settled only two out of three conflicts in Nepal. The CPA addressed the Maoist insurgency and the power struggle between the king and the political parties. However, "the concentration of political and economic power in the hands of small elites at the expense of many marginalized groups" remained an unresolved conflict that may complicate Nepal's post-conflict transition (ICG, 2006b, p. 13). The main findings of this working paper are:

- The financing and organization characteristics of the CPN-M defined their attitude towards the peace processes in 2001 and 2003. In both cases, the peace process became a tactical extension of a military strategy and not an effort to end the conflict. A better understanding of the organizational features of armed groups at the initiation of a peace process may therefore help to identify why armed groups engage with the process, and assist in informing the peacemaking strategies of third parties.
- The absence of a parallel track on economic issues in the peace process threatens the political and military achievements of Nepal's post-conflict transition. Two years after the CPA, the lack of a joint economic vision has increased political divisions and obstructed development, something which is now used by opposition groups as a political tool against the CPN-M.
- There was a common ground on economic issues between the CPN-M and the government in 2003. It could not, however, be expanded into a parallel track because the CPN-M needed to maintain a discourse monopoly on socio-economic inequality for their mobilization strategy. The negotiation environment had also seriously deteriorated by this point.
- General principles on economic recovery were included in the CPA. Their detailed treatment was, however, delegated to take place within the new political system, as part of "normal politics". The policy of postponement was consistent with the notion of a step-by-step peace process, and Maoist ideology that considered systemic political change as a means to achieve socio-economic transformation.

After briefly presenting the background to Nepal's civil war, the paper considers the role of economic issues in the engagement of the parties in the three phases of the peace process, occurring in 2001, 2003, and 2005/2006. The following section attempts to use the mobilization and maintenance cost of armed groups as a tool to identify the role of a peace process in the overall strategy of an armed group. The paper then looks at the management of economic issues in the peace process. Usually, the issues in negotiation processes relate specifically to the military and political sphere, as is confirmed by the peace process in Nepal. However, most armed conflicts also have important economic characteristics, which are often identified as contributing to the dynamics of conflict in various ways. While there was no specific natural resource dimension to the conflict in Nepal, socio-economic inequalities have been a central catalyst for conflict and feature strongly in the CPN-M rationale for the war. The final section evaluates the consequences for Nepal's post-conflict transition of postponing the treatment of economic issues. The rationale of this focus is to explore the value added for post-conflict transitions of including economic issues during the peace process phase.

Background

The CPA of 21 November 2006 formally ended a 10-year civil war between the CPN-M and the Government of Nepal that killed between 8,000 and 13,000 people and displaced about 200,000 (SATP, 2008; INSEC, 2008; IRIN, 2007). The civil war unfolded in three phases. The first phase occurred between the CPN-M's declaration of war on 13 February 1996 and the breakdown of peace talks on 23 November 2001. The second phase took place between the declaration of a *State of Emergency* on 26 November 2001 and the breakdown of peace talks on 19 August 2003, which was followed by a third phase that ended with the CPA. The first years were characterized by low intensity fighting and CPN-M mobilization of rural districts. As of 2001, the conflict escalated and involved the ever growing military capacities of the People's Liberation Army (PLA) and the Royal Nepalese Army (RNA) (Nayak, 2007, pp. 922-923; ICG, 2003a, pp. 22-23; ICG, 2005, pp. 8-10).

The civil war was initially paralleled by a political conflict between the palace and the political parties that intensified after the royal palace massacre of 1 June 2001 (Whelpton, 2005, pp. 211-216). The conflict escalated when King Gyanendra assumed executive powers on 4 October 2002 and dismissed the government on 1 February 2005 (ICG, 2005a, pp. 9-10). The coalition between the Seven Party Alliance (SPA) and the CPN-M in 2005 represented the merger of the civil war and the political conflict. The conflict thereafter expanded from rural to urban areas and involved non-military tactics such as strikes and rallies (Bächler, 2008, pp. 18-20; ICG, 2006a, pp. 8-10).

Socio-economic inequalities and state centralization have been two central elements at the origins of Nepal's civil war (Deraniyagala, 2005; Murshed and Gates, 2005; Sharma, 2006; Lawoti, 2007). In the 1950s, Nepal pursued a policy of import substitution that greatly benefited urban business elites, while around 90 per cent of the population simultaneously lived in impoverished rural areas (Sharma, 2006, pp. 1241, 1245). In 1996, the per capita income of the mid-western and far-western districts was more than 75 per cent lower than that in Kathmandu (NESAC, 1998, p. 13). In the late 1990s, landlessness was estimated to include one million out of six million agricultural labourers (Bray et al., 2003, p. 117). Economic disparities also involved different castes and ethnic groups; *Bahun*, *Chhetri*, and *Newar* traditionally dominated the economy due to their closeness to the political sphere in Kathmandu. Those excluded groups were the *Dalits* – or “untouchables” – as well as the *Madhesi*, *Tamangs*, *Magars*, and *Tharus* (Thapa, 2003, pp. 74-75).

The centralized nature of the Nepalese state evolved from the succession of various dynastic cycles beginning in 1768. Until the 1950s, Nepal remained a largely isolated kingdom (Whelpton, 2005, pp. 1-3). The 1959 elections led to the first parliamentary government under the leadership of the Nepali Congress party. Only a year later, however, the king dismissed parliament and dissolved political parties all together. The king established the “Panchayat” (assembly) system in 1962, with all members nominated by him directly (Kergoat, 2007, pp. 120-133). It was only with the signing of the 1990 constitution that the king’s role was redefined and Nepal established as a constitutional monarchy. Still, the constitution contained contradictions that fostered political opposition (Upreti and Dhungana, 2006, pp. 215). In the 1991 elections, the Nepali Congress won an absolute majority, and used this position to establish its dominance within the state administration (Thapa, 2003, p. 69). Internal divisions led to a collapse of government in 1994, and a succession of six different coalition governments between 1995 and 1999 including the Communist Party of Nepal (United Marxist-Leninist) (CPN-UML) (Hutt, 2004, p. 4).

Socio-economic grievances and governance failures developed into a catalyst for conflict when expectations for political participation and economic development among marginalized populations were disappointed in the early 1990s (Bray et al., 2003, p. 116; Lawoti, 2007, pp. 15-38). The government’s failure to deliver promises, and increasing corruption in the public sector, fostered disillusionment and encouraged rural communities to consider political alternatives (Pfaff-Czarnecka, 2004, p. 167). The CPN-M grew out of these disillusionments and appealed specifically to socio-economic grievances as it mobilized in rural areas (Mahat, 2005, p. 337).

