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Nepal: Political Developments and U.S. Relations

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Summary

Nepal is a poor country of an estimated 31 million people that has undergone a radical political transformation since 2006, when a 10-year armed struggle by Maoist insurgents, which claimed at least 13,000 lives, officially came to an end. The country's king stepped down in 2006, and two years later Nepal declared itself a republic, electing a Constituent Assembly (CA) in 2008 to write a new constitution. A second CA elected in 2013 reached agreement on a new constitution in September 2015. Though the process of democratization begun in 2006 has had setbacks and has been marked by violence, Nepal has conducted reasonably peaceful elections, brought former insurgents into the political system, and, in a broad sense, taken several large steps toward establishing a functioning democracy.

New provincial demarcations contained in the new constitution, along with other provisions, have met with opposition by the minority Madhese people of the lowland Terai border region with India. This has led to violent protests and disruptions to cross-border trade that have led to economic hardship and fuel shortages in Nepal. Kathmandu has asserted that the Indian government is playing a role in this unrest. Some media coverage described this as an unofficial blockade of Nepal. In part as a result of these developments, Nepal is seeking closer energy and trade linkages with China.

Among the drivers of congressional interest in Nepal are the country's still-unfolding democratization process, geopolitical and humanitarian concerns, and its location as a landlocked state situated between India and China. The United States and Nepal established diplomatic ties in 1948 and relations between the two countries are friendly. U.S. policy objectives toward Nepal include supporting democratic institutions and economic liberalization, promoting peace and stability in South Asia, supporting Nepalese territorial integrity, alleviating poverty, and promoting development.

Nepal's status as a relatively small, landlocked buffer state situated between India and China largely defines the context of its foreign policy. This geopolitical dynamic is changing somewhat as Nepal appears to be the site of more intense diplomatic and economic activity by both India and China. Historically, Nepal's ties with India have been closer than its ties with China. Recent developments in the Terai, however, have encouraged Nepal to seek closer relations with China. China is developing trade, transport and development linkages with Nepal and has reportedly pressured Nepal to constrain the activities of Tibetan refugees in Nepal.

Nepal was devastated by a massive 7.8 magnitude earthquake on April 25, 2015. The disaster killed over 8,000 and destroyed much of Nepal's housing and infrastructure. By one estimate, over half a million homes were destroyed. Reconstruction costs are estimated by some at $7 billion. The devastation wrought by the earthquake is compounded by economic hardship stemming from the ongoing discontent in the Terai. An international donors conference held in June 2015 led to significant pledges of assistance to help Nepal rebuild.

Nepal faces other challenges, as well as potential opportunities. Trafficking remains a key human rights concern. Nepal also faces challenges related to demographic and climate change driven pressures on the environment. Nepal has extensive and underutilized hydropower potential that, if developed, could hold the promise of improved economic development for the nation.

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Recent Developments

Earthquake

A 7.8 magnitude earthquake struck the Central and Western Regions of Nepal on April 25, 2015. More than 8,000 people were killed and an estimated 3 million people were displaced by the earthquake.[1] An estimated half a million homes were destroyed.[2] The cost of the disaster has been estimated at approximately $7 billion.[3] The Nepali people face the immense challenge of trying to rebuild what was lost. A Nepal National Reconstruction Authority was established by ordinance, but reportedly has been slow to distribute the approximately $4 billion pledged for reconstruction at an international donors conference held in June 2015.[4] While Nepal appears to have largely been spared a cholera outbreak in the aftermath of the earthquake, aid workers are concerned that little has been done to rebuild with winter approaching.

NEPAL IN BRIEF

Population: 31 million, 2014 est.
Area: 147,181 sq. km.; about the size of Tennessee.
Geography: Relatively flat river plain of the Terai in the south, central hill/mountain region and very mountainous Himalaya region of the north.
Capital: Kathmandu; 1.1 million people, 2014 est.
Ethnic/Caste Groups: 125 groups including: Brahman, Chetri, Newar, Gurung, Magar, Tamang, Rai, Limbu, Sherpa, Tharu, et al.
Language: Nepali (official); about 12 others.
Religion: Hindu 81.3%; Buddhist 9%; Muslim 4.2%, 2011 est.
Life Expectancy at Birth: 67.2, 2014 est.
Literacy: Total, 57.4%; female, 46.7%; male, 71.1%, 2011 est.
Per Capita income: $2,400 (at PPP), 2014 est.
Gross Domestic Product growth: 5.5%, 2014 est.
GDP by Sector: Agriculture 31.7%, industry 15.1%, services 53.2%, 2014 est.
Labor by Sector: Agriculture 75%, industry 7%, services 18%, 2010 est.
Urbanization: 18.2%, with 3.2% annual rate of increase, 2014 est.
Export partners: India 53.7%, U.S. 9.2%, China 4.9%, Germany 4.2%, Bangladesh 4.2%, 2013 est.
Population below the poverty line: 25.2%, 2011 est.

Source: CIA, *World Factbook*; *The Economist Intelligence Unit.*

New Constitution

Many observers believe the devastation wrought by the April 2015 earthquake acted as an impetus for the second Constituent Assembly, elected in 2013, to reach agreement on a new constitution. The long-awaited document was voted into effect in September, with 507 of 601 CA members voting in favor. Members of Madhese political parties, representing constituencies in the southern Terai plains, boycotted the vote. The Madhesi Jan Adhikar Forum won 10 seats in the 2013 CA election while the Terai Madhes Loktantrik Party won 11 seats.[5] The new constitution does not delineate provinces along ethnic lines as is desired by some groups in Nepal (see "Political Developments" section below). It also reportedly has stirred agitation by including a provision that full Nepali citizenship only be granted to those individuals with two Nepali parents. Many of the Terai have a parent from India.[6] While many analysts had hoped that the new constitution would provide unity and help to consolidate Nepal's fledgling democracy,

[1] Nicola Davidson, "With Winter on the Way, Nepal Falters in Rebuilding," *New York Times*, October 14, 2015.

