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**Asia in 2025:
Great power rivalry, contested politics,
and global disorder**

viella



CENTRO STUDI PER I POPOLI EXTRA-EUROPEI “CESARE BONACOSSA” - UNIVERSITÀ DI PAVIA

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The Journal of the Italian think tank on Asia founded by Giorgio Borsa in 1989

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NEPAL 2024-2025: POLITICAL UPHEAVAL, ECONOMIC CHALLENGES
AND MIXED FOREIGN RELATIONS

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The most momentous event that happened in Nepal during 2024-2025 was the youth protest and the violence that followed on 8-9 September 2025. The spark for the protest was the government ban on several social media platforms that had denied registering with Nepal's competent authority. But the undercurrents were mass discontent and frustrations with the major political parties for their self-centric behaviours that had resulted in the lack of effective governance and service delivery. Earlier issues of this Journal have explained this dynamic in Nepal until 2023. This article covers the period 2024 and 2025, examining the turn of events in Nepal's domestic politics, economics and international relations. This, besides providing an overview of the country's major developments in those two years, also helps readers understand whether some of those events also fuelled the youth movement and how the movement shaped some of the long-overdue political changes.

Keywords – Nepal; political change; economic challenges; Gen-Z movement; international relations

1. Introduction

This article discusses Nepal's major developments in 2024 and 2025, aligning with the aim and objectives of the current issue of this Journal. It explores issues in domestic politics, economics and international relations particularly in the context of the September 2025 youth movement in Nepal.

In September 2025, Nepal made global headlines. The reason was the fateful turn of events on 8 and 9 September sparked by a youth protest movement termed the Gen-Z protest. The protest, which started peacefully on 8 September, soon turned violent when the protestors attempted to storm the country's Parliament building. The police shooting that followed resulted in the immediate loss of 19 young lives and several injuries within a span of a few hours. This caused a massive outrage on the streets the same day and the next.

On 9 September, residences of several political leaders, irrespective of their parties' participation in the then coalition government, were set on fire. These included the houses of the three senior-most leaders, Sher Bahadur Deuba of the Nepali Congress, Pushpa Kamal Dahal (more popularly known as Prachanda) of the Communist Party of Nepal (Maoist Cen-

tre), and K P Sharma Oli of the Communist Party of Nepal-United Marxist and Leninist (CPN-UML), who was also the then-sitting Prime Minister. Sher Bahadur Deuba, a five-time ex-Prime Minister, and his wife Arzu Rana Deuba, the then-sitting Foreign Minister, were physically assaulted in their residences and had to be rescued before their house was set ablaze. The Prime Minister and his cabinet subsequently resigned and were rescued by the Nepal Army.

The assaults, however, were not limited to political leaders and their properties. There were arsons and lootings on several business people's residences and business establishments. The most egregious of all were instances of arson on vital state institutions, including the central secretariat building (Singha Durbar), the Supreme Court, the Parliament building, and the office and official residence of the President. Seventy-six people (including three police personnel) lost their lives, and 2,522 people (including several security personnel) were injured in the two-day violence.

Perhaps it will be unfair to attribute the vandalism, riots and arson of 8 and 9 September to all the organizers of the Gen-Z protest. There are strong possibilities of infiltration, and some individuals and organizations might have used it as an opportunity to create mayhem to fulfil their vested interests. Nonetheless, the protest on 8 September provided the backdrop to what followed. Therefore, the fundamental question is, what caused the youth to take to the streets on 8 September?

The main reason was the ban on 26 social media platforms that had defied the Government of Nepal's order to register with the communication ministry. But it was «only a spark in the pent-up frustration with corruption, bad governance, political instability, nepotism, unemployment and other problems in the country».¹

Nepali people's frustrations with and anger against the political leaders, particularly Deuba, Oli and Prachanda, was abundant on social media platforms. Occasionally, people had also resorted to sloganeering against them during public events [Bam 2024, 6 November; Karki 2024, 20 September; Republica 2023, 21 March].

The student protest, bloodshed and the fall of the Sheikh Hasina regime in Bangladesh in July 2024 should have been a wake-up call to Nepal's political leaders. There had been assessments in Nepal that people's rising frustrations could pose serious challenges to the country [Poudel 2024, 1 September]. Experts and some political leaders had been wary of people's growing discontent [The Kathmandu Post 2025, 16 April]. But the senior leaders were under the illusion that the situation was under their effective control.

The decades of hard struggles of Nepal's senior political leaders to achieve democracy in the country and their resolve and ability to address

1. For a more detailed analysis of 8-9 September events in Nepal, see P. Sharma 2025, 17 September.

several challenging problems in unison should not be discounted [Thapa and Sharma 2009]. The country has also achieved progress in several socio-economic areas over the years [Hatlebakk 2017]. Nevertheless, political instability, elite capture of state institutions, corruption and lack of good governance are some of the factors that have overshadowed the leaders' earlier contributions and the country's progress, and fuelled people's discontent.

As analysed in further detail in Section 2 under «Domestic Politics», collusions and divisions among the three septuagenarian leaders fomenting political instability had antagonised the Nepali people. Adding to this were cronyism and corruption scandals that made news headlines frequently. The youth movement dismantled several aspects of Nepal's politics for the better, but at a high cost.

