



Updated March 1, 2023

# Nepal

## Overview

The Federal Democratic Republic of Nepal is a poor, relatively small, landlocked state situated between China and India. Since restoring parliamentary democracy in 2006, Nepal has faced significant political instability, and tensions between neighbors India and the People's Republic of China (PRC or China) largely define the context of its foreign policy. Congressional interest in Nepal has focused on oversight of U.S. assistance, including a Millennium Challenge Corporation (MCC) Compact, and Tibetan refugees, among other issues.

## Background

Nepal is a country of approximately 30 million people that has undergone significant political transformation since 2006, when a 10-year armed insurgency by Maoist militants ended after claiming at least 13,000 lives. In 2006, Nepal's king ended direct monarchical rule and reinstated the country's parliament in response to weeks of protests. After the Maoists' electoral success in 2008, Nepal declared itself a republic, and a Constituent Assembly (CA) was directed to write a new constitution. A subsequent CA elected in 2013 agreed to a new constitution in 2015. 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. The Prime Minister serves as the head of government, and the indirectly-elected President serves a largely ceremonial role. Though the process of democratization has not been smooth, Nepal's government has brought former insurgents into the political system and conducted peaceful elections.

Ethnic, religious, and caste identities are important for many in Nepal, where approximately 81% of citizens are Hindu and 9% are 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 near Kathmandu killed nearly 9,000 people.

## Climate Change

Nepal is particularly vulnerable to rising risks brought on by climate change. According to the 2021 World Bank Climate Risk Country Profile, "warming in Nepal is projected to be higher than the global average [and] climate change is already having significant impacts. Natural hazards such as drought, heatwave, river flooding, and glacial lake outburst flooding are all projected to intensify." Recent studies indicate that two-thirds of glacier ice in the

Himalayas will be lost by 2100 if global climate mitigation targets are not met. Rising temperatures, shifting rainfall,

## Figure 1. Nepal in Brief

<b>Area:</b> Slightly larger than New York state	
<b>Population:</b> 30 million; Kathmandu, 2 million. (2021 est.)	
<b>Religions:</b> Hindu 81.3%, Buddhist 9%, Muslim 4.4%, Christian 1.4% (2011 est.)	
<b>Ethnic Groups:</b> 125 caste/ethnic groups reported in 2011	
<b>Government:</b> Nepal is a federal parliamentary republic with a bicameral legislature. Bidhya Devi Bhandari is president and Pushpa Kamal Dahal is prime minister.	
<b>GDP:</b> 5% growth (2023 est.) with \$4,210 GDP ppp per capita. (2021 est.)	
<b>Origin of GDP:</b> Agriculture, forestry and fisheries 27.2%, Industry 13.3%, Services 49.3%. (2021 est.)	
<b>Multidimensional poverty:</b> 17.4% (2021 est.)	
<b>Labor Force:</b> Agriculture 64%, Services 21%, Industry 15% (2019 est.)	
<b>Exports:</b> <u>Products</u> Soy bean oil, palm oil, yarn, fabrics, carpets. <u>Destination</u> India 75.4%, U.S. 9.8%, Germany 2.3%, U.K. 1.7%. (2021 est.)	

and drought are having an impact on Nepalis engaged in agriculture. Some reports project that climate change will lead to the geographic spread of disease in Nepal. President Bidhya Devi Bhandari has stated that "We have been bearing the brunt of disproportionate impacts of climate change despite being a low carbon-emitting country."

## U.S. Relations and Assistance

Observers view Washington's recently renewed focus on Nepal as being motivated by Beijing's growing influence in Kathmandu. U.S. policy toward Nepal has sought to assist Nepal's development as a peaceful, prosperous, and democratic nation that contributes to regional stability. U.S. assistance programs have focused on agriculture, democracy, human rights, good governance, education, the environment, climate change, gender equality, and global health. In January 2023, U.S. Undersecretary for Political Affairs Victoria Nuland announced that the United States would invest over \$1 billion in Nepal over the next five years. The MCC Compact with Nepal, signed in 2017, includes \$500 million to "spur economic growth and reduce poverty in Nepal" and has a significant electricity transmission component. The Compact was ratified by Nepal's parliament in February 2022. A bilateral Trade and Investment Framework Agreement entered into force in 2011.