[2] Bhadra Sharma, "Nepal: Donors Pledge Aid to Rebuild," *New York Times*, June 26, 2015.

[3] Asian Development Bank, "Nepal: Economy," http://www.adb.org/countries/nepal/economy.

[4] Economist Intelligence Unit, "Reconstruction Faces Bureaucratic and Practical Hurdles," September 23, 2015.

[5] International Foundation for Electoral Systems, ElectionGuide, "Nepal: Election for Constituent Assembly," http://electionguide.org/elections/id/1675.

[6] N. Koirala and Geoffrey McDonald, "Nepal Is in Crisis," *Washington Post*, November 2, 2015.

upon its release it triggered violent protests from among disaffected groups in Nepal's south, who contend that it continues discrimination against them. According to a leader of the Unified Madhesi Democratic Front, an umbrella group of Madhesi political parties, "we are burning the document as it curtailed our rights."[7]

United States-Nepal Relations

The United States recognized an independent Nepal in 1947 and established diplomatic ties in 1948. Relations between the two nations are described by the State Department as friendly.

> U.S. policy objectives toward Nepal center on helping it build a peaceful, prosperous and democratic society. The United States works with Nepal to promote political and economic development, decrease the country's dependence on humanitarian assistance, and increase its ability to make positive contributions to regional security and the broader global community.[8]

U.S. Assistance

Nepal is the 17th-poorest country in the world, with approximately one in four citizens living in poverty.[9] As such, it has a great need for economic development and foreign assistance. United States assistance seeks to "cement gains in peace and security, further the democratic transition, support the continued delivery of essential social services, scale up proven effective health interventions and address the challenges of food insecurity and climate change."[10]

The United States has provided $1.6 billion in assistance to Nepal since 1951. The U.S Agency for International Development (USAID) Country Development Cooperation Strategy (CDCS) for the period 2014-2018 is focused on fostering "a more democratic, prosperous and resilient country." The CDCS features three key development objectives: more inclusive and effective governance, inclusive and sustainable economic growth to reduce extreme poverty, and increased human capital. These development objectives are designed to be mutually reinforcing.[11] Assisting Nepal's efforts to respond to disasters and to stabilization operations and security sector reform are other key areas of United States assistance to Nepal. The FY2016 foreign assistance request for Nepal totals $82.4 million.[12]

Congressional Engagement

A bipartisan Congressional Nepal Caucus is chaired by Representatives Anders Crenshaw and Jared Polis. The caucus serves as "an informal group of Members dedicated to educating the American public and policymakers on U.S. policy objectives toward Nepal including supporting democratic institutions and economic liberalization, promoting peace and stability in South Asia,

[7] B. Sharma and N. Najar, "Nepal Adopts a Constitution," *New York Times*, September 22, 2015.

[8] The Department of State, Bureau of South and Central Asian Affairs, "US Relations with Nepal," February 5, 2015.

[9] United States Agency for International Development, "Economic Growth and Trade," http://www.usaid.gov.nepal.

[10] The Department of State, Bureau of South and Central Asian Affairs, "US Relations with Nepal," February 5, 2015.

[11] United States Agency for International Development, *Nepal: Country Development Cooperation Strategy, Fiscal Years 2014-2018*, March 19, 2014.

[12] Department of State, *Congressional Budget Justification, Foreign Operations, Appendix 3, Fiscal Year 2016*.

supporting Nepalese territorial integrity, and alleviating poverty and promoting development."[13] The House Democracy Partnership has also engaged with Nepal.[14]

Table 1. U.S. Assistance to Nepal, FY2014-FY2016

(FYs in U.S. $ thousands)

Account	2014 actual	2015 estimate	2016 request
Total	81,732	86,434	82,401
DA	—	—	1,668
ESF	33,933	37,800	33,038
FMF	1,750	3,759	5,000
GH	40,900	40,900	38,775
IMET	1,004	900	900
INCLE	3,300	2,230	2,230
NADR	845	845	790

Source: Congressional Budget Justification for Foreign Operations, Department of State, FY2015.

Note: CSH: Child Survival and Health; DA: Development Assistance; ESF: Economic Support Fund; FMF: Foreign Military Financing; IMET: International Military Education and Training; NADR: Nonproliferation, Antiterrorism, Demining, and Related Programs; INCLE: International Narcotics Control and Law Enforcement; GH: Global Health.

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 and there currently are about 70 volunteers working on food security projects in Nepal.[15]

Political Developments

Government

Nepal is a parliamentary democracy led by the Prime Minister and cabinet with a largely ceremonial presidency. The Constituent Assembly (CA) has 601 seats, with 575 elected and 26 appointed by the cabinet. The Nepali Congress Party (NC), with 196 of 575 elected seats, and the Communist Party of Nepal Unified Marxist-Leninist (CPN-UML), with 175 seats, led the government in coalition under the leadership of the NC until recently. Khadga Prasad Sharma Oli of the CPN-UML was elected prime minister by the CA in October 2015. He replaces Sushil Koirala of the NC. Oli has "articulated a tougher line towards India" and is seen as less sympathetic towards the Madhese of the Terai than his predecessor.[16] Many observers see Oli's

[13] "Congressional Nepal Caucus," http://crenshaw.house.gov/index.cfm/ander-crenshaw12345.

[14] House Democracy Partnership, "Roskam, Price Host Debrief of House Democracy Partnership Delegation to Indonesia, Kosovo, Nepal and Timor-Leste," press release, September 10, 2015, http://hdac.house.gov/pdf/2015_Press_Releases/Press-Release-on-CODEL-Public-Briefing-%28Indonesia-Nepal-Kosovo-Timor-Leste%29-9-10-15.pdf.