There were also some socio-economic factors that aided the emergence of the movement, which I discuss in Section 3. Although the country's macro-economic fundamentals appeared strong enough with adequate foreign exchange reserves and low inflation, there was subdued economic growth and lack of employment opportunities. The building of foreign exchange reserves was a result of the remittances that Nepali migrant workers abroad sent home routinely. The narrative that Nepal's political class enjoys life at home exporting the country's youth had been firmly established.

While Nepal's Gen-Z movement appears very much as a spontaneous revolt by the youth, K P Oli has also claimed that external forces were at play in the movement, but without concrete evidence [Khabarhub 2025, 15 October]. What could be true, however, is that the dislodgement of Nepal's government under K P Oli might have been received positively by the external actors who had a longstanding antagonistic relationship with Oli.

I analyse Nepal's foreign relations in 2024-2025 in Section 4, not from the perspective of the youth movement per se, but because the topic is important and deserves space in a review article of this nature. The three countries that are strategically the most important for Nepal are India, China and the United States. Hence, I review Nepal's relations with these three countries.

As a review article covering Nepal's contemporary developments in 2024-2025, the article largely relies on materials published in Nepal's established media outlets although it also draws from academic and other sources where available.

2. *Domestic Politics*

One word that would describe Nepal's domestic political scene during 2024-2025 is instability. There were frequent government changes, building of unholy coalitions and squabbles within the political parties. These

were accompanied by several allegations of corruption. There were also unsuccessful attempts at restoring the monarchy and Nepal's recognition of a Hindu state. Senior political leaders had been warned time and again, including by leaders within the political parties, of the storm that was in the making due to poor governance and service delivery. Efforts to compel the senior leaders to mend their ways had been routinely unsuccessful. The country had to wait for a violent Gen-Z movement to instigate the changes. I elaborate these developments in the following sections.

2.1. *Business-as-usual politics*

Before the Gen-Z movement, Nepal held its last general elections in November 2022. In the three years since then, there were four government changes. The first two were headed by Prachanda of the CPN (Maoist Centre) by shifting alliances, first with the Nepali Congress and then with the CPN(UML). Despite being the leader of the third largest party in the lower house of parliament, Prachanda was able to retain his Prime Ministerial berth with the «magic number», as he used to say with pride, he had in the lower house [Nepal Views 2024, 16 November].

Then, in July 2024, Deuba and Oli ditched Prachanda to forge a «grand coalition» between the Nepali Congress and the CPN(UML). A coalition of the two largest parties that were the main rivals in Nepali politics was unusual. The understanding between Oli and Deuba was that the former would become the Prime Minister for the first two years after which Deuba would take charge. For the Nepali people, such unholy coalitions, bereft of ideologies, were nothing more than the leaders' efforts to consolidate power that they had been accustomed to for decades.

Deuba became a member of parliament for the first time in 1991 and was appointed Minister of Home Affairs [Deuba 2026]. He became the Prime Minister for the first time in 1995. Subsequently, he held the Prime Minister's position four more times, the latest in 2021 [Aljazeera 2021, 13 July]. Had the 8-9 September 2025 event not taken place and Deuba had become the Prime Minister again as per his agreement with Oli, it would have been his 6th premiership.

Similarly, Oli first became a minister (also Home Affairs) in 1994, Deputy Prime Minister in 2006, and Prime Minister in 2015. In between 2015 and 2025, he held the Prime Ministerial berth four times, albeit for short periods in each term, as in the case of Deuba, because of the making and breaking of coalitions.

Regarding Prachanda, after the end of the 10-year Maoist insurgency that he had spearheaded, he became the Prime Minister for the first time when his party, the CPN (Maoist), became the largest party in the first Constituent Assembly elections in 2008. He again took that role in 2016 and 2022.

The three leaders had also been their respective party's top brass for a very long time, indulging in all sorts of strategies to retain their leader-

ship positions. Therefore, these three leaders' grip on power, forging of unethical alliances, and political instability during the past 2 to 3 decades had utterly frustrated the Nepali people. This was reinforced by constantly changing coalitions and political instability, including at the provincial levels, which continued in 2024-2025 [Tiwari 2024, 23 January; Gautam & Shah 2024, 5 April].

Power consolidation by a few leaders, reinforced by a small group of cronies, distanced the leaders away from the general people and the real problems on the ground. The senior leaders resorted to the use of different strategies to hold on to power, thus rendering challenges to them from within their parties unsuccessful. For instance, in the CPN(UML), Bidhya Devi Bhandari, who used to be a CPN(UML) leader before serving as the country's president for two full terms from 2015 to 2023, made efforts to return to her previous party a few years after completing her terms as the country's president. This was driven by her desire to replace Oli and become the CPN(UML) chair. But considering the threat to his leadership, Oli applied all strategies to keep her from re-joining the party.

If the party's statute was to be followed through, Oli would not consider Bhandari as his threat because, as per the statute, he would have to step down as the party chair soon after completing two terms in that role and crossing the age of 70. However, he had something else in the plan. In the party's statute convention held in September 2025, right before the Gen-Z protest, he managed to garner enough support in the party to amend the statute and remove the provisions on two-term limits and the retirement age of 70. In the party convention held in December 2025, he re-emerged as the party chair once again, for a third term. This was broadly construed as the CPN(UML) ignoring the Gen-Z movement and its implicit calls for retirement of the old guard.

Bidhya Bhandari's desire to return to active party politics was not welcomed by a large section of the Nepali people. As the country's president, she had been the ceremonial head of the state and everyone's guardian. At the same time, Oli's strategy of consolidating power was also resented by many. Perhaps Oli honouring the party's statute and effecting a leadership transition faithfully rather than strategizing to consolidate power might have discouraged the ex-president too from desiring to re-enter active politics.

