NEPAL PROFILE (2013) (from the US Dept. of State)
*Nepal is the only country in the world whose flag is not rectangular or square*

Geography:
- **Area:** 147,181 sq. km. (56,136 sq. mi.), about the size and shape of Tennessee, bordering China and India.
- **Cities:** Capital--Kathmandu (3 districts) (pop. 2.2 million est.). Other cities--Biratnagar, Patan, Pokhara, Birgunj, Dharan, Nepalgunj.
- **Terrain:** Flat and fertile in the southern Terai region; terraced cultivation and swiftly flowing mountain rivers in the central hills; and the high Himalayas in the north. Eight of the world's ten highest peaks are in Nepal, including Mount Everest. Kathmandu, the capital, is in a broad valley at 1,310 meters (4,300 ft.) elevation.
- **Climate:** Ranging from subtropical in the south to temperate in the hills to arctic at high altitudes. The monsoon season is from June to September, during which showers occur almost every day, bringing 75 to 150 centimeters (30-60 in.) of rain.
- **Time Zone:** Nepal is 10 hours and 45 minutes ahead of Eastern Standard Time and does not observe daylight saving time.

People
- **Nationality:** Noun--Nepali (sing.) or Nepalese (plural). Adjective--Nepalese or Nepali.
- Population breakdown/distribution (from 2001 census): Rural (86%); female (50%); in the southern Terai region (49%); in the hills (44%); in the mountains (7%). The next census will be done in 2011.
- **Ethnic groups** (caste and ethnicity are often used interchangeably): Brahman, Chetri, Newar, Gurung, Magar, Tamang, Rai, Limbu, Sherpa, Tharu, and others.
- **Religions** (from 2001 census): Hinduism (81%), Buddhism (11%), Islam (4%), and others (4%). The next census will be done in 2011.
- **Languages:** Nepali and more than 100 regional and indigenous languages.
- **Education:** Years compulsory--none, although education is free through Grade 8. Attendance--primary 84% (86% male, 82% female), secondary 43.5% (46% male, 41% female). Literacy--57% (among youth age 15-24: 85% male, 73% female).
- **Health:** Infant mortality rate (2008 estimate)--41 deaths/1,000 live births. Life expectancy--67 years.
- **Work force:** Agriculture 73.9%; non-agriculture 26.1%.

Government
- **Type:** Representative democracy.
- **Constitution:** Interim constitution promulgated on January 15, 2007. Constituent Assembly convened May 2008 to draft a new constitution. In May 2010, the deadline for the drafting of the constitution was extended 1 year.
- **Branches:** Executive--President (head of state), Prime Minister (head of government). Legislative--The Constituent Assembly is a unicameral Parliament, consisting of 601 members; 240 members were elected through a direct electoral process representing single-member constituencies across the country; 335 members were nominated from party lists through a proportional representation system; and 26 were nominated by the cabinet as representatives of ethnic and indigenous communities. Judicial--Supreme Court, 16 appellate courts, 75 district courts.
- **Political parties:** United Communist Party of Nepal-Maoist (UCPN-M), formerly known as the Communist Party of Nepal-Maoist (CPN-M), (on the U.S. terrorist exclusion list); Nepali Congress (NC); Communist Party of Nepal-United Marxist Leninist (CPN-UML); Madhesi People's Rights Forum (MPRF); Madhesi People’s Right Forum-Democratic (MPRF-D); Tarai Madhes Democratic Party
(TMDP); Sadbhavana Party (SP); Rastriya Prajatantra Party (RPP); and 17 others. Elections: Constituent Assembly election held on April 10, 2008.

- National Day: Republic Day, Jestha 15 (May 28); Democracy Day, Falgun 7 (mid-February). (Note: Jestha and Falgun are months of the Nepalese calendar.)

**Economy**

- Natural resources: Water, hydropower, limited but fertile agricultural land, timber.
- Agriculture (34% of GDP): Products--rice, wheat, maize, sugarcane, oilseed, jute, millet, potatoes. Cultivated land--25%.
- Industry (16% of GDP): Types--carpets, pashmina, garments, cement, cigarettes, bricks, sugar, soap, matches, jute, manufactured goods, hydroelectric power.
- Official exchange rate (as of December 6, 2010): NPR 71.79 = U.S. $1.00.