[15] Peace Corp Nepal, http://nepal.peacecorps.gov.

[16] B. Sharma and Ellen Barry, "Nepal Picks a New Prime Minister," *New York Times*, October 13, 2015.

inclusion of the NC in his coalition as boding well for political stability within parliament. Parliament elected Bidhya Devi Bhandari as the country's first female President on October 28, 2015. The Communist Party of Nepal-Maoist, which was the largest party after the 2008 election, is now the third-largest party in the CA. With 371 of 575 elected seats, the NC and the CPN-UML together enjoy a strong majority. Ethnic, communal, ideological, and regional cleavages continue to be sources of conflict.

Unrest in the Terai

An estimated 45 people were killed in violent protests over the Nepali constitution in August and September 2015. Most of those killed were in the Terai. This recent violence stems from a regionally-based, socio-political cleavage in Nepali society between the Madhese and Tharu people of the Terai and "hill" or Pahadi people who have traditionally held power in Nepal. The Madhese of the lowland Terai region that spans the southern border with India have expressed discontent with the political status quo for some time. Political agitation and violence in the Terai in 2007-2008 led to negotiations with the government to address discrimination against people from the Terai.

According to some reports, strikes by Madhese and police curfews in the Terai have significantly restricted trade across the border with India. The state-owned Indian Oil Corporation also reportedly was instructed not to refuel Nepalese tankers.[17] This has led to severe fuel shortages in Nepal, which Kathmandu has blamed on India. New Delhi denies imposing an unofficial blockade to force changes in Nepal's constitution that would be more favorable for the Madhese, who traditionally have closer ties to India than the rest of Nepal.[18] India did seal the border for 13 months in 1988-1989.[19] The Government of Nepal has responded to the fuel shortage by seeking to reduce its dependence on India and gain greater access to fuel from China. On October 28, 2015, Nepal signed a Memorandum of Understanding with China to import petroleum products from China, which has the potential to end India's monopoly and thereby reduce somewhat India's leverage over Nepal.[20] Transport linkages between Nepal and China are limited at present.

The Maoists previously supported opposition parties who have favored redrawing the country's district map based on ethnic identity in order to address grievances of ethnic groups that feel they have been underrepresented in the key institutions of the state. One concern with this approach is that it could exacerbate divisions within Nepali society by accentuating subnational ethnic, regional, and linguistic identities over identification with the overall state of Nepal. One lesson that disaffected groups may have learned from the Maoist experience is that armed insurrection can be translated into political leverage. The view reportedly held by many in Nepal—that the agitation in the Terai is in some way backed by India—may well have the effect of delegitimizing Madhese or Tharu demands in the eyes of much of the rest of the country.

Historical Context

Religion has long been an important factor for Nepal's inhabitants, where 81% of the population is Hindu and 9% is Buddhist. Nepali is the official language, though there are over 100 regional and indigenous languages spoken in Nepal. The main geographic division in the country is

[17] Donatella Lorch, "Snaking Lines Grow as Nepal Confronts Fuel Shortage," *New York Times,* October 15, 2015.

[18] Human Rights Watch, "Like We Are Not Nepali," October 16, 2015.

[19] "In Dependence," *Nepali Times,* November 26, 2015.

[20] Economist Intelligence Unit, "A Fuel Deal with China Is Secured," October 29, 2015.

between the low-lying and agriculturally productive Terai region and the more mountainous parts of the country.

Never colonized, Nepal was almost totally isolated until the early 1950s. A transition from strict rule by the king to constitutional monarchy began in 1959, when then-King Mahendra issued a new constitution and held the country's first democratic elections. In 1960, however, the king declared the parliamentary system a failure, dismissed the fledgling government, suspended the constitution, and established a party-less system of rule under the monarchy. Although officially banned, political parties continued to operate and to agitate for a return to constitutional democracy.

In February 1990, student groups and the major political parties launched the Movement for the Restoration of Democracy. The centrist Nepali Congress (NC) party joined with the leftist parties to hold peaceful demonstrations in Nepal's urban centers. Two months later, after more than 50 people were killed when police fired on a crowd of demonstrators, then-King Birendra turned power over to an interim government. This government drafted a constitution in November 1990, establishing Nepal as a parliamentary democracy with a constitutional monarch as head of state. The king at that time retained limited powers, including the right to declare a state of emergency with the approval of a two-thirds majority of parliament.[21]

In 1996, the leaders of the underground Communist Party of Nepal Maoist (CPN-M) launched a "People's War" in the mid-western region of Nepal, with the aim of replacing the constitutional monarchy with a one-party communist regime. The uprising appears to have been fueled by widespread perceptions of government corruption and failure to improve the quality of life of citizens, including providing access to cultivable land. The Maoists ran a parallel government, established their own tax system, burned land records, and redistributed seized property and food to the poor in 45 districts.[22] The insurgency was waged in part through torture, killings, and bombings targeting police, the military, and public officials. A number of bank robberies, combined with "revolutionary tax" revenue, made the Nepali Maoists one of the wealthiest rebel groups in Asia.[23]

The Kathmandu government faced additional turmoil in June 2001, when Crown Prince Dipendra shot and killed his parents, King Birendra and Queen Aishwarya; seven other members of the royal family; and himself, reportedly after a disagreement over whom he should marry. This incident did much to undermine the legitimacy of the monarchy. King Gyanendra, the former king's brother, was crowned on June 4, 2001, and he appointed a commission to investigate the assassinations. By mid-June, the country began returning to normal following rioting and widespread refusal to believe official accounts of the massacre. In July 2001, then-Prime Minister Girija Prasad Koirala stepped down amid fears of continuing instability and his government's failure to deal with the growing Maoist insurgency. He was replaced by NC leader Sher Bahadur Deuba, who then became the head of Nepal's 11th government in as many years.