Although a former president failed to re-enter party politics despite her desire and efforts, a former vice president made it through. Nanda Kishore Pun, vice president of Nepal from 2015 to 2022, was a leader of the CPN (Maoist) before his appointment as the country's vice president. After the completion of his second term in 2022, he started engaging with his previous party informally in the beginning and was appointed the party's vice chair in April 2025 [Nepal News 2025, 6 April]. This was not unconstitutional, but it was unethical. Activities such as these of the political party leaders had enraged the people.

Sensing people's disenchantment with the political parties that had abolished the monarchy in Nepal, pro-monarchy forces attempted to regain their foothold with the aim of re-establishing the monarchy and a Hindu state. Efforts towards this had gained momentum after the former King, Gyanendra Shah, made an appeal in February 2025, although implicitly, for the same [P. Sharma 2025, 15 May]. The demonstration that was organized in March 2025 in response to the appeal turned violent and claimed two lives, including that of a journalist. However, the movement since then has remained weak, partly because of the feuds within and between the political parties and individuals that have spearheaded efforts for the restoration of the monarchy.

Nepali people's frustration with the established old parties was rather capitalised by the newer parties that had appeared on the country's political scene. The Rastriya Swatantra Party (RSP) in particular, that was established in 2022, had gained unprecedented ground in no time. However, the newer parties were also mired in problems and controversies since their emergence, which continued in 2024-2025.

The RSP, which had emerged as the fourth largest national party in the 2022 elections immediately after its establishment, expelled its General Secretary and Spokesperson, who was a prominent founding member of the party with immense influence, in August 2024 [The Kathmandu Post 2024, 27 August]. He was alleged to have publicised a report that he had authored by collecting people's feedback in several places across the country before discussing it in the party. The report had highlighted the party's weaknesses and its challenges, implicating several leaders, including the party chairman.

As if the intra-party intrigues within the RSP were not enough, the RSP Chairman, Rabi Lamichhane, was arrested in a cooperative fraud case in May 2024. This had followed the report of a probe committee consisting of members of parliament representing the four largest parties. The committee was formed to investigate the case after continuous obstructions of house proceedings by the opposition, Nepali Congress, for more than a month while Lamichhane was Deputy Prime Minister and Home Minister in a coalition government [Giri 2024, 29 May]. The committee had found Lamichhane's indirect involvement in the case. After the formation of a new coalition government in August 2024, a court case was filed against Lamichhane based on the committee report and further investigations by the police.

The case involved cooperative organizations based in several districts, and therefore Lamichhane faced trials in different district courts. Upon preliminary hearings in the case, the courts could not ascertain his innocence. Until they reached a final decision, which would take time, some of the district courts freed him on bail while the others sent him to custody. The Supreme Court also backed the lower courts' rulings of keeping him behind bars until the final verdict [Khabarhub 2025, 24 May].

A significant amount of other RSP leaders' time went into defending Lamichhane and engaging in several activities calling for his release. They were even alleged to have engaged in contempt of the court [The Kathmandu Post 2024, 13 November]. The RSP, organizing a signature campaign to demonstrate people's support for Lamichhane, perhaps with an intent to influence the court's decision, showed an act of desperation [The Kathmandu Post 2025, 22 July]. The RSP came under even sharper scrutiny when, amidst the Gen-Z protest, Lamichhane was broken free from jail by his supporters. This prompted several jailbreaks and the fleeing of thousands of inmates across the country [Republica 2025, 10 September].

Lamichhane's arrest and his jailbreak dented his and the RSP's image to some extent but not substantially. A large section of the people believed that Lamichhane's arrest had been framed by the older parties. An important factor that gave Lamichhane and the RSP an edge over the older parties involved the various corruption scandals that were tagged with the older parties and their leaders.

2.2. *Corruption scandals*

Besides several petty-level instances of corruption, a few high-profile corruption cases emerged in 2024-2025. Prime Minister K P Oli had earlier made some amendments in the Lands Act in favour of a large tea estate, which the Supreme Court in February 2024 annulled, ruling it as against the law [Sah 2024, 8 February]. The Oli government's action of making the amendments in the Lands Act in favour of a company was interpreted as an act of corruption [K.C. 2024, 22 May].

Then, on 5 June 2025, the Commission for the Investigation of Abuse of Authority (CIAA) filed a corruption case against a former Prime Minister, Madhav Kumar Nepal, again in a case related to land dealings [Baral 2025, 10 June]. He was charged with approving the sale of land by a private company against prevailing law.² The same month, police arrested Bechan Jha, a prime suspect in the Bhutanese refugee scam, in which several high-profile arrests, including that of a former Minister, had been made in 2023 [Setopati 2024, 18 August]. Arzu Rana Deuba too was alleged to have been involved in this scam, but legal proceedings against her were not made due to the lack of evidence as reported. The arson at her residence on 9 September 2025 destroyed a large amount of cash, it was alleged, and visuals of this went viral on social media, strengthening people's perceptions of her corrupt practices [Dahal & Dudraj 2025, 28 September].

2. Nepal's law has set limits on individual land ownership. But for industrial and commercial purposes, one is allowed to own excess land beyond the limit through state permission. However, such land should be used solely for the purpose it has been permitted for. The law prohibits the sale and other uses of such land permitted beyond the ceiling.