**PEOPLE**

Perched on the southern slopes of the Himalayan Mountains, Nepal is as ethnically diverse as its terrain. The Nepalese are descendants of three major migrations from India, Tibet, and central Asia. Among the earliest inhabitants were the Newars of the Kathmandu Valley and aboriginal Tharus in the southern Terai region. The ancestors of the Brahman and Chettri caste groups came from India, while other ethnic groups trace their origins to central Asia and Tibet, including the Gurungs and Magars in the west, Rais and Limbus in the east, and Sherpas and Bhotias in the north.

The Terai, a part of the Ganges Basin with 20% of Nepal's land, is the country's breadbasket. Much of the population is physically and culturally similar to the Indo-Aryan people of northern India. People of Indo-Aryan and Mongoloid origin live in the hill regions. The mountainous highlands are sparsely populated. The Kathmandu Valley, in the middle hill region, constitutes a small fraction of the nation's area but is the most densely populated, with over 7% of the population.

Religion is important in Nepal; the Kathmandu Valley alone has more than 2,700 religious shrines. According to the 2001 census, Nepal is roughly 81% Hindu. Buddhists account for about 11% of the population. The interim constitution, promulgated on January 15, 2007, declared the country a "secular state." Buddhist and Hindu shrines and festivals are respected and celebrated by many. The government celebrates most Hindu and some Buddhist holidays. Nepal also has small Muslim and Christian minorities. Certain animistic practices of old indigenous religions also survive.

Nepali is the official language, although over 100 regional and indigenous languages are spoken throughout the country. Derived from Sanskrit, Nepali is similar to Hindi and is spoken by about 90% of the population (although often as a second or third language). Many Nepalese in government and business also speak Hindi and English.

**HISTORY**

**Early History**

Modern Nepal was created in the latter half of the 18th century when Prithvi Narayan Shah, the ruler of the small principality of Gorkha, formed a unified country from a number of independent hill states. The country was frequently called the Gorkha Kingdom, the source of the term "Gurkha" used for Nepali soldiers. After 1800, the heirs of Prithvi Narayan Shah proved unable to maintain firm political control over Nepal. A period of internal turmoil followed, heightened by Nepal's defeat by the British in a war from 1814 to 1816. Stability was restored after 1846 when the Rana family gained power, entrenched itself through hereditary prime ministers, and reduced the monarch to a figurehead. The Rana regime, a highly centralized
autocracy, pursued a policy of isolating Nepal from external influences. This policy helped Nepal maintain its national independence during the colonial era, but also impeded the country's economic development.

In 1950, King Tribhuvan, a direct descendant of Prithvi Narayan Shah, fled his "palace prison" to newly independent India, touching off an armed revolt against the Rana administration. This allowed the return of the Shah family to power and, eventually, the appointment of a non-Rana prime minister. A period of quasi-constitutional rule followed, during which the monarch, assisted by the leaders of fledgling political parties, governed the country. During the 1950s, efforts were made to frame a constitution for Nepal that would establish a representative form of government, based on the British model.

Democracy Develops

In early 1959, King Mahendra, who had succeeded his father Tribhuvan in 1955, issued a new constitution and the first democratic elections for a national assembly were held. The Nepali Congress Party, a moderate socialist group, gained a substantial victory in the election. Its leader, B.P. Koirala, formed a government and served as Prime Minister.

Declaring parliamentary democracy a failure 18 months later, King Mahendra dismissed the Koirala government and promulgated a new constitution on December 16, 1962. The new constitution established a "partyless" system of panchayats (councils), which King Mahendra claimed was a democratic form of government closer to Nepalese traditions. As a hierarchical structure progressing from village assemblies to a Rastriya Panchayat (National Parliament), the Panchayat system enshrined the absolute power of the monarchy and kept the King as head of state with sole authority over all governmental institutions, including the Cabinet (Council of Ministers) and the Parliament.