Communist tendencies in Nepal had existed since the late 1940s but did not really gain momentum until the late 1980s. The 1990 Unity Centre and the United People’s Front of Nepal (renamed the CPN-M in 1994) became the first platform for the Maoist ideology in Nepal. The CPN-M distinguished itself from other communist parties by their insistence that feudalism could only be stopped by war and systemic political change (Upreti, 2006, p. 36-38). In 1996, the CPN-M “had almost no weapons, a tiny organizational base, and a strategy that seemed outdated and unrealistic” (ICG, 2005, p. 1). Overtime, they would develop into a movement under the leadership of “Prachandra” – meaning “the fierce one” – that included about 5,000 to 10,000 core fighters and 20,000 to 25,000 militias, a following of between 14,000 and 24,000 political workers, and between 100,000 and 200,000 sympathizers (ICG, 2005, pp. 8, 14).

The CPN-M initially structured their activities around the Maoist doctrine of “protracted armed struggle”, which consists of the three stages of strategic defence, stalemate, and offence. Strategic defence involved mobile and positional warfare and building popular support. Strategic equilibrium reduced the government presence to urban centres while a united front against the government was to be consolidated in rural areas. Strategic offence took the fight into the cities. In recognition of having achieved the strategic equilibrium phase in 2001, the CPN-M adopted the “Prachandra Path” to expand into rural areas and provoke mass uprisings in cities in order to overthrow the government (Nayak, 2007, p. 921; Thapa, 2003, p. 99). The political characteristics of the Maoist movement, and the use of multiple strategies – such as propaganda, strikes, demonstrations, and also peace negotiations – in addition to the use of armed force suggests that it was a fully fledged political movement rather than just an armed group (Paffenholz, 2009).

The civil war in Nepal was accompanied by three peace processes, occurring in 2001, 2003, and 2006. The 2001 peace process occurred in the context of Nepalese politics after the palace massacre and the implications of a changing international environment after the September 11th attacks on the United States. The three rounds of short talks were the first of their kind after six years of armed conflict. However, the CPN-M and the government

showed limited commitment, following instead their short-term political interests while strong constituencies on both sides existed in favour of a military solution (Upreti and Dhungana, 2006, pp. 216-222; Mahat, 2005, pp. 300-301). The 2003 peace talks were better organized and accompanied by position papers. Nevertheless, the process was dominated by tactical considerations, with the existence of ongoing attacks and competing public statements emphasizing the lack of trust between the parties (Josse, 2004, pp. 20-28; ICG, 2003a, pp. 2-6; Paffenholz, 2003, pp. 11-14). A succession of events in 2006 contributed to the signing of the CPA. An evermore isolated king and government with little room to manoeuvre, and continuous mass protests in Kathmandu between 21 and 24 April 2006 forced the king to reinstate parliament after the RNA conceded that it was no longer able to protect the palace (Bächler, 2008, p. 20; Bragtvedt, 2007, pp. 43-45).

Most peace negotiations were driven and facilitated by Nepalese actors even though donors supported the peace process with capacity building and expertise (Paffenholz, 2006, p. 16). In 2003, the CPN-M pressed for United Nations mediation in order to increase its legitimacy and support its claim of “two regimes”, including two armies and areas of control (Mahat, 2005, p. 336). After the palace coup in 2005, India facilitated the alliance between the SPA and the CPN-M mainly in order to weaken Maoist rebel groups in India (Nayak, 2007, p. 931). The European Union, Switzerland and other bilateral actors also supported the peace process. The United Nations became engaged in August 2006 to monitor the management of arms and armies (Bächler, 2008, pp. 25-27).

Economic aspects of the engagement process

This section looks at the role of economic issues in the engagement of the CPN-M and the government. The rationale for such a focus is that economic factors influence the incentive structure of belligerents and provide resources to finance armed conflict. In this way, they contribute to the initiation, perpetuation, or termination of armed conflict. When seeking to engage an armed group in a peace process, it is therefore important to understand if economic aspects are ends or means for belligerents, and their potential interaction with the peace processes. In this context, a more complete understanding of the initial conditions – both economic and otherwise – that led to the initiation of a peace process may provide important leads to gauge the meaning and commitment that the parties attach to such a process. In this way, a focus on the financing and organization of armed groups may be a helpful tool to support the strategic assessments of third parties in terms of when (or not) to engage with armed groups. The following section looks at Nepal's peace processes of 2001, 2003, and 2006/2006.

The peace process in 2001

For the first time after six years of armed conflict, the government and CPN-M held direct peace talks in 2001. The peace talks occurred after the royal massacre had opened tactical space for both parties. The king saw the resolution of the armed conflict as a means to establish the monarchy's legitimacy and to respond to a general war fatigue in Nepalese society (ICG, 2003, p. 10). The quest for legitimacy also applied to the government of Sher Bahadur Deuba. It wanted to signal a departure from its predecessor by conceptualizing the conflict as a political problem that needed a political solution. For the first time, the Deuba government opened an alternative platform for

the management of the conflict that did not only rely on military strategies (Upreti and Dhungana, 2006, pp. 216-218). Thus, the engagement of the king and the government mainly satisfied political functions.

The CPN-M were divided in their response to the royal massacre. They saw it as an opportunity to increase pressure and garner support for the abolition of the monarchy (Upreti and Dhungana, 2006, p. 216). However, they also recognized the tactical utility of a ceasefire to consolidate territorial control. Between 1999 and 2001, the CPN-M had established control over most rural districts but also started to feel the first strains of over-extension. At the same time, CPN-M fundraising had become increasingly violent, leading to a drop in recruitment and support. A ceasefire was therefore considered opportune to strengthen administrative structures and recruitment numbers (Mahat, 2005, pp. 324; Nayak, 2007, p. 924).¹

The CPN-M maintained a tactical advantage over the king and the government because they engaged in peace talks with the tactical flexibility of being able to revert back to military strategies if need be. This flexibility was mainly based on the solid financial situation of the CPN-M. At the end of the 1990s, the CPN-M had increased its revenue base by requesting protection money from everyone with savings but especially from the business community, teachers, and civil servants. In 2000, the CPN-M allegedly made between USD 71 million and USD 143 million (Mahat, 2005, p. 323).²

The 2001 peace process was therefore not a genuine attempt to resolve the conflict but rather a coincidence of complementary short-term interests. The process failed when military agendas regained the upper hand, and especially when the RNA replaced the police force as the main security actor opposing the CPN-M, positioning itself at the centre of Nepal's politics (Mahat, 2005, pp. 300-301). The RNA jumped on the bandwagon of the global anti-terrorism discourse after September 11th in order to attract foreign military assistance (Josse, 2004, p. 20). The United States, for example, provided USD 29 million, which allowed the government to procure new military equipment, training and services (AI, 2005, pp. 6-12).

