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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 state situated between China and India largely defines the context of its foreign policy. U.S. policy objectives with 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 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.

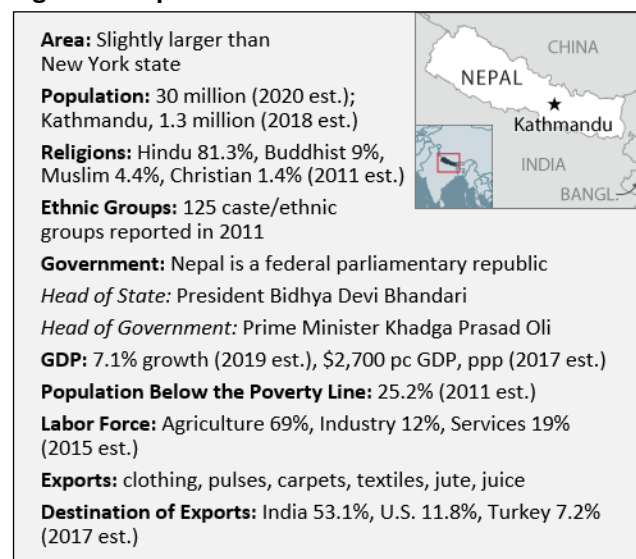
After the Maoists joining the political process and their electoral success in 2008, Nepal declared itself a republic and the Constituent Assembly (CA) was directed to write a new constitution. A subsequent CA elected in 2013 ended years of political deadlock by agreeing to a new constitution in 2015. 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 has not been smooth, Nepal's government has brought former insurgents into the political system, conducted peaceful elections, and broadly taken 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 areas 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 development. In 2015, a 7.8 magnitude earthquake, by some estimates, killed some 9,000 people, injured another 22,000, and destroyed 755,000 homes. The Kathmandu government was criticized for its arguably slow response to the crisis.

Nepal is particularly vulnerable to rising risks brought on by climate change. Rising temperatures, shifting rainfall, and drought are having an impact on the two-thirds of Nepalis engaged in agriculture. In 2018, President Bhandari stated that "We have been bearing the brunt of

disproportionate impacts of climate change despite being a low carbon-emitting country ... it is incumbent on the international community to ensure that justice is done."

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 toward Nepal seeks to "assist Nepal's development as a peaceful, prosperous, and democratic nation that contributes positively to regional stability." 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." Co-chair of the ruling Nepal Communist Party and former leader of the Maoist insurgency, Pushpa Kamal Dahal, reportedly stated, "If the Indo-Pacific strategy is to target China, we cannot accept it." Dahal has also urged that Nepal's projects under China's Belt and Road Initiative should not be delayed.

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 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. Its objectives include expansion of trade, investment, and technical cooperation, and strengthening economic relations.

Recent Political Developments

Prime Minister Khadga Prasad Oli’s (2015-2016 and 2018-present) decision to call on the president to dissolve parliament on December 20, 2020, exposed a rift within the ruling Nepal Communist Party. Oli now appears to be heading a caretaker government until elections can be held, though there is debate about the constitutionality of his status. Oli has called for elections to be held in April and May of 2021. Oli’s decision has led to protests by those who deem the move unconstitutional.

Nepal’s democratic development was previously 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 then co-chairs of the Nepal Communist Party, Dahal, who was leader of the CPN-MC, and Prime Minister Oli of the CPN-UML, reportedly had a power-sharing agreement under which the two would share leadership of the NCP government’s five-year term. Oli reportedly refused to let Dahal take over.

The new Left Alliance had a majority in both legislative chambers until parliament was dissolved and had formed governments in six of the seven provincial assemblies. While observers were optimistic that Nepal was entering a period of political stability, the current prospect of escalating political rivalry once again brings this into question. Potential agitation by the Madhese ethnic group of the southern Terai region may also be a potential source of instability. China reportedly has been actively mediating between political factions.

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. Under Prime Minister Oli Nepal has expanded 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, 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 on issues of defense and foreign affairs, based on the 1950 India-Nepal Treaty of Peace and Friendship. Nepal depends on India as its primary source of imports and as its main export market, and for sea access through the port of Kolkata. An estimated 32,000 Nepalese Gurkha troops serve in the Indian Army. Nepal-India relations cooled after India unofficially blockaded Nepal in

2015 in response to Nepal’s adoption of a constitution that India asserted did not adequately protect the interests of ethnic Madhese, who have close ties to India. Prime Minister Oli criticized New Delhi’s decision to become involved in Nepal’s domestic constitutional debate and its imposition of the blockade, and 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 more recently sought to mend ties and restore India’s influence with Nepal. During a 2018 visit to Kathmandu, Modi spoke of “initiatives in agriculture, inland waterways and railways [that would] increase mutual connectivity ... of both the countries.” Modi reiterated his commitment to “work with Nepal to further strengthen the traditionally close and multifaceted partnership” during Oli’s May 2019 Delhi visit. Modi and Oli inaugurated an Integrated Check Post (ICP) at Jogbani-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 2015 blockade. China and Nepal held their first-ever joint military exercises in April 2017, and the next month signed a Memorandum of Understanding (MoU) on the Belt and Road Initiative. Beijing has pledged to invest \$8.3 billion in Nepali road and hydropower projects and has proposed building a railway from Lhasa to Kathmandu. The CPN and the Communist Party of China signed an MoU establishing fraternal relations, and held a Symposium on Xi Jinping Thought in Kathmandu in 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. In 2020, Oli dismissed opposition allegations that China encroached on Nepal’s border while accusing India of encroaching on its border in the Lipulekh-Kalapani-Limpiyadhura border area in northwest Nepal.

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 [and] ... restrictions on freedom of movement for refugees, notably resident Tibetans.” The Department’s *Trafficking in Persons 2020* 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 an estimated 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, and reportedly increased significantly in 2020 despite the Coronavirus Disease 2019 pandemic.

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