King Mahendra was succeeded by his 27-year-old son, King Birendra, in 1972. Amid student demonstrations and anti-regime activities in 1979, King Birendra called for a national referendum to decide the nature of Nepal's government—either the continuation of the Panchayat system with democratic reforms or the establishment of a multiparty system. The referendum was held in May 1980, and the Panchayat system won a narrow victory. The King carried out the promised reforms, including selection of the prime minister by the Rastriya Panchayat.

Movement to Restore Democracy

In 1990, the political parties again pressed the King and the government for change. Leftist parties united under a common banner of the United Left Front and joined forces with the Nepali Congress Party to launch strikes and demonstrations in the major cities of Nepal. This "Movement to Restore Democracy" was initially dealt with severely, with more than 50 persons killed by police gunfire and hundreds arrested. In April, the King capitulated. Consequently, he dissolved the Panchayat system, lifted the ban on political parties, and released all political prisoners.

An interim government was sworn in on April 19, 1990, headed by Krishna Prasad Bhattarai as Prime Minister presiding over a cabinet made up of members of the Nepali Congress Party, the communist parties of Nepal, royal appointees, and independents. The new government drafted and promulgated a new constitution in November 1990, which enshrined fundamental human rights and established Nepal as a parliamentary democracy under a constitutional monarch. International observers characterized the May 1991 elections as free and fair, in which the Nepali Congress Party won 110 out of 205 seats to form the government.

In mid-1994, the Parliament was dissolved due to dissension within the Nepali Congress Party. The subsequent general election held November 15, 1994, gave no party a majority. The 1994 elections resulted in a Nepali Congress Party defeat and a hung Parliament, with a minority government led by the Communist Party of Nepal-United Marxist Leninist (CPN-UML); this made Nepal the world's first communist monarchy, with Man Mohan Adhikary as Prime Minister. The next 5 years saw five successive unstable coalition governments and the beginning of a Maoist insurgency.

Following the May 1999 general elections, the Nepali Congress Party once again headed a majority government after winning 113 out of 205 seats. But the pattern of short-lived governments persisted. There were three Nepali Congress Party Prime Ministers after the 1999 elections: K.P. Bhattarai (5/31/99-3/17/00); G. P. Koirala (3/20/00-7/19/01); and Sher Bahadur Deuba (7/23/01-10/04/02). On June 1, 2001, Crown Prince Dipendra reportedly shot and killed his father King Birendra, his mother Queen Aishwarya, his brother, his
sister, his father's younger brother Prince Dhirendra, and several aunts before turning the gun on himself. After his death 2 days later, the late King's surviving brother Gyanendra was proclaimed King.

Maoist Insurgency

In February 1996, the leaders of the Maoist United People's Front began a violent insurgency, waged through killings, torture, bombings, kidnappings, extortion, and intimidation against civilians, police, and public officials in more than 50 of the country's 75 districts. Over 13,000 police, civilians, and insurgents were killed in the conflict. The government and Maoists held peace talks in August, September, and November of 2001, but they were unsuccessful, and the Maoists resumed their violent insurgency. Shortly after the 2001 peace talks failed, King Gyanendra declared a state of emergency, which the Parliament approved by a two-thirds vote. On the recommendation of Prime Minister Sher Bahadur Deuba, the King dissolved the House on May 22, 2002.

Struggle for Democracy Continues

In a sudden turn of events on October 4, 2002, King Gyanendra removed Prime Minister Deuba and assumed executive power. The entire Council of Ministers was also dissolved, and the November 13, 2002 elections to the dissolved House of Representatives were called off. After a week-long consultation with the leaders of various political parties, on October 11, 2002, the King appointed Lokendra Bahadur Chand as Prime Minister with a five-point directive that included creating an environment of peace and security as well as holding elections to the local bodies and the House of Representatives.