Even though the 2001 peace process failed, it had a long term – possibly unintended – consequence for future peace processes. Not only were the peace talks the first direct encounter of the parties to the conflict, it was also the first time that the conflict was conceptualized as a political, and not exclusively military, dispute.

The peace process in 2003

The palace coup provided the backdrop of renewed momentum for peace negotiations as – similar to the 2001 situation – it placed the king in a position to strengthen his legitimacy. With the coup, the king had assumed executive powers, dismissed the government, dissolved the parliament, and postponed elections. Resolving the conflict could therefore provide a better image of the king as a peacemaker and thus strengthen his political position. To this effect, he gave the new government of Lokeshadra Bahadur Chand a mandate to engage with the CPN-M (Upreti and Dhungana, 2006, pp. 222-223).

The palace coup coincided with a situation in the battlefield that was described by CPN-M leaders as “strategic equilibrium” and “the right moment for a peaceful way out” (Bhattarai c.f. Josse, 2004, p. 42). However, the CPN-M's emphasis on “strategic equilibrium” was rather more indicative of an emerging military imbalance. Foreign assistance to the RNA escalated the conflict and increased the military and financial pressures on the CPN-M. The escalation strained discipline and alliances with local ethnic groups.

Disrupted communication networks encouraged individual commanders to act more independently (Bray et al, 2003, p. 123). The CPN-M leadership was also becoming increasingly isolated as the international community supported the RNA (Josse, 2004, pp. 42).

Financial pressure resulted from the territorial expansion of the CPN-M and the requirements of maintaining a high intensity conflict. In early 2002, the monthly maintenance cost of the conflict was estimated at USD 150,000 or USD 1.8 million annually (ICG, 2005, p. 17).³ However, including expenses for political and administrative structures, costs increased to about USD 71 million (Bray et al., 2003, p. 121).⁴ In contrast, revenue sources can be expected to have been lower than in 2000, when they were between USD 71 million and USD 143 million (Mahat, 2005, p. 323). As the CPN-M relied on the taxation of economic activities, the economic disruption which resulted from the fighting reduced its overall revenue stream (ICG, 2005, p. 18).

It was therefore the combination of military and financial pressures that pushed the CPN-M to the negotiations table. The CPN-M's emphasis on strategic equilibrium, and calls for international mediation, were meant to divert attention from their military weakness, while buying time to regroup and consolidate (Nayak, 2007, p. 926). In the negotiations that followed the ceasefire of 29 January 2003, the CPN-M had much less strategic flexibility because their financial situation – and the increased strength of the RNA – made a reversal back to armed conflict a less obvious option. The situation that defined the government's and CPN-M engagement may explain why the peace process represented "by far the most acknowledged efforts to establish a lasting peace in Nepal" (Upreti and Dhungana, 2006, p. 223).

The peace process in 2006

The 2006 peace process was preceded by the realignment of political forces that culminated with an alliance between the SPA and the CPN-M against the king. The king's dismissal of the prime minister on 1 February 2005 changed the perception of the political parties and the CPN-M towards each other. The SPA joined the alliance because it was increasingly vulnerable to repression and attacks by the CPN-M (Bächler 2008, 115-16). The CPN-M entered the alliance out of a recognition that they lacked substantive presence in urban areas and thus the futility of trying to capture Kathmandu militarily (Nayak 2007, 930). The alliance between the SPA and the CPN-M enabled the organization of large demonstrations aimed to expose the king's isolation and mobilize an active civil society towards their cause (Bächler, 2008, p. 17).

These developments, however, were only possible after the CPN-M had overcome internal divisions towards peace negotiations. In general, Maoist ideology was opposed to an exit strategy through negotiation because a class struggle could not be concluded with a compromise. Compromise would have entailed at least some continuity of a reactionary political system. For this reason, the CPN-M demanded systemic change and continued their opposition to any approaches relying on the reform of existing structures. Peace negotiations were also perceived as an anti-insurgency tool (Mahat, 2005, p. 334; ICG, 2003, pp. 2-3). In order to overcome this internal resistance, the CPN-M leadership presented peace negotiations as a continuation of fighting, and a strategy to gain flexibility in military tactics. This "strategic firmness and tactical flexibility" opened the possibility of peace negotiations, and alliances with other political parties.⁵ It thereby prepared the ground for the alliance with the SPA against the king, a role for India in facilitating the *12-Point Agreement* of 22 November 2005, and negotiations with the state (Nayak, 2007, p. 931; Bragtvedt, 2007, pp. iii, 58).

Peace processes as tactical extensions of armed conflict

The engagement of the CPN-M in these three peace process episodes illustrates the role of peace processes as tactical extensions of armed conflict. The flexibility of such tactics in this case, however, depended largely on the financial situation of the CPN-M. In 2001, the CPN-M engaged in negotiations with a solid financial backing, thus allowing it to be able to make credible threats that the failure of negotiations could result in the resumption of hostilities. In 2003, the tactical flexibility of the CPN-M was reduced because military pressure increased their maintenance expenses while lower economic activity reduced revenues from taxation. The consequence was a more constructive engagement in the negotiations, including even the development of negotiation agendas. In both 2001 and 2003, the political process remained a tactical supplement to the battlefield. The peace process signalled a pause to develop new funds, strengthen political structures, and find new recruits. Thus, it was not about primarily about peace, but rather a tactical diversification of the battlefield.

The 2006 peace process was qualitatively different from previous efforts. The process facilitated the new alliance between the CPN-M and the SPA against the king. Key enabling factors for this development were a change in CPN-M perception that the real enemy was the king and not the entire political establishment, as well as some internal changes that made engagement at the political level possible. The engagement of the CPN-M also derived from the acknowledgement of their limited ability in gaining control over urban areas with a military strategy.

To conclude, this analysis highlights that a proper understanding of the initial conditions of a peace process can provide important leads on the attitudes of armed groups in an evolving peace process. Particularly if a conflict lasts for a relatively long time, the initial reasons – or so called “root causes” – of the onset of conflict may be less important for peace process management than the initial conditions that frame the engagement of armed groups in a peace process itself.

Economic issues in peace processes

In the study and practice of peace processes, economic issues have been relatively neglected. A comparative analysis of different provisions in 27 peace agreements suggests that most peace agreements focus on security and political power (Suhrke et al., 2007, p. 23). In addition, the parties and mediators involved in negotiations often have a bias for the military and political sphere. This is understandable when considering that their immediate concern is ending the fighting, ensuring a ceasefire arrangement, preparing the ground for demobilization, and developing some form of power sharing arrangement. In addition, the negotiators for the parties involved often have a military or political background, which contributes to a focus on the political sphere. However, this perception stands in contrast to an ever growing evidence base on the linkages between economic factors and armed conflict.⁶ There has been surprisingly little work on the practical implications that these insights may have for the mediation of peace agreements.