Constitutional Crisis

During the summer of 2002, the government of Nepal was thrown into a constitutional crisis that interfered with its ability to effectively combat the Maoist insurgency. The crisis began in late May, when King Gyanendra dissolved parliament and unilaterally declared a three-month

[21] For more on Nepal's recent history see Prashant Jha, *Battles of the New Republic: A Contemporary History of Nepal* (London: Hurst and Company, 2014).

[22] Aniket Alam, "Abductions, a Political Message by Maoists?" *The Hindu*, January 23, 2005.

[23] Bertil Litner, "Nepal's Maoists Prepare for Final Offensive," *Jane's Intelligence Review*, October 2002.

extension of emergency rule, which had expired. The Prime Minister, who also scheduled early elections for November 2002, reportedly took such action after his centrist Nepali Congress party refused to support his plan to extend emergency rule. Following his actions, 56 former members of Parliament filed a lawsuit against him, claiming there was no constitutional precedent for the dissolution of parliament during emergency rule. In August 2002, the Supreme Court rejected this lawsuit. Although opponents of the Prime Minister agreed to accept the verdict, they emphasized the difficulty of holding free and fair elections two years ahead of schedule when much of the country was then under either rebel or army control.[24]

Although the prime minister pledged that there would be no emergency rule during the scheduled November 2002 elections, Maoist attacks and threatened strikes prompted the government to consider various measures to prevent a Maoist disruption of the polls. The government discussed imposing a partial state of emergency in areas most affected by the insurgency. However, opposition parties, which urged the government to open a dialogue with the Maoists, argued that by curbing civil liberties, emergency rule would inhibit free and fair elections. As an alternative, the government announced in September 2002 that it would hold the elections in six stages over two months, starting in mid-November, so that government troops could be transferred around the country to protect voters and candidates.[25] After further deliberation, however, Nepal's cabinet concluded that the security situation was too risky to hold elections. On October 3, 2002, the cabinet asked King Gyanendra to postpone the national elections for one year.[26] The next day, the king dismissed the prime minister, disbanded his cabinet, and assumed executive powers.

The King's Takeover

The security situation in Nepal deteriorated after the collapse of the cease-fire between the Maoists and the government in August 2003. The Maoists favored drafting a new constitution that would abolish the monarchy. The king opposed such a move and wanted the Maoists to relinquish their weapons. Accommodation between the monarchy and opposition democratic elements was widely seen as a key to creating the unified front necessary to defeat the Maoists. With his direct assumption of powers, and arrest of opposition democratic elements, the king decided to try defeating the Maoists without political support. This move proved to be the beginning of the end of the power of the monarchy in Nepal.

After seizing direct power in early 2005, King Gyanendra exerted control over democratic elements, but made little progress in the struggle against the Maoists. The king reportedly thought he could take advantage of a split in the Maoist leadership and disarray amongst democrats to seize control and use the Royal Nepal Army (RNA) to defeat the Maoists.[27] The seizure of power by the king appears to have been aimed as much, if not more so, at asserting the king's control over democratic forces. Many observers felt that a military solution to the conflict with the Maoists was not achievable and that a concerted effort by the king and the democrats was needed to establish a unified front to defeat the Maoists.[28]

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[24] "Parties React to Court Ruling Backing PM's Right to Dissolve Parliament," *BBC Monitoring South Asia*, August 7, 2002; Shusham Shrestha, "Nepal PM's Foes Begrudgingly Accept Court Approval of Early Elections," *Agence France-Presse*, August 7, 2002.

[25] Binaj Gurubacharya, "Nepal to Hold Elections in Stages," *Associated Press Newswire*, September 28, 2002.

[26] Gopal Sharma, "Nepal Cabinet Seeks to Put Off Elections by a Year," *Reuters News*, October 3, 2002.

[27] Chitra Tiwari, "India Delivers Arms to Nepal," *The Washington Times*, May 14, 2005.

[28] "US Envoy Warns Political Crisis Could Benefit Maoists," *BBC News*, May 24, 2005.

When the king assumed power, he stated that he would take steps to reinstate a constitutional democracy within 100 days, which he then failed to do. Although some political prisoners were released by the king, hundreds of others remained under arrest and restrictions on civil liberties, such as public assembly and freedom of the press, remained in place. A U.N. Office of the High Commissioner of Human Rights team was established in Nepal in April 2005 to monitor the observance of human rights and international humanitarian law.[29]

By moving against the democrats, who under different circumstances could have worked with the monarchy against the Maoists, the king strengthened the position of the Maoists at that time. By some estimates, almost half of the RNA was occupied with palace security, civil administration, and efforts to restrict communications and civil rights.[30] The king's legitimacy with the people was weakened due to the circumstances under which he assumed the throne, the way he seized direct rule, and poor popular perceptions of his son, Prince Paras Shah.[31] The former crown prince was unpopular with Nepalis "for his drunken antics and playboy lifestyle."[32]

Maoist Reaction

From February 13 to 27, 2005, the Maoists reacted to the king's actions by blockading major highways linking the country's 75 districts, as well as international road links to India and China.[33] This led to clashes between Maoists and the RNA and brought trade by road to a standstill. The army organized armed convoys, which allowed limited trade to continue.[34] The Maoists had earlier cut off land routes to Kathmandu in August 2004.[35] During the week-long blockade in 2004, prices of some basic foods more than doubled and fuel was rationed.[36] This increase in food prices reportedly recurred in the 2005 blockade. By blockading Kathmandu, the Maoists successfully increased pressure on the king's government and demonstrated their power. This action demonstrated the political leverage that could be gained by blockading the capitol.