Another major corruption case that surfaced in 2025 was the one involving Nepali immigration officials. They were found to be extorting money from ordinary people and sending them for jobs abroad on short-term temporary visas. The Home Minister, Ramesh Lekhak of the Nepali Congress party, was also alleged to have been involved in this graft. The opposition obstructed the house, calling for his resignation and investigating him in the case [Giri 2025, 27 May]. While the immigration officials were arrested, the CIAA was said to have not found evidence against Lekhak to indict him. But in May 2025, the CIAA filed a corruption case against a former minister and lawmaker from the Nepali Congress party, Mohan Basnet, and 15 other individuals and two companies in the purchase of the Telecommunications Traffic Monitoring and Fraud Control System (Teramocs) by the Nepal Telecommunications Authority [The Kathmandu Post 2025, 15 May].

After the formation of the interim government by the post-Gen-Z movement in September 2025, the CIAA appeared to be more active in investigating and charging high profile individuals in different corruption cases. In October, it filed a charge against a former Speaker of the House, Krishna Bahadur Mahara, alleging his involvement in gold smuggling and organized crime [Bhandari 2025, 13 October]. Another case, which stands out in terms of the number of former ministers charged in a single case, is related to the construction of Pokhara Regional International Airport. Alleging involvement in collusion to inflate the costs of airport construction, breaching procurement laws and compromising construction quality, the CIAA filed a corruption case against 55 senior officials, including five former ministers (one of whom is already deceased), and the contractor, China CMAC Engineering, in December 2025 [Bhandari 2025, 16 December].

Allegations of corruption against K P Oli and his party, CPN(UML), also surfaced when Min Bahadur Gurung, owner of the Bhatbhateni Supermarket chain, donated a large tract of land and committed to constructing the CPN(UML)'s office building at his personal expense. Several leaders of the CPN(UML) were unaware of this and came to know about it only when Oli and Gurung together laid the foundation stone of the building. Accepting such largesse from an individual businessman was severely condemned by the intelligentsia, media and even some of the CPN(UML) leaders [Poudel 2024, 16 October]. This became such a scandalous topic that on 9 September, protestors set ablaze and destroyed 12 stores and vandalised and looted nine others out of the total 28 Bhatbhateni stores throughout the country [Lamsal 2025, 18 September].

Therefore, in 2024-2025, corruption remained a major issue in Nepal, and the CIAA indicted several individuals, including high profile ones. It remains to be seen however, what the court decides in these different cases. The CIAA has often faced the wrath of favouring political leaders and turning a blind eye in many corruption cases against them. The CIAA also does not have a good track record of presenting strong evidence in

court, resulting in a court ruling in favour of the accused [B. Sharma 2024, 14 January]. Whatever the legal outcomes of these high-profile corruption cases, they represent an important domestic political issue that has provided a fillip to a new political party.

2.3. *Gen-Z protest instigated changes*

Prior to the Gen-Z protest, some young leaders, particularly in the Nepali Congress and the CPN (Maoist Centre), had challenged Deuba and Prachanda, respectively, in internal party meetings and publicly, but they had not succeeded in enabling leadership transfer [Poudel 2024, 8 September; Rai 2025, 30 June]. The Gen-Z protest instigated changes in these parties, and in the CPN(UML), although in different ways.

Soon after the protests, Janardan Sharma, the Deputy General Secretary (DGS) of the CPN (Maoist Centre) asked Prachanda to resign as the party chair [Nepal News 2025, 16 September]. But he was unable to mobilise enough leaders to challenge Prachanda. As a result, Sharma himself resigned and joined another party. Prachanda, on the other hand, dismantled the party's central committee and scrapped all positions, including his own as the party chair. But he alone remained at the helm as the coordinator [Khabarhub 2025, 26 September]. Later, in their pursuit of survival, nine smaller communist parties merged with the CPN (Maoist Centre) and formed a new party, the Nepali Communist Party, accepting Prachanda's leadership [Reuters Connect 2025, 6 November].

In the CPN(UML) too, in the immediate aftermath of the Gen-Z movement, several party leaders suggested to Oli that he retire but to no avail [Karki 2025, 24 September]. Instead, Oli convened the party's general convention and got re-elected as the chair. Instead of retiring, he further consolidated his hold on the party.

In the Nepali Congress party, a partner in the coalition government under Oli, the change was historic. And that was despite Deuba's willingness. The relatively young party general secretaries and other cadres intervened in the party, and following due process organized and participated in the party's special general convention. The convention elected one of the general secretaries, Gagan Thapa, an influential leader and Deuba's longstanding challenger, as the party chair. The convention also made several changes in the party's policies. It was a significant shift in the Nepali Congress party triggered mainly by the Gen-Z movement.

Another major change in Nepal's political scene was the entry of Balendra Shah (Kathmandu's independently elected mayor, popularly known as Balen) in the RSP as the party's senior leader and the Prime Ministerial face in the general elections scheduled for 5 March 2026. Despite, or rather because of, the legal problems the RSP chair, Lamichhane, was embroiled in, RSP's support base had expanded over the years. Balen also has a huge popular support base. Therefore, his membership in the RSP and projec-

tion as the future Prime Minister exerted a huge pressure on the erstwhile political parties.