This section looks at the three peace processes of 2001, 2003 and 2006 in order to identify the treatment specifically of economic issues in peace negotiations. A focus on economic issues in the case of Nepal is particularly interesting because socio-economic inequality has been identified as a principle cause of the conflict (Deraniyagala, 2005; Sharma, 2006). The Maoist movement partly grew out of a response to these inequalities and established

socio-economic transformation as an “end goal” to be achieved through overthrowing the existing state and economic structures (Bhattarai, 1998, p. 117). The *40-Point Demands* of 1996 illustrated the socio-economic agenda of the CPN-M and emphasized feudalism, imperialism, and inequality as targets of the civil war. As a consequence, land registration offices and army garrisons were key targets in the early phases of the armed conflict (Bray et al., 2003, p. 111).

The socio-economic agenda of the CPN-M also needs to be placed in the context of the functional requirements needed to build a broad mass movement (Mahat, 2005, p. 319). The concentration of political and economic activities in Kathmandu opened a political vacuum in the rural districts. This vacuum was filled by the CPN-M who appealed to socio-economic inequalities as they built up their support base (Hutt, 2004, p. 17). From this perspective, socioeconomic inequalities were a necessary means to mobilize, attack the state, and ultimately gain political control over the state. The *40-Point Demands* therefore served the purpose of establishing a discourse monopoly on socio-economic inequalities, and exposing the failures of the government (Hachhethu, 2004, pp. 58-59).

The distinction between economic issues as “ends” and “means” casts doubt on whether inequality was really the central objective of the CPN-M. Rather than systemic changes being the “means” to attain economic transformation, economic inequalities became a function to strengthen recruitment and group cohesion in order to gain power over the state. As peace negotiations unfolded, these primarily focused on systemic political change rather than on economic issues. Economic issues only became a real issue with the discussion of the 2008/2009 budget in summer 2008. The following section looks at economic issues in the peace negotiation in order to better understand the management of one of the principle catalysts to the conflict.

Economic issues in the 2001 and 2003 peace process

The three sets of meetings of the 2001 peace process confirm the dominance of political and military issues. While the talks of 30 August 2001 focused on introducing the negotiation teams, the talks of 13 and 14 September 2001 were substantive. The CPN-M presented a written agenda including demands for an interim government, a constitutional assembly, and a new republican constitution. The Deuba government was unable to present a counter-proposal due to confused decision making, infighting between the government and the political parties, and the absence of a congressional negotiation mandate. In the talks of 19-21 November 2001, the CPN-M tabled military demands that the RNA and police should pull out of CPN-M controlled areas. A stalemate on the issue of a constitutional assembly and the CPN-M fear of military encirclement contributed to its withdrawal from the process (Upreti and Dhungana, 2006, pp. 216-218).

The 2003 talks were held as a much more serious attempt to reach a negotiated settlement (Upreti and Dhungana, 2006, 223). The process included three rounds of direct talks on 27 April 2003, 9 May 2003, and 17-19 August 2003. Both sides produced agendas and the government signalled a willingness to address the possibility of a roundtable conference, an interim government, and elections of a constitutional assembly. The CPN-M emphasized that “the key issue should be the formation of a new progressive regime and a new progressive constitution” (art. E.1). The government rejected the idea of systemic change and proposed “forward-looking reforms in the existing state system” (c.f. Upreti and Dhungana, 2004, p. 29). The government also suggested a reduction in the role of the king to a “symbol of Nepalese nationality and national unity”, and to allow for a popularly elected government, political parties, and local self-governance (c.f. *ibid.*, pp. 30-31).

In April 2003, the CPN-M and the government also produced an economic agenda. The CPN-M proposed that the constitution should abolish feudalism and establish education, health and employment as personal rights (art. E.1.b.8). “A new ‘land relation’ should be formed on the basis of [the] ‘one who works for the land owns the land’.” A just land distribution law should be enforced.” (art. E.1.b.9.). In terms of industrial development, policy should target ‘the nation’s self-sufficiency’ and ‘protect the national capital and resources’ (art. E.1.b.9.). The agenda also related to monopolies, industry promotion, debt reduction and cancellation, employment creation, price controls, labour issues and minimum wage, corruption, education, youth programmes and infrastructure development. It reiterated many points of the *40-Point Demands*, albeit with fewer ideological overtones.

The government “went further than it has ever previously gone to address socioeconomic problems” (Hutt, 2004, p. 16). It noted that

there has not been the expected success in the process of achieving the objective of political, economic and social transformation in accordance with the expectation of the people for change. After the reestablishment of multiparty democracy in the country, a big wave of hope and expectation had arisen among the people on the possibilities of economic and social progress. (...) Though the expectation against the exploitation, discrimination, inequalities (...) could have an opportunity to be articulated in the democratic environment, these problems could not find [an] appropriate solution (c.f. Upreti and Dhungana, 2004, pp. 28-29).

Specific economic issues⁷ included: the adoption of a free and liberal market oriented economy; equal opportunities for economic development; discouragement of monopolistic tendencies; land reform; poverty reduction; and the implementation of equitable and balanced regional development (c.f. *ibid.*, p. 32).

A comparison of the economic proposals of the CPN-M and the government shows that there were important similarities. While differences remained in specific formulations, ideological orientation, and the level of detail, positions were close on issues such as the need for economic development and land reform. Thus, there was some convergence on economic issues. The government even acknowledged that it had “no disagreement in principle regarding most of the social and economic issues presented by the [CPN-M], which may be useful guidelines for future governments” (c.f. *ibid.*, p. 33). At this moment, some development agencies even wanted to open a parallel track on economic development.

Unfortunately, the constructive potential offered by the convergence on economic issues was undermined by the alleged strategic objectives behind the introduction of economic issues by the government, and a deteriorating negotiation environment. By acknowledging its own failure on economic issues, the government wanted to break the CPN-M’s discourse monopoly on economic inequality and thereby undermine their recruitment strategy. The CPN-M’s dismissal of the proposals as “cosmetic”, and their insistence on the need for systemic change, illustrates their recognition of the potential implications that discussion on the economic sphere may have entailed for their future mobilization of support (Hutt, 2004, p. 16). Such an interpretation also takes into account the reticence with which many Maoists engaged into peace negotiations. Field commanders in particular considered the negotiations to be simply a government strategy to undermine the Maoist movement (Mahat, 2005, p. 335).