Democratic Uprising

In April 2006, mounting popular resistance in support of the political parties led King Gyanendra to hand over power to a Seven Party Alliance. This followed weeks of violent protests and demonstrations against direct royal rule in Nepal. The Seven Party Alliance that opposed the king in April included the following parties:

- The Nepali Congress (NC);
- Communist Party of Nepal Unified Marxist-Leninist (CPN-UML);
- Nepali Congress (Democratic) or NC (D);
- Nepal Sadbhavana Party (Anandi Devi) or NSP (A);
- Jana Morcha Nepal;

[29] "UN High Commissioner for Human Rights Appoints Chief for Nepal Monitoring Operation," *M2 Presswire,* April 29, 2005.

[30] S.D. Muni, "Thy Hand, Great Monarch!" *The Hindustan Times*, February 8, 2005.

[31] The Economist Intelligence Unit, *Nepal: A Country Report*, February 2005; John Lancaster, "King Claims Absolute Authority in Nepal," *Washington Post*, February 2, 2005.

[32] Charles Haviland, "Ousted Nepal Prince Leaves Nation," *BBC News*, July 2, 2008.

[33] "Maoist Blockade Creates Chaos in Nepal," *Hindustan Times*, February 22, 2005.

[34] "Nepal Rebels Attack Highway Convoy," *Reuters*, February 20, 2005.

[35] "Maoist Rebels Cut off Kathmandu," *ABC Radio Australia*, August 8, 2004.

[36] "Bombs on the Tennis Courts, No Petrol in the Pumps," *The Economist,* August 28, 2004.

- Samyukta Baam Morcha (United Left Front) or ULF; and
- Nepal Workers and Peasants Party (NWPP).

The Maoists were not part of the Seven Party Alliance, though they worked with the alliance to oppose the monarchy. This was made possible by the king's political crackdown on the democrats. The seven parties worked together through their alliance to promote a more democratic Nepal in the face of direct rule by the king. In May 2006, six of the seven political parties formed a coalition government. In November 2006, the Seven Party Alliance and the Maoists reached a peace agreement, ending a decade-old insurgency that claimed over 13,000 lives. In it, the Maoists agreed to put down their arms and postpone a decision on the future disposition of the monarchy until after the election of a Constituent Assembly. Under the peace agreement, Constituent Assembly elections were to be held by the end of June 2007. This election date slipped, but Constituent Assembly elections were eventually held in April 2008. This CA was disbanded after failing to reach agreement on a new national constitution.

A second CA was elected in 2013 to draft a new constitution. Voter turnout for this election increased from 56.5% of registered voters in 2008 to 77.6% in 2013. These elections marked a largely peaceful shift to the center-right of Nepali politics with the Nepali Congress (NC) Party and the Communist Party of Nepal Unified Marxist-Leninist (CPN-UML) gaining relative to the Communist Party of Nepal–Maoist (CPN-M), which had previously led the bloody armed struggle against the state. The second CA reached agreement on a new constitution in September 2015 (see "New Constitution" section above).

The Economy

Nepal's economy faces the twin challenge of rebuilding after the April 2015 earthquake while also dealing with the economic impact of the political unrest in the Terai that is limiting cross-border trade with India. The situation in the Terai could further undermine economic growth in 2015. Real GDP growth is expected to slow from 5.4% in 2014 to 3.4% in 2015. Many have attributed this to the earthquake of April 2015.

The fuel shortage brought on by strife in the Terai is the most pressing aspect of the breakdown in cross-border trade with India. New arrangements with China appear set to alleviate some of Nepal's dependence on India as a source of fuel imports. Some observers have speculated that the trade blockade could lead to a negative economic growth rate for Nepal. Nepal has not had a negative economic growth rate since 1982.[37]

Rebuilding damaged and destroyed housing and infrastructure caused by the earthquake will likely take years. Observers believe that future economic growth will be modestly stimulated by government spending on reconstruction. According to the Asian Development Bank, the total cost of recovery from the earthquake is estimated at $7.1 billion, equal to approximately one-third of Nepal's GDP. Development partners have pledged $4 billion in grants and loans over five years.[38]

Nepal's economy is heavily dependent on agriculture. Agriculture employs 75% of the country's work force. Agriculture, forestry, and fisheries account for 31.7% of GDP by sector of origin while services account for 53.2% and industry 15.1%.

[37] P.M. Shrestha, "Country Braces for Negative Economic Growth," *Kathmandu Post,* November 21, 2015.

[38] Asian Development Bank, "Nepal: Economy," http://www.adb.org/countries/nepal/economy.

The United States is one of Nepal's key trade partners. India (59.7%), the United States (8.6%), China (4.6%), and Germany (3.5%) are the key destinations for Nepal's exports while India (57%) and China (29.5%) are the main sources of Nepal's imports.[39] The United States and Nepal have signed a Trade and Investment Framework Agreement to enhance bilateral trade and investment.[40] "U.S. exports to Nepal include agricultural products, aircraft parts, optic and medical instruments and machinery."[41]

Hydropower

Nepal's substantial hydropower potential is viewed by many analysts as an important means of stimulating economic growth and development. With 6,000 rivers of various sizes, many with steep gradient, Nepal is estimated by some to have 40,000 MW of hydropower potential. It has thus far developed 680 MW of hydropower capacity. With only an estimated 40% of the population with access to electricity, future demand is projected to grow by 7%-9% annually.[42] The United States is supporting the expansion of economic growth, employment and energy exports through its Nepal Hydropower Development Project, which is a five-year, $9.8 million project being implemented by Deloitte Consulting.[43] China and India have also sought to support Nepal's hydropower development. The China International Water and Electric Corporation has an 80% share of the 25 MW Madi Hydro project in Kaski District. This project has been delayed by the blockade in the Terai.[44] China is also reported to be investing $1.6 billion toward the construction of a 750 MW hydropower project in West Seti.[45]