Under Chand's premiership, the government and Maoists declared a cease-fire on January 29, 2003. This marked the second cease-fire with the Maoists; the first, in 2001, had been broken by the Maoists. The 2003 cease-fire included an agreement to undertake initiatives to resolve the Maoist problem through dialogue and bring the Communist Party of Nepal (Maoist) back into mainstream politics. After the announcement of the 2003 cease-fire, the Chand government held two rounds of peace talks with the Maoists, in April and May. But in its effort to end political instability, it failed to secure the support of the leading political parties. In the face of growing pressure from political parties and their mass movement, Chand resigned from his post on May 30, 2003, after only 7 months in power.

The King appointed Surya Bahadur Thapa as the new Prime Minister on June 4, 2003, amidst opposition from the major political parties. Another round of peace talks was held in mid-August 2003, but on August 27, 2003 the Maoists broke the second cease-fire. Thapa resigned in May 2004 as a result of political pressure. In June 2004, the King reinstated formerly dismissed Sher Bahadur Deuba as Prime Minister.

King's Direct Rule

Citing a steady deterioration of conditions in the country, King Gyanendra dismissed the Cabinet and constituted a Council of Ministers under his own chairmanship on February 1, 2005. He stated that the Council of Ministers (i.e., Cabinet) would try to reactivate multi-party democracy within 3 years. The King subsequently declared a state of emergency and suspended almost all fundamental rights for nearly 3 months. His new government was sworn in on February 2, 2005. The Council of Ministers under the King's chairmanship was reshuffled twice during the King's 15 months of direct rule.

People's Movement

In April 2006, the major political parties, in cooperation with the Maoists, organized massive countrywide demonstrations for the restoration of democracy, forcing the King to relinquish power. On April 24, 2006, King Gyanendra reinstated the 1999 Parliament. Former Prime Minister Girija Prasad Koirala of the Nepali Congress Party was selected by the Seven-Party Alliance (SPA) of political parties to again lead the government. The Maoists declared a unilateral cease-fire on April 26, and the new Koirala government announced its own unilateral cease-fire and plans for peace talks with the Maoist insurgents on May 3, 2006. The SPA and the Maoists have since signed a number of agreements, including, in November 2006, a comprehensive peace agreement to end the decade-long insurgency. Both sides also agreed to an arms management process and elections for a Constituent Assembly. On January 15, 2007 a 328-member interim
Parliament, including 83 Maoist representatives and other party representatives, was constituted. The first sitting of the Parliament unanimously endorsed an interim constitution, which replaced the constitution of 1990. On April 1, 2007, the ruling eight-party government formed an interim Council of Ministers through political consensus, including five Maoist ministers.

The Constituent Assembly Election

Nepal held its historic Constituent Assembly (CA) election on April 10, 2008. Primarily mandated to draft a new constitution of Nepal, the CA also serves as a Parliament. The Communist Party of Nepal (Maoist), now known as the United Communist Party of Nepal (Maoist), emerged as the largest party securing 229 seats, followed by the Nepali Congress Party with 115 seats, and the Communist Party of Nepal-United Marxist Leninist with 108 seats. The Terai-based Madhesi People's Rights Forum, securing 54 seats emerged as a new political force in Nepalese politics. Twenty-one smaller parties, including 2 independent candidates, received 95 seats.

GOVERNMENT AND POLITICAL CONDITIONS

A 10-year Maoist insurgency--punctuated by cease-fires in 2001, 2003, 2005, and 2006--began in 1996. After King Gyanendra announced the reinstatement of Parliament on April 24, 2006, the Maoists declared a 3-month unilateral cease-fire on April 26, 2006 which the new Koirala government reciprocated on May 3, 2006. The Seven-Party Alliance (SPA) and the Maoists signed five agreements, culminating in the comprehensive peace agreement of November 21, 2006, effectively ending the insurgency. However, Maoist violence and intimidation continued in spite of the agreement.