Therefore, Nepal's domestic political landscape of 2024-2025 can be described as one of rupture in a long-held business-as-usual politics. It is not that the coalition culture had all the pitfalls. Unlike in many other South Asian countries, coalition politics in Nepal was also the country's strength in navigating several complexities. For example, the peace process in Nepal had remained incomplete mainly because the law on transitional justice had not been revised and made effective. This was rectified in August 2024 when the major political parties reached an understanding on revising it. Subsequently, the law was revised and endorsed [Ghimire 2024, 15 August]. Furthermore, there were concerns with the revisions not being conducive to conflict victims. Despite the revision of the law, transitional justice remains elusive in the country [Ghimire 2024, 19 September].

With the changes that have followed the Gen-Z movement, it remains to be seen how Nepal navigates the complex political realities, and what changes it will usher in the Nepali economy and society at large. Ultimately, once the political dust settles, people's attention will immediately turn to socio-economic deliveries. And Nepal had a mixed performance on the socio-economic front in 2024-2025.

3. *Economic performance*

In the fiscal year (FY) 2023-2024, Nepal's real gross domestic product (GDP) growth rate was 3.67 per cent, a low figure for an economy with an already low GDP.³ The expected GDP growth in FY 2024-2025 was 4.61 per cent.⁴

The services sector occupies the largest share of Nepal's GDP (around 60 per cent), followed by agriculture (around 25 per cent) and industry (around 15 per cent). Over the past few years, the share of services has been on an increasing trend and that of industry decreasing. This trend continued in FY 2023-2024 and FY 2024-2025 as well. The share of manufacturing (within industry) has hovered around a mere 5 per cent. In a country where unemployment has been one of the main reasons for the youths' growing discontent and exodus, the underperformance of the manufacturing sector has been a major concern.

In the following sections, I analyse Nepal's economic performance in 2024-2025 in two parts: 1) trade, investment and foreign reserves; and

3. Nepal's fiscal year starts mid-July. The country's GDP at current price in FY 2023-2024 was just around US\$ 43 billion, and the nominal per capita GDP was US\$ 1,496.

4. Actual GDP growth rate of FY 2024-2025 was not available at the time of writing this article. In the earlier FY 2023-2024, the estimated GDP growth rate was 3.87%, which later was revised to 3.67%.

2) economic challenges, attempted reforms and impacts of the Gen-Z movement.

3.1. *Trade, investment and foreign reserves*

Although agriculture contributes around a quarter of the GDP, and around 60 per cent of the Nepali people still depend on it for employment, the country lacks enough agriculture output to meet its domestic requirements. In addition, underperformance in the manufacturing sector has resulted in Nepal experiencing massive trade deficits, which continued in the past two years (see Table 1).

TABLE 1: NEPAL'S MERCHANDISE TRADE (US\$ MILLION)		
	FY 2023-2024	FY 2024-2025
Export	1,370.9	2,258.5
Import	11,801.6	12,909.8
Trade deficit	10,430.7	10,651.3
Source: Nepal Rastra Bank 2025.		

Nepal's trade performance has seen fluctuations over the past few years, but it is mostly rising. The spike in its exports in FY 2024-2025 was significant. It was not, however, due to an enhancement of Nepal's domestic economic strength. Rather, it was a result of a change in India's import policy of some edible oil. When India imposed higher tariffs on imports of soybean and sunflower oil from other non-South Asian countries, Nepal benefited from the duty-free facility on these exports to India based on the Agreement on South Asian Free Trade Area (SAFTA). Nepal imported the crude form of these oils from other countries, added some value in refinement and packaging and then exported them to India [P. Sharma 2025, 30 July].

Nepal's rise in exports enabled by a change in India's trade policy has raised questions on the sustainability of Nepal's rising exports. Nepal also faced hurdles in exports of a few products such as cement, plywood and shoes, in which Nepal appears to have a competitive edge, to India in 2024 and 2025 [P. Sharma 2025, 21 March]. Because India is Nepal's largest trade partner historically, disruptions in bilateral trade between the two countries have a quick and significant impact on Nepal.

Nepal's exports to its another giant neighbour, China, is miniscule at 1-2 per cent of Nepal's total exports, although Nepal's imports from China are its second largest after India, at around 20 per cent. After India, Nepal's major export markets are the United States (US) and the European Union (EU). However, Nepal's exports to these economies pale in comparison with Nepal's exports to India. Yet, the exports, which comprise around 10-15 per cent of Nepal's total exports to each of these economies, are important for

Nepal particularly because the major products that Nepal exports to these economies are labour-intensive items such as textiles, garments and handicraft products that engage many women.

The Trump administration's imposition of reciprocal tariffs on imports of several countries after assuming the US presidency for the second time in January 2025 impacted these countries' exports to the US. However, Nepal was spared by being slapped with only the minimum 10 per cent because Nepal has a trade deficit with the US. Since most of Nepal's other South Asian neighbours faced higher tariffs, there were expectations that Nepal might even be able to benefit from the low tariffs its exports would face in the US. However, these expectations could not become a reality for several reasons.

An important milestone in Nepal's development journey, of which trade is an important and integral part, is its upcoming graduation from the LDC group in November 2026. While this is a feat worth celebrating for sure, it also brings some challenges, particularly the loss of preferential market access in Nepal's exports to some countries. Hence, in the aftermath of the Gen-Z protest, Nepal's private sector was demanding the Nepali government request the United Nations for yet another deferral from graduation, which Nepal had once made successfully in 2018 because of the lingering effects of the 2015 earthquake. However, as I have argued elsewhere, Nepal might not have a strong case for the request this time [P. Sharma 2025, 10 November]. It would be in the country's interest to move ahead and exit the LDC group.