Remittances

Remittances from Nepalis working abroad are vital to the Nepalese economy. Estimates of their value vary from 20% to 30% of GDP.[46] They further are predicted to rise from $7.1 billion in 2014 to $8.8 billion in 2016 as Nepalis abroad send larger sums home to help rebuild after the earthquake.[47] An estimated 3.5 million Nepalese work abroad, most of them in unskilled or semi-skilled work in construction, manufacturing, or domestic work. Major destinations for Nepalese working abroad include Saudi Arabia, South Korea, the United Arab Emirates, Qatar, Kuwait, Malaysia, Oman, and Japan. The number of Nepalese going to India for work is not known, but is believed to be sizeable.[48]

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[39] The Economist Intelligence Unit, *Nepal*, 2015.

[40] The Department of State, Bureau of South and Central Asian Affairs, "U.S. Relations with Nepal," February 5, 2015.

[41] The Department of State, Bureau of South and Central Asian Affairs, "U.S. Relations with Nepal," February 5, 2015.

[42] Hydroelectricity Investment and Development Company Limited, "Nepal Hydropower Overview," http://www.hidcl.org.np.

[43] Embassy of the United States, Kathmandu, "US Government Supports Expansion of Nepal's Hydropower," http://nepal.usembassy.gov.

[44] "Terai Banda Blockade Hit Hydel Projects," *investing.com*, November 4, 2016.

[45] "Nepalese Thorn in Indian Flesh," *The Day After*, November 1, 2015.

[46] "Remittances Play a Big Role in Nepal's Economy," Data from World Bank, http://data.worldbank.org. Remittances are accounted for under services.

[47] Economist Intelligence Unit, "Asia: Relying on Remittances in a Globalised World," http://country.eiu.com.

[48] Kamal Dev Bhattarai, "The Plight of Nepal's Migrant Workers," *The Diplomat*, August 11, 2014.

Human Rights

There are a number of human rights concerns about Nepal. Ongoing political turmoil has delayed the establishment of the National Human Rights Commission and the Truth and Reconciliation and Disappearance commissions. Discrimination based on caste and ethnicity remains, as do problems with poor prisons, and the courts reportedly remained vulnerable to political pressure, bribery, and intimidation. There were also restrictions on the freedom of assembly and harassment of the media. Corruption reportedly remains widespread, and the freedoms of refugees are limited. It is also reported that "the government made little progress in combating forced and bonded labor, which persisted despite laws banning the practice."[49]

Trafficking

Trafficking in persons remains a serious problem in Nepal. According to USAID, while trafficking of women and children, particularly to India, for sexual exploitation continues, "various emerging trends of human trafficking are a growing concern in Nepal. These include cases of organ trafficking, internal trafficking, fake foreign marriages, and international labor trafficking."[50] Each year as many as 20,000 women and young girls reportedly are trafficked from Nepal to India every year.[51]

The April 2015 earthquake may have increased the vulnerability of women and marginalized groups to traffickers. In June, USAID's Office of Foreign Disaster Assistance provided additional funding to expand ongoing projects to combat trafficking in Nepal.[52] The State Department's 2015 Trafficking in Persons report assigned Nepal a "Tier 2" ranking, and recognized that the "Government of Nepal has made progress through increased efforts to prevent human trafficking."[53] The report also noted that the increased effort reportedly led to only 203 convictions in 2014.[54]

Religious Freedom

Nepal is an overwhelmingly Hindu (81.3%) nation with significant Buddhist (9%) and Muslim (4.4%) minorities. "Discrimination against members of lower castes, particularly Dalits, remained widespread and inhibited their access to Hindu temples and ability to participation in religious events."[55] Most Nepali Muslims are Sunnis.

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[49] Department of State, "Executive Summary, Nepal 2014 Human Rights Report," July 31, 2015.

[50] USAID, "Combating Trafficking in Persons (CTIP) Project," https://www.usaid.gov/nepal/fact-sheets/combating-trafficking-in-persons-ctip.

[51] Austin Myer, "The Border into Sex Slavery," *New York Times*, October 28, 2015.

[52] USAID, "Combating Trafficking in Persons (CTIP) Project," https://www.usaid.gov/nepal/fact-sheets/combating-trafficking-in-persons-ctip.

[53] Embassy of the United States, Kathmandu, "US Trafficking in Persons Report Recognizes Nepal's Increased Effort," http://nepal.usembassy.gov.

[54] Embassy of the United States, Kathmandu, "2015 Trafficking in Persons Report: Nepal: Tier 2," http://nepal.usembassy.gov/2015-trafficking-in-persons-report.html.

[55] Department of State, "Executive Summary, International Religious Freedom Report for 2014: Nepal," http://www.state.gov/j/drl/rls/irf/religiousfreedom/index.htm?year=2014&dlid=238502.

