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Nepal

Overview

Among the drivers of U.S. interest in the Federal Democratic Republic of Nepal are the country's still-unfolding democratization process, humanitarian concerns, its geopolitical setting as a landlocked state between India and China, and the issue of Tibetans living in or transiting through Nepal. The United States and Nepal established diplomatic ties in 1948 and relations between the two countries are friendly. U.S. policy objectives with respect to Nepal include supporting democratic institutions and economic liberalization, providing disaster assistance, promoting peace and stability in South Asia, alleviating poverty, and promoting economic development.

Background

Nepal is a poor country of an estimated 29 million people that has undergone significant political transformation since 2006, when a 10-year armed struggle by Maoist insurgents, which claimed at least 13,000 lives, officially ended. Rising democratic sentiment curbed the king's powers in 2006. Following the Maoists' successful entry into the political process and their electoral success in 2008, Nepal declared itself a republic and the Constituent Assembly (CA) was directed to write a new constitution. A new CA elected in 2013 ended years of political deadlock by agreeing to a new constitution in September 2015 and local, provincial, and national elections were held in 2017 and 2018. Though the process of democratization begun in 2006 has not been smooth, Nepal's government brought former insurgents into the political system, conducted peaceful elections, and, in a broad sense, has taken large steps toward establishing a functioning democracy.

Religious identity has long been important for Nepal's inhabitants, where 81% of the population is Hindu and 9% is Buddhist. Nepali is the official language, though there are many regional and indigenous languages spoken in Nepal. The main geographic division in the country is between the low-lying and agriculturally productive Terai region, which borders India, and the more mountainous parts of the country. Never colonized, Nepal was largely isolated until the early 1950s.

A 7.8 magnitude earthquake struck the central and western regions of Nepal in April 2015. It was estimated that more than 4,300 people were killed and over 8,000 injured as a result. An estimated 2 million people in 11 districts were severely affected. Human Rights Watch has criticized the Nepal government's slow response to the crisis. In April 2018, Secretary of Homeland Security Kirstjen Nielsen announced the conclusion of Temporary Protected Status (TPS) for Nepal. TPS for Nepal, which had been granted following earthquakes there, is scheduled to expire in 2019.

Nepal in Brief

Population: 29.4 million; 2017 est.

Area: Slightly larger than New York state

Capital: Kathmandu

Head of State: President Bidhya Devi Bhandari

Head of Government: Prime Minister Khadga Prasad Oli

Ethnic Groups: 125 caste/ethnic groups reported in 2011

Religions: Hindu 81.3%, Buddhist 9%, Muslim 4.4%, Christian 1.4%; 2011 est.

GDP: 7.5% growth, \$2,700 per capita GDP in PPP; 2017 est.

Unemployment: 3.3%; 2017 est.

Population Below the Poverty Line: 25.2%; 2011 est.

Labor Force: Agriculture 69%, industry 12%, services 19%; 2015 est.

Exports: clothing, pulses, carpets, textiles, jute, juice

Destination of Exports: India 57%, U.S. 12.3%, Turkey 5.7%; 2016/17 est.

Sources: CIA, Economist Intelligence Unit

U.S. Assistance, Relations, and Cooperation

Nepal has significant need for economic development and foreign assistance. The United States has provided over \$1.6 billion in assistance to Nepal since 1951. Congress appropriated up to \$121.5 million in FY2018 assistance for Nepal, including for earthquake recovery and reconstruction programs. Not less than \$6 million of this is earmarked for programs related to promoting and preserving Tibetan culture in India and Nepal. U.S.-Nepal cooperative efforts include the Peace Corps. More than 4,200 Peace Corps volunteers served in Nepal between 1962 and 2004, when the program was suspended due to civil war. The program was restarted in 2012.

The Millennium Challenge Corporation's (MCC) Compact with Nepal was signed in September 2017 and includes a \$500 million compact to "spur economic growth and reduce poverty in Nepal." The compact is designed to "improve the availability of electricity and increase road maintenance to advance connectivity, drive growth, and lay a strong foundation for new investments." The \$398 million electricity transmission project part of the compact "will expand and strengthen the high voltage electricity transmission network to support new investments in generation. The project includes construction of approximately 300 kilometers of high-voltage power lines."

The Trade and Investment Framework Agreement (TIFA) Between Nepal and the United States entered into force on April 15, 2011. Agreement objectives include the expansion

of trade, investment and technical cooperation, and strengthening economic relations between the two countries. Currently, an estimated 12.3% of Nepal's exports go to the United States. Nepal was the United States' 172nd largest goods export market in 2016. U.S. goods exports to Nepal in 2016 were \$41 million, representing a 144% increase from 2006.