An area where Nepal made encouraging progress in the past two years is hydropower generation and export. By the end of 2025, Nepal's installed hydropower generation capacity reached nearly 4,000 megawatts (MW). Although a small figure compared to Nepal's potential estimated at 43,000-83,000 MW, it is impressive progress made in the past few years. There are efforts underway to meet Nepal's expected generation of 28,000 MW by 2034.

In January 2024, Nepal and India signed a bilateral long-term power purchase agreement according to which Nepal would export 10,000 MW of electricity to India in the next 10 years. Nepal also became a net electricity exporter to India for the first time in FY 2023-2024. In addition to these encouraging developments, Nepal also started exporting 40 MW of electricity to Bangladesh via India under a tripartite agreement between the three countries [P. Sharma 2026].

To make further progress in its overall economic performance and exports, Nepal needs significant investments. As an LDC with limited financial resources and technological capacity, Nepal has been vying for foreign direct investment (FDI) inflows since the 1990s. However, for several reasons, Nepal has not been able to attract substantial FDI in the past three decades. This remained true in 2024 and 2025 as well. In FY 2023-2024 and

FY 2024-2025, Nepal's FDI receipts were US\$ 63.8 million and US\$ 88.4 million, respectively, which were less than 15 per cent of the committed FDI in those years [Nepal Rastra Bank 2025].

Amidst the gloom in the low level of actual FDI realisation, in July 2025, Nepal's Department of Industry approved a Chinese investment of US\$ 144 million to establish a buffalo meat processing industry in Nepal [Nepal Connect 2025, 22 August]. If successful, the project is expected to create more than 5,000 jobs in Nepal and export buffalo meat worth around US\$ 1 billion to China [B. Sharma 2025, 29 July]. Groundwork for the industry's establishment had commenced soon after the approval [People's Review 2025, 25 November].

Nonetheless, Nepal's cumulative FDI has remained extremely low. It has not contributed to enough job creation in Nepal and in attracting a large amount of foreign exchange and new technologies. For the necessary foreign exchange, Nepal's main source has been the remittances it receives from its citizens working abroad.

Despite the huge trade deficit and low levels of FDI inflows, Nepal's current account and balance of payment (BoP) remained in surplus in 2024 and 2025. Massive remittance inflows to the country, around a quarter of the country's GDP, have been the chief contributors for these surpluses. In FY 2023-2024 and FY 2024-2025, Nepal's net remittance receipts were US\$ 10.8 billion and US\$ 12.5 billion, respectively. Such remittance receipts have enabled Nepal to hold high levels of foreign exchange reserves that would be sufficient to import goods and services for more than 15 months. Therefore, Nepal's external economy remained robust in 2024 and 2025.⁵

Had it not been for foreign employment opportunities for Nepali youths, Nepal's political, economic and social conditions might be bleaker than they appear today. Lack of adequate employment opportunities at home might be a recipe for a bigger disaster. However, Nepali youths' exodus from the country is also resented by a large section of the Nepali populace. The exodus is blamed for the increasing abandonment of agriculture, but conversely, Nepali youths are abandoning agriculture because of low/no returns from the sector despite the hard toil. Therefore, foreign employment and remittances have been a lifeline for many Nepali households. Remittances have also been a cause for higher imports and trade deficit since they have fuelled a consumption-based economy.

3.2. Economic challenges, attempted reforms and impacts of the Gen-Z movement

Although there were some promising developments in Nepal during 2024-2025, there were also problems, particularly with the domestic economy [P. Sharma 2024, 22 July]. Efforts aimed at controlling speculative land transactions, which were a main propeller of the domestic economy, resulted in

5. The data in this paragraph are sourced from Nepal Rastra Bank [2025].

overall subdued general demand. Banks saw a rise in their non-performing loans (NPLs). Credit disbursements from banks reduced significantly despite a substantial fall in interest rates. The banks were flush with liquidity, which the central bank had to manage by absorbing the excess liquidity from the market. More importantly, there were several cases of fraudulent activities in credit cooperatives, which hindered savers from accessing their savings, and hence causing a suppression in general demand [Dhakal 2025, 13 April].

After the formation of the «grand coalition» between the Nepali Congress and CPN(UML) in July 2024, some economic reforms were attempted, which were appreciated by the private sector. To implement the reforms, a few legal amendments were essential. Rather than take the parliamentary route to make the amendments, which certainly would be tortuous and time consuming, the government tried to amend them through ordinances. This was opposed by the opposition parties, and therefore the reforms could not progress further [P. Sharma 2025, 17 January; The Kathmandu Post 2025, 31 January].

The government also formed a high-level economic reform commission in October 2024 to provide recommendations for the improvement of domestic economic conditions. The commission submitted its report to the government in April 2025 [Dhakal 2025, 13 April]. But before the government could act on the recommendations (if it would), the 8-9 September movement upended everything in the country.

The mayhem of 8-9 September 2025 resulted in loss and damage to infrastructure and the economy, although not to the extent as was initially feared. There were apprehensions that the movement might have possibly impacted tourism significantly. The World Bank projected that Nepal's economy might grow by only 2.1 per cent, which was a downward revision from its earlier projection of 4.6 per cent [The World Bank 2025, 13 November].

However, actual data on loss and damage collected from the affected sources showed that the total physical damage to public and private property was around US\$ 586 million [G. Sharma 2025, 12 December], which was much less than the earlier assumptions [Parajuli et al. 2025, 17 September]. Similarly, there was an increase in tourist arrivals by 3.3 per cent in October 2025—the next month of the protests—compared to the arrivals in October 2024 [Fiscal Nepal 2025, 12 November]. Nevertheless, there were disruptions to the economy because of the unrest, which contributed to the already subdued economic activities.