Refugees

Lhotshampa

Tens of thousands of Lhotshampa, or ethnic Nepalese living in Bhutan, were expelled from Bhutan in the late 1980s and 1990s. This led to over 100,000 Lhotshampa refugees in Nepal by 2006. The United States, Australia, Canada, Denmark, Netherlands, New Zealand, Norway, and the United Kingdom have resettled most of these refugees.[56] The United States has taken in 84,500 Lhotshampa out of a total of 100,000 that have been resettled (as of November 2015). An estimated 10,000-12,000 Lhotshampa are believed to desire to remain in Nepal.[57]

Tibetans

Tibetan refugees total approximately 15,000-20,000 people out of Nepal's total population of 31 million. The Tibetan population in Nepal stems from those who fled from Tibet to Nepal following the Dalai Lama's escape to India in 1959. Between 1959 and 1989 the government of Nepal recognized and registered Tibetans crossing the border into Nepal as refugees. After 1989 Tibetans were not allowed to settle permanently in Nepal but were allowed to transit on their way to India. Diplomatic pressure from China following a wave of protests across the Tibetan plateau in 2008 led the government of Nepal to suppress Tibetan political activism in Nepal and, according to HRW, "Restrictions on Tibetans' rights in Nepal and on the Nepal-China border have grown much more stringent since 2008."[58] The number of Tibetans crossing from China into Nepal has diminished from an estimated 2,200 per year before the 2008 protests in Tibet to 171 in 2013.[59]

In 2015 Congress earmarked assistance for the Tibetan community in Nepal and India through Section 7043(a)(6)(b) of the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235), which states that "Funds appropriated by this Act under the heading 'Global Health Programs,' 'Development Assistance,' 'Economic Support Fund,' and 'Migration and Refugee Assistance' shall be made available for programs to promote and preserve Tibetan culture and the resilience of Tibetan communities in India and Nepal."[60]

The Environment

Nepal can be divided ecologically into the lowland Terai, the intermediate hill, and mountainous Himalaya regions. Nepal's "diversity of eco-climatalogical conditions ... is mainly due to its enormous altitudinal gradient, its location at the interface of the Tibetan plateau and the plains of northern India, and its highly dissected mountain terrain."[61] Nepal is heavily reliant on its natural resources.

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[56] The Department of State, "Bhutanese Refugees in Nepal," http://www.state.gov.

[57] Embassy of the United States, Kathmandu, "United States Resettles 100,000th Bhutanese Refugee from Nepal," http://nepal.usembassy.gov.

[58] Human Rights Watch (HRW), "Under China's Shadow: Mistreatment of Tibetans in Nepal."

[59] Human Rights Watch (HRW), "Under China's Shadow: Mistreatment of Tibetans in Nepal," April 1, 2014, pp. 4-7.

[60] For more information see CRS Report R43781, *The Tibetan Policy Act of 2002: Background and Implementation*, by Susan V. Lawrence.

[61] S. Manandhar, et al. "Adapting Cropping Systems to Climate Change in Nepal," *Regional Environmental Change,*

Climate Change

Studies have found that Nepal is "experiencing gradual changes in climate."[62] Nepal is ranked as the 13th most vulnerable country to the effects of climate change and is a focus country for the U.S. Global Climate Change Initiative.[63] Widespread poverty and dependence on agriculture, which employs most people, makes Nepal vulnerable to climate change. With little irrigated land, agriculture in Nepal is dependent on rain from the Asian monsoon despite 6,000 rivers, both great and small, in the country. Deglaciation caused by rising temperatures due to climate change is predicted by some experts to cause growth of glacial lakes and increase the risk of subsequent flooding.

Soil loss from erosion, landslides, and floods is a major cause of decline in agricultural production in Nepal. A history of deforestation has contributed to landslides and also exacerbates flooding and erosion.[64] Between 1990 and 2005 Nepal is thought by some to have lost 24.5% of its forest cover.[65] Others, while acknowledging high rates of deforestation, point to a lack of robust or comprehensive data. Rising temperatures may also increase the prevalence of diseases such as malaria, kalaazar, and Japanese encephalitis.[66] Because of its dependence on rain-fed agriculture any potential change to the monsoon rains could have a significant impact on the livelihoods of a majority of Nepalese. Its poverty also makes Nepal poorly placed to mitigate negative impacts of climate change.

Wildlife Preservation

While huge numbers of elephants, rhinos, and other endangered animals continue to be poached worldwide, Nepal has made significant progress in protecting its endangered species. Not a single rhino is known to have been poached in Nepal in 2013. This contrasts starkly with South Africa, where rhino poaching increased 5,000% between 2007 and 2012.[67] The key to this success appears to be patrolling by the army and a community-based approach to wildlife protection. Some 30%-50% of park entry fees reportedly goes to communities near wildlife preserves. Nepal's integrated approach, which is based on collaboration between park agencies, national law enforcement, Interpol's Wildlife Crime Working Group, and local communities, appears to be the basis of the country's success in preserving its wildlife.[68]

External Affairs

Nepal is a landlocked geopolitical buffer state, like nearby Bhutan, that is situated between two Asian giants. India and China fought a border war in 1962 in the Himalayan mountains near Nepal, which led to ongoing territorial disputes between those two nations. Tensions along the India-China border have mounted from time to time with concomitant troop buildups. Nepal's

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July 2010.

[62] S. Manandhar, et al. "Adapting Cropping Systems to Climate Change in Nepal," *Regional Environmental Change,* July 2010

[63] USAID, "Environment and Global Climate Change," http://www.usaid.gov/nepal/environment.

[64] "Nepal Earthquake Case Studies: Deforestation," http://sites.dartmouth.edu.

[65] "Nepal: Forestry Data," *mongabay.com,* http://rainforests.mongabay.com/deforestation/archive/Nepal.htm.

[66] Arun Shrestha and Raju Aryal, "Climate Change in Nepal and Its Impact on Himalayan Glaciers," *Regional Environmental Change,* November 2010.

[67] "Nepal Defeats Wildlife Trade," *New York Times,* March 18, 2014.

[68] Murithi Mutiga, "Villagers Can Lead the Way," *New York Times,* March 27, 2014.

reliance on these two huge neighbors leads it to seek amicable relations with both, though trade, religious, and cultural ties with India have historically been closer.