Recent Political Developments

Nepal's continuing democratic development was demonstrated by successful local, provincial, and national elections in 2017 and 2018. The "Left Alliance" of the Communist Party of Nepal United Marxist Leninist (CPN-UML) and the Communist Party of Nepal Maoist Centre (CPN-MC) won parliamentary elections held between November 2017 and February 2018. As a result, the Left Alliance now has a majority in both the House of Representatives and the National Assembly. It has also formed governments in six of the seven provincial assemblies. Pushpa Kamal Dahal (also known as Prachanda), leader of the Maoist insurgency and now the CPN-MC, and Prime Minister Khadga Prasad Sharma Oli, leader of the CPN-UML, reportedly have a power-sharing agreement under which Oli is to serve three years as prime minister and Prachanda is to serve for two years. The potential for rivalry between the two could be destabilizing. The next elections are due in 2022. Potential agitation by the Madhese ethnic group of the southern Terai region, who have sought to amend the constitution to increase their influence in the federal system, may also be another potential source of instability.

Nepal's Relations with India and China

Nepal's status as a poor, relatively small, landlocked buffer state between China and India largely defines the context of its foreign policy. Nepal's ties with India historically have been closer than its ties with China largely due to geography and shared Hindu traditions, but Nepal currently is expanding its ties with China as it seeks to reduce its overreliance on India. Nepal is experiencing more diplomatic and economic engagement by both India and China than in past years, as the neighbors seek to protect their interests and expand their ties to Nepal.

While the Himalayan mountain range along Nepal's northern border has limited interactions with China in some respects, the 500-mile southern plains border with India is relatively open. India and Nepal have had a tradition of close coordination in the areas of defense and foreign affairs. The India-Nepal Treaty of Peace and Friendship, signed in 1950, has served as a basis of the relationship. Nepal also depends on India as its primary source of imports and its main market for exports, and for access to the sea through the port of Kolkata. An estimated 32,000 Nepalese Gurkha troops serve in the Indian Army.

Relations between Nepal and India cooled after India unofficially blockaded Nepal in 2015 in response to Nepal's

adoption of a constitution that did not, from India's perspective, adequately take into account the Madhese of the Terai, who have close ties to India. Prime Minister Oli (2015-2016 and 2018-present) was critical of the New Delhi government's decision to become involved in Nepal's domestic constitutional debate and imposition of the blockade. Oli signed a trade and transit agreement with China in 2016 in an effort to end India's monopoly over trade with Nepal. As a result, Oli was seen as tilting towards China. Prime Minister Narendra Modi of India (2014-present), despite having been in power when bilateral relations deteriorated, has recently sought to mend ties and restore India's influence with Nepal. Modi made his third visit to Nepal as India's leader in May 2018. During the visit, Modi spoke of "initiatives in agriculture, inland waterways and railways [that would] increase mutual connectivity of people and businesses of both the countries," and added that a "survey for new railway link between Raxaul and Kathmandu will start soon." This visit followed Prime Minister Oli's visit to India in April 2018.

China has in recent years made significant inroads in developing ties with Nepal. This appears to have been made possible by the unofficial 2015 blockade of Nepal by India and significant Chinese investment in infrastructure in Nepal as part of its Belt and Road Initiative. China and Nepal also held their first-ever military exercises in April 2017 and China reportedly constructed a \$350 million facility for the Nepal Armed Police Force. Nepal and China signed a Memorandum of Understanding on the Belt and Road Initiative in May 2017. Beijing has pledged to invest \$8.3 billion in road and hydropower projects in Nepal and has proposed building an \$8 billion railway from Lhasa to Kathmandu.

Human Trafficking

According to the State Department's 2017 *Trafficking in Persons* report, Nepal is a source country for men, women, and children who are subjected to forced labor and sex trafficking. Nepal remained at "Tier 2" in the report, which states: "The Government of Nepal does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government demonstrated increasing efforts compared to the previous reporting period."

Migrant Workers

Many Nepalis go abroad in search of work. Remittances accounted for nearly one-third of Nepal's GDP in 2016. Approximately 640,000 Nepalis reportedly left Nepal in search of work in 2016/17, as compared to approximately 420,000 who left Nepal in 2015/16. By one estimate, approximately 10% of Nepal's population works abroad.

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