The constructive potential of the economic sphere was further limited by the deteriorating negotiation environment. On the one hand, an alleged agreement – later denied by the government – to limit the activities of the RNA to a five kilometre radius around their barracks, eroded the confidence between the parties, and provided the CPN-M with a pretext to expose the government's bad faith (Josse, 2004, p. 22). On the other hand, the Chand government was under increasing pressure on the domestic front. The talks of 9 May 2003 already took place amid street protests against the king and the government. The controversy over the military exclusion zone further eroded support for the government, and ultimately contributed to its resignation (Upreti and Dhungana, 2006, p. 225).

When the talks recommenced on 17-19 August 2003, a new government team presented a series of bottom lines. These included anchoring Nepal's sovereignty in its people, transforming the state into a constitutional monarchy, maintaining territorial integrity, and creating a multi-party democracy. The government attempted to convince the CPN-M to keep the monarchy by presenting a triangle of stakeholders that included the king, the political parties, and the Maoists (Upreti and Dhungana, 2006, p. 226). The CPN-M responded by insisting on the implementation of the five kilometre RNA exclusion zone and reiterating their positions on the need for a roundtable conference, an interim government under CPN-M leadership, and elections for a constitutional assembly (Mahat, 2005, p. 333). Their bottom line remained systemic change and the abolition of the monarchy (ICG, 2003, p. 2). The positions remained irreconcilable and amid a deterioration of the security situation, the peace process was abandoned.⁸

An important element to understand why economic issues could not be pursued further at this point was the insistence on a constituent assembly in the CPN-M negotiation position. The CPN-M's "take-it-or-leave-it" attitude resulted from a compromise between two camps within the Maoist movement (ICG, 2003a, pp. 2-3). The first included hardliners and field commanders that were committed to a revolutionary struggle and perceived peace negotiations as a subversive tool. The political leadership also presented peace negotiations as an integral part of the armed struggle and a tool to increase the CPN-M's tactical flexibility (Mahat, 2005, pp. 334-335). Within this context, the issue of a constitutional assembly provided the only common ground between the two camps. It satisfied the demands of hardliners for a systemic change of the political system, and provided the leadership with the possibility to push a political agenda. The consequence of such an internal compromise was that CPN-M negotiators were unable to give up any ground on the issue of a constitutional assembly to reciprocate the government's opening on the economic front. When the government insisted on the monarchy, Maoist hardliners denounced the peace process as a plot. As the peace process neither advanced nor stopped until August 2003, field commanders pressed for the return to war because they faced increasing difficulties to maintain an active guerrilla force in the absence of fighting (ICG, 2003, p. 4).

Economic issues in the 2006 peace process

It was only with the palace coup of 1 February 2005 that renewed interests in peace negotiations emerged. As in previous peace processes, the emphasis lay on changing the nature of the state, now within a changed context of an increasingly isolated king. It went beyond previous efforts by also addressing the security situation. After the ceasefire of 3 September 2005, the *12-Point Understanding between SPA and CPN-M* of 19 November 2005 defined the key principles for a peace and constitution building process. The *12-Point Understanding* reiterated the CPN-M's end goal of economic transformation through changing the state. Point 1 says that "(...) without establishing absolute democracy by ending autocratic monarchy, there is no possibility of peace, progress, and prosperity in

the country". Thus, the *12-Point Understanding* follows the Maoist approach to economic issues as an "end" and therefore the need to sequence systemic change of the state before economic transformation.

The peace process further evolved with the *25-Point Ceasefire and Code of Conduct* of 26 May 2006, the *8-Point Agreement between CPN-M and SPA* of 16 June 2006, and the joint request to the United Nations to monitor arms and armies of 10 July 2006. The *25-Point Ceasefire* did not substantially address economic issues except in reference to the creation of an environment for the smooth functioning of industrial institutions, and the prohibition of involuntary fundraising (Point 12 and 15).

The first substantial trace of economic issues emerged with the *Decisions of the Summit Meeting of the Seven-Party Alliance and the Communist Party of Nepal (Maoist)* of 8 November 2006, occurring just a few weeks before the signing of the CPA. This document included general principles on the abolition of feudalism, land reform, economic policy, employment, land and socioeconomic security, anti-corruption, development planning, and professional rights. These principles are nearly identical with those included in the CPA and suggest that the government, the CPN-M, and the SPA had developed a set of common interests on these economic provisions, or that the CPN-M and SPA had the ability at this point to impose these provisions on the government.

Whatever the reason, the economic provisions in the CPA represented a minimum agreement on economic principles. From the perspective of the CPN-M, they reveal a degree of similarity with the *40-Point Demands*. However, important differences still remained. For example, the *40-Point Demands* were more explicit and left-leaning in orientation. In contrast, the CPA's economic provisions are broader and represent a lowest common denominator for Nepal's future economic structure. Most leftist demands, therefore, failed to be included in the CPA.⁹ Illegal property seizure or capture was even outlawed (art. 7.5.5.).

The above analysis suggests that there may have been a tacit agreement in the 2006 peace process to delay substantive engagement on economic issues. Changing the nature of the state and addressing the security situation were the central substantive components of the peace negotiations. Such sequencing underlines that the CPA was part of a step-by-step peace process in which it was agreed that the political system needed to change before addressing socio-economic inequalities. In such a way, the management of economic issues were delegated to the realm of "normal politics" within a new political framework.

Postponement may also have been a means to prevent friction between the negotiating parties, as well as within the Maoist movement. A discussion on detailed economic provisions would most probably have led to a fundamental discussion on the future determinants of Nepal's economy. The ideological antagonisms created through such a debate would likely have increased friction within the CPN-M, the political parties and the government at a time when cooperation between them was crucial. Capitalist development was a sensitive issue between ideological hardliners and political pragmatists. The postponement of economic issues therefore allowed CPN-M cadres to delay coming out in support of capitalist development and thereby helped to foster unity within the CPN-M as the realization of key political objectives came closer.¹⁰

Nepal's post-conflict transition and economic recovery

With the multiplication of donor activities in post-conflict and fragile contexts, there has been a growing interest in the continuities and transformations underlying post-conflict transitions. In this context, peacebuilding can be viewed as a series of overlapping phases that are generally perceived to be necessary in order to achieve a lasting peace. As post-conflict transitions develop over the long term, they inherit flaws from previous phases, including from issues that have previously been left unresolved in order to ensure an agreement or an end to armed violence. Hence, the question remains whether moving "upstream" into the peace process may help support and consolidate post-conflict transitions, prevent conflict recurrence and contribute to violence reduction in post-conflict settings.