Nepal-India Relations

India and Nepal have a tradition of close cooperation in the area of defense and foreign affairs. Nepal also is heavily dependent on India as the primary source of imports, its main market for exports, and for access to the sea through the port of Kolkata. A significant percentage of all foreign investment in Nepal also comes from India. Moreover, the Himalayan mountain range along Nepal's northern border limits access to China, whereas the 500-mile southern plains border with India is relatively open. Some sectors of the Nepali leadership have reportedly long resented Indian economic influence and have sought to establish a more independent foreign policy, which could draw Nepal closer to China. Kathmandu has at times sought to counterbalance what it considers undue pressure from India. Prime Minister Narendra Modi's state visit to Kathmandu in August 2014 was the first by an Indian prime minister in 17 years. The two countries agreed to refresh their bilateral Treaty of Peace and Friendship and India plans to extend $1 billion in concessionary loans to Nepal to develop hydropower and infrastructure. India pledged $1 billion in additional assistance for reconstruction in Nepal following the 2015 earthquake.[69]

It is not entirely clear to what extent if at all India orchestrated a blockade of energy supplies to Nepal. India reportedly sought to influence Nepal to alter its new constitution to take into account the interests of the Tharu and Madhese of the Terai. To some observers it appears that India will have to change its policy if it wishes to remove incentives for Nepal to seek to further develop its energy, trade, and other linkages with China. According to the Economist Intelligence Unit, the fuel agreement between Nepal and China could "end India's position as holding a monopoly on fuel supplies and enhance China's influence in Nepal, altering the regional balance of power."[70]

Nepal-China Relations

China has in recent years made significant inroads in developing ties with South Asian and Indian Ocean littoral states. Some view this engagement as predominantly being economically driven, while others, particularly analysts in New Delhi who follow strategic issues, increasingly view Chinese activity with geopolitical alarm. China promised $483 million in post-earthquake assistance to Nepal at the donors conference in June 2015.[71] China reportedly has plans to extend the Qinghai-Llasa railway line to Kathmandu, though some have challenged the technical feasibility of the plans.[72] As discussed above, Nepal has been a transit country for Tibetans seeking to flee Chinese repression in Tibet. Most of those entering Nepal from Tibet move on to settle in India. The Government of Nepal closely monitors Tibetan refugees, restricts their freedom of assembly and expression, and enforces restrictions that make it difficult for Tibetans to obtain documents necessary for access to public services.[73]

[69] Bhadra Sharma, "Nepal: Donors Pledge Aid to Rebuild," *New York Times*, June 26, 2015.

[70] The Economist Intelligence Unit, "A Fuel Deal with China Is Secured," October 29, 2015.

[71] Bhadra Sharma, "Nepal: Donors Pledge Aid to Rebuild," *New York Times*, June 26, 2015.

[72] "Nepalese Thorn in Indian Flesh," *The Day After*, November 1, 2015.

[73] Human Rights Watch, "Under China's Shadow: Mistreatment of Tibetans in Nepal," March 2014.

Peacekeeping

Nepal is the sixth-largest contributor to United Nations-sponsored peacekeeping operations. In 2015, Nepal had approximately 4,000 troops and 1,000 police deployed to 14 U.N. missions. Between 1955 and 2014 Nepal deployed a total of 110,000 troops to 41 different U.N. peacekeeping missions.[74] The United States provided $1.8 million in peacekeeping equipment to Nepal under the Global Peacekeeping Operations Initiative in 2015. [75]

Chronology[76]

June 2001	Crown Prince Dipendra kills his father King Birendra and nine other members of the Royal Family, including his mother, sister, and brother. Dipendra also kills himself. Dipendra's brother Gyanendra becomes king.
February 2005	King Gyanendra dismisses the government, declares a state of emergency, and assumes direct rule.
November 2005	Maoists and political parties agree on a plan to restore democracy.
April 2006	Opposition demonstrations force the king to reinstate parliament and abandon direct rule. The Maoists declare a cease-fire.
May 2006	Parliament cuts the king's political power and the government begins talks with the Maoists.
September 2006	The king's power over the armed forces is taken away.
November 2006	A peace agreement between the government and the Maoists ends the 10-year insurgency. The Maoists agree to join a transitional government and have their weapons monitored by the United Nations.
January 2007	Unrest in the Terai mounts.
April 2007	The Maoists join an interim government headed by Nepali Congress Leader Koirala.
April 2008	Constituent Assembly elections are held.
May 2008	The monarchy is formally abolished and Nepal becomes a republic.
July 2008	Ram Baran Yadav of the Nepali Congress becomes president.
August 2008	A Maoist-led government takes office.
May 2009	Former Prime Minister Prachanda resigns over dispute with Chief of Army. A 22-member Coalition government replaces Maoists.
January 2011	The U.N. Mission in Nepal (UNMIN) leaves Nepal.
February 2011	A CPN-UML-led government is elected by the CA with CPN-M support. Jhala Nath Kanal is named prime minister.
August 2011	CPN-M leader Bhattari is elected prime minister.
May 2012	The Constituent Assembly fails to meet final deadline for drafting a new constitution.
November 2013	A second Constituent Assembly is elected.
November 2013	Political deadlock follows elections with no majority party.
February 2014	S. Koirala of the Nepali Congress is elected prime minister.

[74] Nepalese Army, "The Nepalese Army in UN Peace Support Operations," http://www.nepalarmy.mil.np/na_un.php.

[75] Embassy of the United States, Kathmandu, "U.S. Embassy Turns over $1.8 Million in Peacekeeping Equipment," March 6, 2015, http://nepal.usembassy.gov.

[76] This chronology is drawn from "Timeline: Nepal," *BBC News*, as well as from Economist Intelligence Unit reports and other sources.

April 2015	A 7.8 earthquake kills thousands and devastates housing and infrastructure.
September 2015	The second Constituent Assembly agrees on a new constitution. Violent protests in the Terai follow agreement on the new constitution.

Figure 1. Map of Nepal

Source: Produced by CRS.

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