Despite the losses and damages incurred by the private sector, their show of confidence and the pledge to rebuild was encouraging. The government, particularly through the Ministry of Finance, made efforts to boost their morale and drive economic activities forward. At the same time, however, reigniting the conflict over the payment of electricity dues by the Min-

istry of Energy, Water Resources and Irrigation against some industries at such testing times also invited controversy.⁶

4. *International Relations*

Nepal's foreign policy lacks consistency [Bhattarai 2022]. Among the major political parties that have led Nepal's governments for decades, the communist parties are alleged to be closer to China and the Nepali Congress to India. And Nepal's relationships with these two giant neighbours, besides the United States (US), largely defines Nepal's international relations. Therefore, formation of the «grand coalition» between the Nepali Congress and CPN(UML) in July 2024 was an important juncture in Nepal's politics from the perspective of Nepal's external affairs.

4.1. *Nepal-India relations*

K P Sharma Oli's relations with New Delhi deteriorated significantly in 2015 when Oli took a hard stance against New Delhi opposing its unofficial trade blockade on Nepal [Bhattarai 2022]. The relationship did not improve substantially during his premiership in 2018-2021. When Oli assumed the Prime Ministerial role for the fourth time in July 2024 in a coalition with the Nepali Congress, it was expected that there could be an improvement in his relationship with India. However, unlike the usual practice of every new Nepali Prime Minister making his first foreign visit to India upon the latter's invitation, New Delhi did not extend an invitation to Oli.

Arzu Rana Deuba, Nepal's foreign minister in the grand coalition government visited India in August 2024. She was given a special welcome and treatment by India, which was seen as India's signal to Oli about its preference [Ghimire 2024, 22 November; Wagle 2024, 26 August]. The foreign minister's visit to India was also an effort to get an invitation for Oli's India visit, which, however, did not materialize [Haidar 2024, 14 November].

6. This is a longstanding dispute in Nepal that first arose in 2018. The Nepal Electricity Authority (NEA), particularly under the leadership of Kulman Ghising, who is credited for ending loadshedding in Nepal, claimed that several Nepali industries had not paid their premium tariff dues on electricity supplied to them under special arrangements during years of severe power cuts to ordinary Nepali citizens. This issue had been highly politicized and taken to court. When Ghising became the energy minister in the interim government after the youth protest in September 2025, his first decision was to collect these dues. Ghising was a popular figure because of his achievement in eliminating loadshedding from the country and for the hard stance he had taken against the industries compelling them to pay the dues. But he was also criticized by the others for not following due process, particularly when the private sector faced unprecedented setbacks from the Gen-Z movement.

Oli met India's Prime Minister, Narendra Modi, in New York in September 2024 at the sidelines of the 79th session of the United Nations General Assembly. The two leaders, however, did not discuss anything substantive. They merely agreed to reactivate the existing bilateral mechanisms between the two countries to resolve contentious issues and strengthen cooperation [Giri & Panday 2024, 24 September].

The two leaders then met in Bangkok in early April 2025 at the sidelines of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Summit. The official statements by both sides about this meeting indicated that the meeting was held in a cordial manner and regular issues on bilateral cooperation were discussed [Embassy of Nepal in Bangkok 2025, 4 April; Ministry of External Affairs, Government of India 2025, 4 April]. However, there were readings in Nepal that the meeting between the two leaders might have been sour [The Kathmandu Post 2025, 8 April].

Despite the lack of a visible improvement in the relationship between Oli and Modi and New Delhi's worsened relationship with Dhaka after the fall of the Sheikh Hasina regime in Bangladesh, Nepal, India and Bangladesh signed the tripartite agreement on exporting Nepal's electricity to Bangladesh via India in early October 2024 [P. Sharma 2024, 8 October]. This, together with the signing of the bilateral long-term power purchase agreement between India and Nepal earlier in January 2024 was a significant development in India-Nepal relations during 2024-2025.

There are two other issues that deserve importance in a review of Nepal-India relations during 2024-2025. One is the suspicion in Nepal that India might have played a tacit role in Nepal's pro-monarchy movements. The second (which also involves China) is Nepal's reservations on the India-China deal on the Lipulekh pass.

Regarding the first, at the pro-monarchy rallies in Nepal in early 2025, protestors had carried placards with images of Yogi Adityanath, the Chief Minister of the Indian state of Uttar Pradesh. Given Adityanath's close relationship with Nepal's former monarch, his endorsement of the monarchy during a public meeting in Kathmandu several months earlier, and frequent meetings between the two, there were suspicions in Nepal that Adityanath might be supporting Nepal's pro-monarchy movements. Hence, in April 2025, Nepal's Ambassador to India, Shankar Prasad Sharma, met Adityanath to seek clarification on whether he was providing the alleged support. It was reported that the Chief Minister rejected such claims [Republica 2025, 12 April]. Earlier, Nepal's foreign minister, Arzu Rana Deuba, had also asked her Indian counterpart S. Jaishankar about the claims being made about India's support for the pro-monarchy and pro-Hindu groups in Nepal, which he categorically denied [Giri 2025, 19 March]. This episode did not put a strain on India-Nepal relations.