The signature of the CPA represented a milestone in Nepal's peace process. However, rather than the end of a process, it signalled the beginning of a period of intense political transformation that included parliamentary elections, the abolition of the monarchy, and the election of former rebel leader Pushpa Kamal Dahal "Prachandra" as Prime Minister of Nepal. In parallel, the interim government negotiated individual agreements with minorities that included provisions on issues such as political participation, relief and compensation, and cultural recognition.¹¹ The United Nations was mandated by UNSC Resolution 1740 of 23 January 2007 to monitor arms and armies, and provide technical support for the elections. The political and military dimension again dominated the agenda while economic issues only became an issue after a new government had been elected in summer 2008.

Economic issues after the CPA

The CPA had few positive economic consequences. Frequent strikes, road blocks, and local industrial actions made it difficult for companies to operate normally.¹² At the political level, the focus was on the achievement of the political goals while nothing was simultaneously undertaken to develop a joint vision on economic development despite a grave economic situation. The dire economic circumstances continue to be illustrated by Nepal's chronic food insecurity with an estimated 41 per cent of the population suffering undernourishment (FAO and WFP, 2007, p. 7).¹³

A serious problem for the CPA's implementation was the continued existence of a CPN-M parallel administrative structure in rural districts. The CPA committed the CPN-M to return government, public and private buildings, land, as well as other properties, and to adopt a programme of land reform beneficial to socially and economically disadvantaged groups. The unwillingness of local Maoist cadres to honour the commitment made by the CPN-M leadership was a strain on the peace process and local communities. In some cases, local cadres even seized new property (UNSC, 2007, p. 2-3). In addition, the continued practice of extortion and taxation in some areas contributed to the increase in violence in late 2007 and was a reflection of the 'forceful assertion by the CPN-M of its parallel structures in a significant portion of the country' (UNSC, 2008a, pp. 8-9).

Economic recovery was particularly illusive in the *Terai* where an uprising of the Madhesi People's Rights Forum for more political representation occurred in early 2007. This led to the closure of markets, shops, and transportation links for weeks and saw violence against government and CPN-M offices with an estimated 50 dead between 19 January

and 21 March (Hatlebakk, 2007, pp. 1, 20; see also ICG, 2007). The political turmoil and the relative political and security vacuum in some southern districts also further entrenched established smuggling networks (Bharadwaj et al., 2007, pp. 44).

The economy only became an issue after the parliamentary election in April 2008. The first activities taken towards economic recovery started with the *Three Year Interim Plan* of December 2007 that provided an outline for the economic transformation of Nepal. Strategies of economic development were further developed in a survey of the Ministry of Finance in July 2008, the presidential address on the government's policies and programmes, and the state budget for 2008/2009 (GoN-MoF, 2008a; Yadav, 2008; GoN-MoF, 2008b). The budget is said to represent a logical conclusion of the peace process and an economic framework for a socialism-oriented industrial capitalism. It highlights public-private partnerships and sets development priorities in agriculture, water, tourism, infrastructure, human resources, and industrialization (GoN-MoF, 2008b, pp. 1-2, 7-8).

The lost opportunities of neglecting the economic dimensions in the peace process

Even though economic issues had been an important catalyst for Nepal's civil war, they were at best a side issue during the negotiations and subsequently neglected in the two years following the CPA. The focus of Nepal's peace process on the political and military dimension had some specific consequences. Widespread poverty and socio-economic inequalities remained a defining feature of Nepal's economy, while local CPN-M cadres have entrenched themselves in local or district economies. With the CPN-M now in government and the political transformation nearly completed, the Maoists face high expectations to delivery on their promises of socio-economic transformation, dating back to the early 1990s. In line with Maoist ideology, the CPN-M leadership could excuse the lack of immediate socio-economic progress by pointing to the prior need for political change.

With the political achievements of the Maoists after the CPA, however, postponing economic recovery is no longer possible. As CPN-M leaders and followers are coming to terms with their victory, comparatively little had been prepared by 2007 for negotiations on socio-economic transformations and ending feudalism.

There were some opportunities to include economic issues in previous negotiations. At the end of the 1990s, the CPN-M used the existence of economic inequalities to build a broad based movement that appealed to marginalized populations and cut across ethnicity, caste, and gender. In 2003, an emerging common ground on economic issues failed to materialize as the CPN-M insisted on maintaining their discourse monopoly on economic inequalities. Accepting negotiations on economic issues was likely to have adversely affected their mobilization capacities. The deterioration of the negotiation environment also prevented constructive engagement on economic issues. In 2006, there was an implicit agreement to postpone any discussion on economic issues. Postponement reflected the nature of Nepal's peace process as a step-by-step process, and the Maoist view that fundamental political change should precede socio-economic transformation.

In at least three ways, the inclusion of economic issues could have made a constructive contribution to the post-agreement phase:

- Labour creation and vocational training opportunities could have supported the demobilization of the PLA and the RNA. While most PLA members were promised a role in the new armed forces of Nepal, prolonged cantonment and delayed security sector reform strongly underlines the need for alternative and meaningful employment opportunities.¹⁴

- Economic compensation or assistance packages for conflict-affected populations may have provided a means to construct relations with marginalized communities. These could have been used to reduce post-conflict violence and diffuse tensions on political representation.
- Greater involvement by the business sector and the promotion of business unity in the peace process could have created a constituency for peace and facilitated a more speedy economic recovery. Both the CPN-M and the government needed the business community and a functioning economy because both relied on business as a source of financing. The potential influence of business for the peace process was, however, only realized by the business community itself at a late stage in the conflict (Dhakal and Subedi, 2006, pp. 426-427)

The neglect of economic issues also poses a future threat to Nepal's political transition. The evolving discussion on economic reform in late 2008 highlights the risks of friction between the political parties on economic issues. The United Nations has emphasized that the unity of the SPA is a fundamental requirement for the success of the peace process (Martin, 2007). The CPN-M government has attempted to bridge Maoist and capitalist development in the 2008/2009 budget. However, much of the programmatic orientation resembles previous Maoist economic programmes and provides a target for political opponents of the CPN-M (Pathak and Horning, 2008). Discussions on the future direction of Nepal's economy may therefore hold the potential to fracture established relationships rather than promote unity.

The CPN-M is under pressure to deliver on economic change in order to satisfy the expectations of the public for a better life. The CPN-M's strategy is to provide immediate relief through high public expenditure. Such a strategy depends on its ability to generate revenue, attract foreign grants, and manage the budget deficit. By targeting economic recovery, the CPN-M faces pressures to succeed in order to legitimize itself in the eyes of the population. This weakness is the main source of friction. The CPN-M's political opponents may instrumentalize the CPN-M's dependence on economic success by undermining its economic plan. This would most certainly affect the relative unity between the SPA and the CPN-M. The control of the bureaucracy by the National Congress could be a powerful tool to block implementation of economic reforms and weaken the CPN-M (Pathak and Horning, 2008, pp. 7-8). Economic reforms may also lead to internal friction in the Maoist movement. The compromise with capitalist development may push some traditional Maoists away from the leadership. This process may be paralleled by the emergence of splinter groups if economic reforms would entail a real (or perceived) loss of entitlements by CPN-M cadres in local parallel administrative structures.

