



# 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. assistance to Nepal includes a recently ratified Millennium Challenge Corporation (MCC) Compact. The United States partners with Nepal to help build a democratic and resilient nation in South Asia.

## Background

Nepal is a country of approximately 29 million people that has undergone 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’ 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 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. 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, conducted peaceful elections, and broadly taken steps toward establishing a functioning democracy.

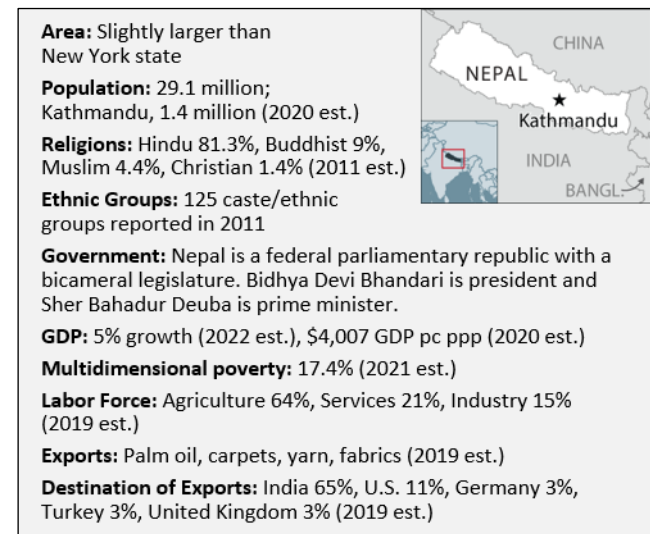
Ethnic, religious, and caste identities are important for many in Nepal, where 81% of citizens are Hindu and 9% are Buddhist. Nepali is the official language, though many regional and indigenous languages are also spoken. The three main geographic areas of the country include the low-lying and agriculturally 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.”

**Figure 1. Nepal in Brief**



Recent studies indicate that two-thirds of glacier ice in the Himalayas will be lost by 2100 if climate targets are not met. Rising temperatures, shifting rainfall, and drought are having an impact on Nepalis engaged in agriculture. Agriculture accounts for 30% of Nepal’s GDP and employs approximately 80% of the population. Some reports also project that climate change will lead to the geographic spread of disease in Nepal. In 2018, President Bidhya Devi Bhandari 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

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. 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. According to the State Department Congressional Budget Justification Supplementary Tables, actual assistance for Nepal in FY2020 was approximately \$128 million. 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 MCC 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 was ratified by Nepal’s parliament in February 2022. A bilateral Trade and Investment Framework Agreement entered into force in 2011.

## Recent Political Developments

Leader of the Nepali Congress Party Sher Bahadur Deuba was sworn in as prime minister in July 2021. This is the fifth time that Deuba has served as prime minister. Deuba heads a political alliance with support from several other political parties. His coalition is viewed by observers as fragile due to the divergent views of coalition partners. Intra-party and intra-coalition feuds and rivalry have been a chronic source of political instability in Nepal. As such, forging a consensus within the government on a range of issues, including foreign policy, may be difficult. Securing and administering COVID-19 vaccines, balancing relations between India and China, and reviving Nepal’s economy, which has been hit hard by COVID-19, are challenges facing Prime Minister Deuba. The next general election is expected in late 2022.

## 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 former Prime Minister Oli, Nepal expanded ties with China as it sought to reduce its overreliance on India. Ties with India may improve with the change of leadership from Oli to Prime Minister Deuba. 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 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 Indian 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. 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. As a result, Oli was seen by many as tilting towards China.

Indian Prime Minister Narendra Modi has 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 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. Tensions between India and Nepal rose in 2020 after Nepal issued a map including the Lipulekh, Kalapani, and Limpiyadhura regions as its territory, which is not acceptable to New Delhi. Efforts were made in 2021 to reset bilateral relations but tensions mounted again in January 2022 after reports that India plans to build a road to Lipulekh Pass.

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 \$8.3 billion in Nepali road and hydropower projects and has reportedly begun building a railway from Lhasa to Kathmandu. The Communist Party of Nepal and the Communist Party of China signed an MoU establishing fraternal relations in 2019. China and Nepal signed numerous agreements during President Xi Jinping’s visit to Nepal in 2019. In February 2022 media reported that China was encroaching on Nepal’s border in the Humla District.

## Human Rights, Trafficking, and Migrant Workers

The State Department’s *2020 Country Report 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 significant acts of corruption.” The Department’s *Trafficking in Persons 2021* 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 account for 24% of GDP in 2020. 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 and security, alleviating poverty, promoting human rights, 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. The Consolidated Appropriations Act, 2022 (P.L. 117-103) states that “not less than \$8,000,000 shall be made available for programs to promote and preserve Tibetan culture and language in the refugee and diaspora Tibetan communities, development, and the resilience of Tibetan communities and the Central Tibetan Administration in India and Nepal, and to assist in the education and development of the next generation of Tibetan leaders from such communities.”

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