



Updated March 27, 2020

Nepal

Overview

The Federal Democratic Republic of Nepal faces many challenges as it seeks to develop its economy while consolidating its relatively new democracy. Nepal's status as a poor, relatively small, landlocked buffer state between China and India largely defines the context of its foreign policy. U.S. policy objectives with respect to Nepal include supporting democratic institutions, promoting regional stability and security, alleviating poverty, promoting human rights and sustainable economic growth, and helping build resilience to deal with climate change and natural disasters.

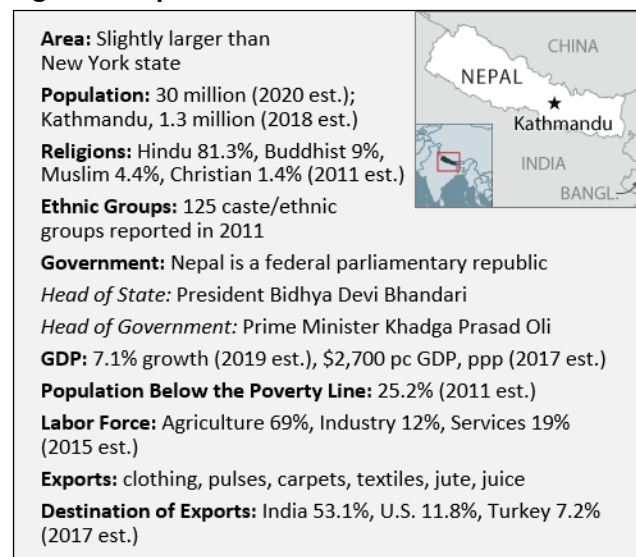
Background

Nepal is a poor country of an estimated 30 million people that has undergone a significant political transformation since 2006, when a 10-year armed struggle by Maoist insurgents ended after claiming at least 13,000 lives. In 2006, the king ended direct monarchical rule and reinstated the country's parliament in response to weeks of protests. Following the Maoists joining 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 subsequent CA elected in 2013 ended years of political deadlock by agreeing to a new constitution in September 2015. Local, provincial, and national elections were held in 2017 and 2018. Nepal now has a bicameral legislature with 275 Members in the House of Representatives and 59 Members in the National Assembly, the body's upper house. Though the process of democratization begun in 2006 has not been smooth, Nepal's government has brought former insurgents into the political system, conducted peaceful elections, and, in a broad sense, has taken large steps toward establishing a functioning democracy. Ethnic, religious, and caste identities are important for many in Nepal, where 81% are Hindu and 9% Buddhist. Nepali is the official language, though many regional and indigenous languages are also spoken. The three main geographic divisions of the country include the low-lying and agriculturally productive Terai region, which borders India, an intermediate central hill zone, and more mountainous parts of the country.

Never colonized, Nepal was largely isolated until the early 1950s, and its difficult physical environment presents challenges for its development. In 2015, a 7.8 magnitude earthquake, by some estimates, killed 9,000 people, injured 22,000, and destroyed 755,000 homes. The Kathmandu government was criticized for its arguably slow response to the crisis. Temporary Protected Status (TPS) for Nepal, which had been granted following earthquakes there, was scheduled to expire in June 2019. The June expiration date was suspended until further notice in May 2019. Nepal is particularly vulnerable to rising risks brought on by climate change, due to the impact that rising temperatures, shifting

rainfall, and drought are having on the two-thirds of Nepalis involved in agriculture.

Figure 1. Nepal in Brief



Source: CIA World Factbook, Economist Intelligence Unit, Media.

U.S. Relations and Assistance

The United States and Nepal established diplomatic ties in 1948, and relations between the two countries are generally friendly. U.S. policy towards Nepal seeks to “assist Nepal’s development as a peaceful, prosperous, and democratic nation that contributes positively to regional stability.” There appears to be a lack of clarity with regard to Nepal’s approach to the United States’ Indo-Pacific strategy. Co-chair of the ruling Nepal Communist Party and former leader of the Maoist insurgency, Pushpa Kamal Dahal (a.k.a. Prachanda), reportedly stated, “If the Indo-Pacific strategy is to target China, we cannot accept it.” Prachanda has also urged that Nepal’s projects under China’s Belt and Road Initiative should not be delayed. Nepal’s Foreign Minister Pradeep Kumar Gyawali has reportedly refuted assertions that Nepal is part of the U.S. Indo-Pacific initiative. The U.S. Department of Defense Indo-Pacific Strategy Report states, “Within South Asia, we are ... pursuing emerging partnerships with Sri Lanka, the Maldives, Bangladesh, and Nepal.”