These centripetal would forces occur in the context of an already weakened unity between the main political actors. The abolition of the monarchy, the postponement of the elections, and the campaigning for the April elections has reduced the possibility of reaching an agreement on a joint endeavour. Much of the future success of the peace process now depends on whether the CPN-M and the political parties are able to define a joint economic vision for Nepal and manage spoilers. There may have been much to be gained for the peace process if the elaboration of such an economic vision had commenced as part of a parallel track during the peace process. A discussion in a small, informal format – while the unity between the various negotiating parties was stronger – could have worked off the emerging common ground that had existed in 2003. Such a parallel track could have bridged the ideological divides, and prepared Nepal for pragmatic responses to its developmental challenge.

Conclusion

This case study contributes to an evidence base on the role of economic issues in peace processes. It looked at the engagement of the CPN-M, and how the inclusion of economic issues in peace processes can support post-conflict transitions. In terms of the engagement, the case study showed that proper diagnostics of the organization of armed groups can be used to assess their attitude towards peace processes, and help inform third party involvement. The CPN-M engaged in the 2001 peace process with a solid financial backing that allowed them to gain tactical flexibility in order to strengthen their administrative structure and recruitment. The financial situation also allowed the CPN-M to use the threat of force as a credible tool in the peace process. In 2003, the engagement of the CPN-M was partly related to a lack of revenue sources as higher expenses and declining revenues took their toll. While other factors also played a role – such as military pressure, international isolation, and mutual self-interests in a cease-fire – a focus on the organizational constraints of armed groups helps identify the tactics underlying the participation in a peace process.

In terms of the management of economic issues in the peace process, the case study highlights the following:

- The postponement of economic issues was a strategy to ensure agreement on political and military issues. Parties in the peace process focused on changing the structure of the state from a centralized monarchy to a democracy with a constitutional assembly including a new constitution. Delaying economic issues had the purpose of safeguarding political achievements, and was consistent with Maoist ideology that conditioned socio-economic transformation on systemic political change.
- The inclusion of economic issues is likely to have risked the political achievements of a peace agreement. Technical discussion on land reform, economic policy, or labour rights may have increased divisions between the parties at a time when unity was more important. Ultimately, the CPA included vague economic principles that were to be detailed in a process of “normal politics” after the political transformation was completed.
- The management of economic issues in peace processes depended on their function within the organization of an armed group. The CPN-M used the issue of economic inequalities as part of their ideological framework. Socio-economic transformation was an end goal that was reachable by means of systemic political change. However, they also used economic inequalities to mobilize recruits. This is why the CPN-M refused the government's economic proposal in 2003. Acceptance would have undermined the discourse monopoly held by the CPN-M and their mobilization strategy.

While prioritizing the political dimension in the peace process ultimately led to the CPA, it also had (unintended) side effects. Two years after the CPA, the relative neglect of economic issues during the peace process complicates Nepal's post-conflict transition. Risk factors include the danger of public disillusionment in the absence of economic progress, and the increase of friction between the political parties. Friction over economic issues may also delay agreement on a new constitution. Finally, opponents of the CPN-M may obstruct economic recovery to limit their political power. In hindsight, therefore, not including a parallel track on economic issues early in the peace process has been a lost opportunity to strengthen Nepal's post-conflict transition. Opportunities may have been derived from labour creation and training programmes to support demobilization, compensation to minorities and conflict affected populations to build confidence, and the promotion of unity in the business community to act as constituency for peace.

In conclusion, the case study also highlights the futility of calling the abandonment of a peace process a “failure”. The CPA could not have been reached without the peace processes of 2001 and 2003. In 2001, Prime Minister Deuba opened the political sphere to manage Nepal’s civil war and thus provided an alternative to military strategies. The subsequent CPN-M institutional transformations enabled the deepening of this political track. The 2003 negotiations brought about concrete position papers with some elements being taken up in 2005 and 2006. The public campaigns of the CPN-M during the 2003 peace process contributed to a public discussion on the need for a constituent assembly while opposition against the king was growing. These tendencies contributed to the alliance between the SPA and the Maoists. Thus, peace agreements do not just develop out of blue but refer back to existing achievements of previous negotiation rounds. The identification of baseline contributions to future negotiations may therefore be an important criterion to evaluate peace processes.

Endnotes

- 1 During the peace process, the Maoists fostered their support base by creating the United Revolutionary People's Council (URPC) as a new political platform. They also held large public gatherings to find new recruits and expand the PLA, and addressed autonomy demands of some ethnic groups (Upreti and Dhungana, 2006, pp. 220-221).
- 2 Estimate converted from 5-10 billion Rupees with the exchange rate of 70 Rupees = 1 USD (Exchange rates are cited in ICG, 2005, p. 17).
- 3 Estimate converted from 10 million Rupees in the source (ICG, 2005, p. 17). It is also known that the maintenance cost of a Maoist fighter was about USD 250 per year. Assuming 7,000-10,000 active fighters, the annual cost would amount to between USD 1.75 million and USD 2.5 million, thus suggesting the cited figure to be a good approximation (ICG, 2005, p. 17; Bray et al., 2003, p. 121). Maoist leader Dev Gurung has posited that the PLA's annual expense for administrative structures additionally amounted to USD 15 million (ICG, 2006, p. 6).
- 4 Estimate converted from 5 billion Rupees with the exchange rate of 70 Rupees = 1 USD (Exchange rate cited in ICG, 2005, p. 17). This figure is consistent with the estimated income of between USD 71 million and USD 143 million in 2000 (Mahat, 2005, p. 323).
- 5 This transformation was a gradual process which evolved from 2001 onwards and was informed by the experience of other rebel groups – such as the Shining Path in Peru – and the recognition that the king was the problem rather than the political establishment in its entirety (Bragtvedt, 2007, p. 56-57).
- 6 For an overview of this literature see Arnson (2005) and Humphreys (2003).
- 7 Economic issues featured as one element among other issues on an agenda for change. Other points relate to sovereignty, the monarchy, democracy, elections, a popularly elected government, political parties, self-governance, national referenda, opportunities for self-development, ethnic and gender inequalities and discrimination, checks and balances, and national interest as a base for foreign policy.
- 8 On 17 August 2003 – the very day of the beginning of the peace negotiations – the RNA attacked the town of Daramba. About 60 RNA troops captured 20 people of which 18 had alleged links to the Maoist movement. The group was led into the country side where 19 were executed (ICG, 2003, p. 5).
- 9 Excluded left wing demands were land and property confiscation and redistribution, nationalization, the linkage of wage increases to inflation, unemployment allowances, free health and education, the rehabilitation of homeless, the exemption of farmers from loan repayments, and the provision of markets and fair prices for farmers, as well as basic infrastructure to villagers.
- 10 Conversation with Judith Large, Berghof Foundation, Berlin, 5 September 2008.
- 11 Individual agreements were signed between the government and the Janajatis (7 August 2007), the Madhesi People's Right Forum (30 August 2007), the Chure Bhawar Pradesh Ekta Samaj (13 September 2007), the National Badi Rights Struggle Committee (15 October 2007), the United Democratic Madhesi Front (28 February 2008), the Federal Republic National Front (2 March 2008), and the Federal Limbuwan State Council (19 March 2008). For the full text of these agreements, see <http://www.unmin.org.np/?d=official&p=peace> (accessed 10 October 2008).
- 12 Conversation with Padma Jyoti, Chairman, Jyoti Group, Berlin, 4 September 2008.
- 13 Undernourishment is defined as a calorie intake inferior to 2,124 kilocalories per day (FAO and WFP, 2007, pp. 4).
- 14 Conversation with Padma Jyoti.