## Recent Political Developments

Shifting alliances among Nepal's political elite continue to prevent a stable government from taking hold in Nepal. At the close of 2022, Nepal had seen 13 different governments

in 16 years. A coalition led by Prime Minister Pushpa Kamal Dahal (2008-2009, 2016-2017, and 2022-present) of the Communist Party of Nepal Maoist-Centre (CPN MC) replaced former Prime Minister Sher Bahadur Deuba's (1995-1997, 2001-2002, 2004-2005, 2017-2018, and 2021-2022) Nepali Congress (NC)-led government following elections in November 2022. (Dahal, who led the Maoists during the insurgency, is also known by the nom de guerre Prachanda.) The coalition government included the Communist Party of Nepal Marxist Leninist (CPN UML) led by Party Chairman and former Prime Minister Khadga Prasad Sharma Oli (2015-2016 and 2018-2021). On February 27, 2023, it was reported that Oli's CPN-UML withdrew its support from the Dahal-led government. Oli appears to have withdrawn support over Dahal's decision to support a NC candidate for president. The presidential election is scheduled for March 9, 2023. The next parliamentary election is due in 2027.

## Nepal's Relations with India and China

In geopolitical terms, Nepal is typically viewed as a buffer state between 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. India and Nepal are the world's only two Hindu-majority nations. Under former Prime Minister Oli, Nepal expanded ties with China as it sought to reduce its reliance on India. Observers viewed the change of leadership from Oli to Prime Minister Deuba as a positive step for Nepal-India relations. Though he is viewed as pragmatic, Prime Minister Dahal's return to office may improve Nepal's ties with China. India and China continue to seek more diplomatic and economic engagement with Nepal to protect their perceived interests and to deepen ties. While the Himalayan Mountains along Nepal's northern border have historically limited interactions with China, the 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 Indian port of Kolkata. A large number of Nepalese Gurkha troops have served 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. Former Prime Minister Oli criticized New Delhi's decision to become involved in Nepal's domestic 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.

Indian Prime Minister Narendra Modi has sought to mend ties and restore India's influence with Nepal. Modi sought to address boundary issues and proposed cooperation on hydropower, and regional connectivity during his May 2022 visit to Nepal, and had previously proposed initiatives in agriculture, inland waterways and railways that would increase connectivity between both countries. Tensions between India and Nepal rose in 2020 after Nepal issued a

map including the Lipulekh, Kalapani, and Limpiyadhura regions as its territory, exacerbating a decades-long border dispute.

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 China's Belt and Road Initiative. Beijing has pledged to invest significantly in Nepali road and hydropower projects. Reports indicate that plans for a rail project linking China and Nepal costing over \$8 billion may move forward for approval in 2023. In February 2022, a Nepalese government report on alleged PRC encroachment into Nepal's Humla district was leaked to the press. According to the BBC, the report found that PRC security forces had restricted religious activities in the district, limited grazing by Nepalese farmers, and constructed fencing as well as a canal and road on the Nepal side of the shared border.

## Human Rights, Trafficking, and Migrant Workers

The State Department's *2021 Country Reports on Human Rights Practices: Nepal* found reports of "unlawful or arbitrary killings, including extrajudicial killings by the government; torture and cases of cruel, inhuman or degrading treatment by the government; arbitrary detention; serious restrictions on free expression, [and] ... restrictions on freedom of movement for refugees, notably resident Tibetans; [and] serious government corruption." The Department's *Trafficking in Persons 2022* 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." Thousands of women and girls are reportedly trafficked to India each year. Nepal also has the world's third-highest rate of child marriage, with an estimated 37% of girls marrying before age 18. Remittances accounted for 22% of GDP in 2022. Many of those working abroad labor under harsh conditions and some are subject to abuse and exploitation.

## Congressional Interest

Congressional interest in Nepal has included supporting democratic institutions, promoting regional stability, alleviating poverty, promoting human rights and sustainable economic growth, and the interests of Tibetan refugees, as well as helping build resilience to deal with climate change and natural disasters. A Congressional Caucus on Nepal was formed in 2011. Some Members of Congress have supported programs to promote and preserve Tibetan culture and language in the refugee and diaspora Tibetan communities in Nepal and to assist in the education and development of the next generation of Tibetan leaders. Thousands of Tibetans fled to India and Nepal following China's annexation of Tibet in the 1950s. Approximately 12,500 Tibetans, out of Nepal's total population of 30 million, are estimated to reside in Nepal.

---

**Bruce Vaughn**, Specialist in Asian Affairs

---

## 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.