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. U.S.-Nepal cooperative efforts include the Peace Corps. U.S. assistance programs focus on agriculture and food security; democracy, human rights and governance; education; environment and global climate change; gender equality and social inclusion; global health; and working in crisis and conflict. The Millennium Challenge Corporation’s

Compact with Nepal, signed in September 2017, includes \$500 million to “spur economic growth and reduce poverty in Nepal.” The compact’s \$398 million electricity transmission component “will expand and strengthen the high voltage electricity transmission network to support new investments in generation.” The compact has raised sovereignty concerns among some in Nepal who view it as inconsistent with the Nepali constitution’s commitment to nonalignment. A bilateral Trade and Investment Framework Agreement entered into force in 2011. Agreement objectives include the expansion of trade, investment, and technical cooperation, and strengthening economic relations between the two countries.

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 Unified Marxist Leninist (CPN-UML) and the Communist Party of Nepal Maoist Centre (CPN-MC) won parliamentary elections held between November 2017 and February 2018. The new Left Alliance now has a majority in both the House of Representatives and the National Assembly, and has formed governments in six of the seven provincial assemblies. Prachanda of the CPN-MC and Prime Minister Khadga Prasad Oli 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. Oli had a second kidney transplant in March 2020. While some observers are optimistic that Nepal could be entering a period of political stability, the potential for political rivalry remains. The next elections are due in 2022. Potential agitation by the Madhese ethnic group of the southern Terai region may be a source of instability.

Nepal’s Relations with India and China

Nepal’s ties with India historically have been closer than its ties with China, largely due to geography and shared religious and cultural traditions, but Nepal is expanding ties with China as it seeks to reduce its overreliance on India. Both India and China currently are seeking more diplomatic and economic engagement with Nepal than in past years, as they seek to protect their interests and deepen ties.

While the Himalayan mountain range along Nepal’s northern border has historically limited interactions with China, 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 India asserted did not adequately take into account the interests of ethnic Madhese, who have close ties to India. Prime Minister Oli (2015-2016 and 2018-present) criticized the New Delhi government’s decision to become involved in Nepal’s

domestic constitutional debate and its 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. Indian Prime Minister Narendra Modi has sought to mend ties and restore India’s influence with Nepal. During a May 2018 visit to Kathmandu, 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.” Modi reiterated his commitment to “work with Nepal to further strengthen the traditionally close and multifaceted partnership between India and Nepal” during Prime Minister Oli’s May 2019 New Delhi visit. Modi and Oli jointly inaugurated an Integrated Check Post (ICP) at Joghani-Biratnagar to facilitate bilateral trade in January 2020. The ICP was built with Indian assistance.

China has made significant inroads in developing ties with Nepal since India’s unofficial blockade in 2015. China and Nepal held their first-ever joint 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. The CPN and the Communist Party of China signed a Memoranda of Understanding establishing fraternal relations between the parties, and a Symposium on Xi Jinping Thought was held in Kathmandu in September 2019. China and Nepal signed numerous agreements, including one on a trans-Himalayan railway, during President Xi Jinping’s visit to Nepal in October 2019.

Human Rights, Trafficking, and Migrant Workers

The State Department’s *2019 Country Report on Human Rights Practices: Nepal* found reports of “unlawful or arbitrary killings, including extrajudicial killings; torture; arbitrary detention by government; [and] ... restrictions on freedom of movement for refugees, notably resident Tibetans; significant acts of corruption; and forced, compulsory, and child labor.” The State Department’s *Trafficking in Persons 2019* report found that Nepal, a Tier 2 country, “does not fully meet the minimum standards for the elimination of trafficking but is making significant efforts to do so.” Over 7,000 women and girls are reportedly trafficked to India each year and forced into prostitution. Nepal also has the world’s third-highest rate of child marriage, with 37% of girls marrying before age 18 and 10% by age 15. Approximately 10% of Nepal’s population works abroad. Many of those working in the Middle East and Southeast Asia labor under harsh conditions and some are subject to abuse and exploitation. Remittance inflows to Nepal were estimated to be 28% of Nepal’s GDP in 2018.

Bruce Vaughn, Specialist in Asian Affairs

IF10216

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.