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About the author

Dr. Achim Wennmann is a Researcher at the Centre on Conflict, Development and Peacebuilding (CCDP) of the Graduate Institute of International and Development Studies, and has directed the project, *Economic Issues and Tools in Peace Processes*, since its inception in 2006. His research interest extends to the economic characteristics of armed conflict and conflict dynamics, especially in relation to the financing and mobilisation cost of armed conflict and violence, and their costly effects. Previously, he has worked on conflict financing, conflict economies, and transnational organised crime networks, as well as peacemaking in the South Caucasus. Other current research looks at international cooperation in fragile states and armed conflict situations. Selected publications are:

- "Getting Armed Groups to the Table: Linking the Political Economy of Conflict with Peace Processes." *Third World Quarterly*, Vol. 30, No. 6 (forthcoming 2009).
- "Economic Provisions in Peace Agreements and Sustainable Peacebuilding." In *Négociations*, No. 11 (forthcoming 2009).
- "Conflict Economies." In Vincent Chetail, ed. *Post-Conflict Peacekeeping: A Lexicon*. Oxford: Oxford University Press (forthcoming 2009), pp.74-91.
- "The financing of non-state armed groups: Combining the availability of revenue sources and the cost of conflict" In *Contemporary Security Policy* (forthcoming 2009)"
- "The Political Economy of Conflict Financing: A Comprehensive Approach Beyond Natural Resources" in *Global Governance*, Vol. 13, No. 3 (2007), pp.427-444.
- "Resourcing the Recurrence of Intra-state Conflict: Parallel Economies and Their Implications for Peacebuilding." *Security Dialogue*, Vol. 36. No. 4 (2005), pp.479-494.

In 2008, Achim Wennmann was also co-editor (with Keith Krause and Robert Muggah) for the Geneva Declaration Secretariat of the *Global Burden of Armed Violence Report*.

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Annex: project background and conceptual remarks

This working paper is part of the current project on *Economic Issues and Tools in Peace Processes* that the CCDP is conducting for the Swiss Federal Department of Foreign Affairs. The project has two specific objectives: to explore the opportunities and limitations for peace process management deriving from an economic perspective on armed conflict; and to assess if and how the inclusion of economic issues in a peace process can support post-conflict transitions. A better understanding of the economic dimensions of peace processes promises uncharted opportunities for the planning and management of peace processes and contributes to mediation support initiatives at the national and multilateral levels.

The project defines peace processes as “measures deployed to resolve differences, and settle disputes or conflicts, through diplomacy or other methods of peaceful settlement rather than violence” (Ramcharan, forthcoming 2009, p. 228). The use of the term “peace processes” relates to the period from the engagement of armed groups into peace initiatives until the completion of a peace agreement that ends the violence between the main protagonists of an armed conflict. It therefore connects to an understanding of peace processes as a strategy to end armed conflict. In contrast, the term “post-conflict transitions” refers to the period after a peace agreement in which the antagonists seek to find resolution of their differences. The distinction between conflict and post-conflict is useful analytically because the ending of armed violence is a major qualitative difference that frames external assistance and opportunity structures.

The term “economic issues” relates to “political economy” which captures “the parallel existence and mutual interaction of ‘state’ and ‘market’ in the modern world” (Gilpin, 1987, p. 8). This interaction is based on the theoretical starting point that “market” and “state” logic are in fact independent. The former is concerned with the location of economic activity where it is most productive and profitable; the latter is about the capture and control of economic growth and capital accumulation (Heilbrunner, 1986, pp. 90-91). Political economy places the focus on the interaction of these logics and their mutual effect on the other. The work of Paul Collier and colleagues, for example, assumes the independence of “market” logic, while Michael Pugh and Neil Cooper adopt a political economy perspective (Collier et al., 2007; Pugh et al., 2008). While the application of a political economy approach may appear limited to contemporary armed conflict due to the absence or fragility of the state, it is nevertheless important; rebel groups and patrimonial networks often use a “state” logic to control the economy and territory – such as is the case in de-facto states – while using a “market” logic to maximize their gains – such as in warlord politics (Pegg, 1998; Reno, 1998).

Economic issues are part of backward and forward looking functions of peace processes. The former relates to past violence and injustices, and captures economic causes or drivers of conflict. Issues can include natural resources management, the reduction of socio-economic inequalities, or the compensation of victims for past atrocities. Economic issues can also be part of forward looking functions of peace processes that define new political, economic, or societal foundations. Important economic elements include frameworks for new economic institutions, employment creation, or land reform. In this sense, the first objective of the project connects to the backward looking functions of peace processes, the second to forward looking functions.

Nepal, Sudan (north-south), and Indonesia (Aceh) have been selected as case studies because they all had important economic components as key issues of incompatibility or conflict drivers. In Nepal, these included socio-economic inequality; and in Sudan and Aceh, the control and management of natural resources and different degrees of (economic) autonomy. The choice has also been influenced by the available evidence on the peace processes and post-conflict transitions. The case study approach has additionally been selected in order to develop a context-sensitive understanding of the treatment of economic issues in peace processes. Such an approach is conducive to analyzing the overlap between the economic political, military, social and other spheres, the independence of which is difficult to determine completely.

The publication of the three case studies closes the second stage of the project, which now look closer at the specific role of economic tools in peace processes. These tools include income sharing arrangements, private sector investment, and development assistance. Findings from this final stage of the project will be distilled into a series of upcoming CCDP Issue Briefs.

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