But the second issue, that is the India-China deal on resuming their border trade through the Lipulekh pass, which Nepal claims as its own and

has included in its official map, drew Nepal's ire [Giri 2025, 22 August; P. Sharma 2025, 3 September]. As stated by Oli in the Nepali Parliament, he registered his objections to this deal with the Chinese President Xi Jinping during his visit to China in August 2025. As reported, the Chinese President said it was a bilateral issue between Nepal and India and so the two countries should resolve it bilaterally, further stating that China would welcome the outcome [P. Sharma 2025, 3 September].

It was reported that Oli had received an invitation for a meeting with Modi in Bodh Gaya in Bihar, India, in September 2025 and that he would discuss Lipulekh, among other things, with Modi during the meeting [Baral 2025, 22 August; People's Review 2025, 5 September]. Questions abound on whether the meeting between the two leaders would eventually take place, and whether Oli would raise the issue of Lipulekh with Modi. This was being observed keenly in Nepal, but the 8-9 September movement compelled Oli to relinquish his premiership.

4.2. *Nepal-China relations*

Regarding Nepal-China relations, the visit by Chinese delegations to Nepal at various levels has increased significantly in the past few years. This continued in 2024-2025 as well, including after the formation of the «grand coalition» between the Nepali Congress and the CPN (UML) [Giri 2024, 19 January; The Kathmandu Post 2024, 27 January; Bhattarai 2024, 11 November]. There were also a few high-level visits from Nepal to China represented by all major political parties in Nepal, but most commonly the communist parties.

Of these few visits, two official visits in 2024 and 2025 produced some tangible outcomes. One was the visit by Narayan Kaji Shrestha, Nepal's foreign minister in the Prachanda-led government, in late March 2024 before the formation of the «grand coalition». Upon Nepal's request to China during this visit, China re-opened the 14 traditional border points between the two countries that China had closed since the COVID-19 pandemic. Beijing also agreed to waive the visa fees for Nepali visitors to China, reciprocating Nepal's waiver of such fees for Chinese travellers since 2016 [P. Sharma 2024, 9 April].

The second was the visit by Prime Minister Oli in December 2024 when the two countries signed nine deals related to infrastructure, trade and development cooperation [The Kathmandu Post 2024, 3 December]. But the most significant was the breakthrough in the Belt and Road Initiative (BRI) implementation plan that had remained in limbo for a long time. There was a lack of consensus in Nepal on the financing modality of BRI projects. The Nepali Congress would agree to implement the projects only if China would provide grants for their execution, which China would not agree to [Adhikari & Acharya 2025]. After rigorous discussions and back-and-forth exchanges between the two sides, a deal was reached during Oli's visit in December 2024 that the financing modality for the BRI projects

would be «aid financing» [Ministry of Foreign Affairs, Government of Nepal 2024], which was interpreted as meaning both grants and concessional loans [P. Sharma 2024, 10 December].

Oli's visit to China again in September 2025 to attend China's victory parade after participating in the Shanghai Cooperation Organisation (SCO) Summit also attracted widespread attention. There were divided opinions in Nepal on whether he should have attended the parade. This is particularly because the parade was organized to celebrate China's victory over Japan, highlighting a diplomatic row between the two countries, whereas Japan has been Nepal's important development partner for decades. Participating in the parade could be seen as Nepal taking sides with China against Japan, irking the latter that had asked countries to skip China's World War II commemorative events in September 2025 [People's Review 2025, 29 August].

It was soon after Oli's return from China that the Gen-Z movement happened in Nepal. Therefore, how Nepal's international relations might have unfolded under the «grand coalition» in the context of Oli's uncomfortable relationship with New Delhi and his perceived cosy relationship with Beijing remained unclear.

4.3. *Nepal-US relations*

There was nothing significant in Nepal's relationship with the US in 2024. The two countries maintained their usual cordial relationships, established a bilateral consultation mechanism, continued discussions on the bilateral Trade and Investment Framework Agreement (TIFA), and had a few high-level visit exchanges.

But in 2025, Nepal felt the impacts of the US foreign policy changes. In particular, the Trump administration's decision to shut down the United States Agency for International Development (USAID) impacted several projects on health, education, agriculture, infrastructure, economic growth, humanitarian aid and women and children empowerment in Nepal that were run with USAID support [Pradhan 2025, 26 January].

The US\$ 500 million Millennium Challenge Corporation (MCC) Nepal Compact was initially also frozen by the US [Ranjan 2025, 24 February]. However, it was only a temporary freeze. After a review, the US decided to continue the Compact. Hence, infrastructure building for electricity transmission and highway maintenance works—the two specific project areas under the Compact—continued after the temporary halt.

5. *Conclusion*

The Gen-Z movement of 8-9 September 2025 is a political watershed in Nepal's history. It challenged the established political parties to make significant internal reforms. The collective strength of Balendra Shah and the

RSP, both with huge support bases, has significantly added to the pressures facing the old parties.

To gain their lost ground, the older parties need to undergo massive transformations in leadership and governance. Without this, regaining the trust of the people could be an insurmountable challenge. The youth's discontent with Nepal's limited socio-economic progress in 2024-2025 indicates their high aspirations and demands for visible improvements in governance and service delivery.

The new government in Nepal will be faced with the several challenges discussed in this article in areas of politics, economics and international relations. The loss of some LDC-specific preferences upon Nepal's scheduled LDC graduation in November 2026, growing climate impact, and above all the high expectations of the youth on governance, jobs and incomes are some of the important challenges that the new government must address. The government should be well prepared for an uphill task ahead.

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