The main agenda of the SPA and the Maoists was to hold a Constituent Assembly (CA) election, with the primary responsibility of drafting and promulgating a new constitution defining the future political system in Nepal. The interim constitution, adopted on January 15, 2007, expressed full commitment to democratic ideals and norms, including competitive multi-party democracy, civil liberties, fundamental human rights, adult enfranchisement, periodic elections, press freedom, an independent judiciary, and the rule of law. The interim constitution also guaranteed the basic rights of Nepali citizens to formulate a constitution for themselves and to participate in the Constituent Assembly in an environment free from fear. The interim constitution transferred all powers of the King as head of state to the prime minister and stripped the King of any ceremonial constitutional role. Under the interim constitution, the fate of the monarchy was to be decided by the first meeting of the Constituent Assembly. The interim Parliament was a unicameral house.

After promulgation of the interim constitution, many socially marginalized ethnic communities, including the Madhesis of the lowland Terai, began widespread protests against the proposed proportional representation system incorporated in the new constitution. Bandhs and protests sometimes turned violent, with clashes between police and demonstrators leading to dozens killed and injured. The government eventually agreed to increase the number of directly elected representatives from the Terai and implement quotas ensuring representation of women, Madhesis, janajatis, and other discriminated groups. Constitutional amendments regarding representation were adopted in March and June 2007. (The government signed further agreements with Madhesi and janajati groups agreeing to inclusion in government bodies and institutions as well as commitment to address other issues in August 2007, but these have yet to be fully implemented.) Five Maoist ministers were appointed to the Nepali Congress-led cabinet on April 2007. The ministers submitted their resignations on September 18, 2007 over the issue of declaring Nepal a republic and adoption of fully proportional representation system for the Constituent Assembly (CA) election. After compromise agreements on these issues were reached--having the Interim Parliament declare Nepal a republic but letting the CA implement the measure, and adoption of a mixed electoral system, the constitution was amended again and the Maoist ministers were reinducted on December 31, 2007. Twice deferred, Nepal's historic Constituent Assembly (CA) election was finally held on April 10, 2008. None of the parties succeeded in getting a simple majority in the CA. The Communist Party of Nepal (Maoist) won 218 out of 575 elected seats, followed by the Nepali Congress with 109 seats, the Communist Party of Nepal (United Marxist Leninist) with 103 seats, and the Terai-based Madhesi People's Rights Forum with 50 seats. Six constituencies needed to hold by-elections, five due to one candidate having won two directly elected seats and one due to the newly elected President resigning his seat. The appointed seats were distributed across the parties in the following manner CPN-M 9,
NC 5, UML 5, MPRF 2, SP 1, CPN-Marxist Leninist 1, People’s Front Nepal 1, Nepal Workers and Peasants Party 1, and TMDP 1. The final list of members elected under the proportional representation system was released on May 8, 2008. The members of the Constituent Assembly were sworn in on May 27, 2008, and the first session of the CA was convened on May 28, 2008. In this session, the CA voted to declare Nepal a federal democratic republic by abolishing the monarchy. Out of 564 members of the CA who voted, 560 voted in favor and 4 against the motion.

While the CA has the prime responsibility of drafting a new constitution for Nepal, it also functions as a regular Parliament. Through the fourth amendment to the interim constitution of Nepal on May 28, 2008, the CA also established, for the first time, a largely ceremonial President as the constitutional head of state, as well as a Vice President. The Prime Minister continues to be the head of the government.

Nepal's judiciary is legally separated from the executive and legislative branches and, in practice, has increasingly shown the will to be independent of political influence. However, by asserting executive control over the judiciary, the interim constitution called into question this independence. Under the interim constitution, the Prime Minister appoints the Chief Justice on the recommendation of the Constitutional Council, and the Chief Justice appoints other judges on the recommendation of the Judicial Council. All lower court decisions, including acquittals, are subject to appeal. The Supreme Court is the court of last appeal.

In August 2008, Prime Minister Pushpa Kamal Dahal--leader of the Communist Party of Nepal (Maoist)--was sworn in as Prime Minister. On January 12, 2009, the Communist Party of Nepal (Maoist) merged with the much smaller Communist Party of Nepal (Unity Center Masal), the formerly underground party of the People’s Front Nepal, to form the United Communist Party of Nepal (UCPN-Maoist). Less than a year into his term, Prime Minister Dahal resigned from the government on May 4, 2009 following a dispute over his bid to dismiss the Chief of the Army Staff. On May 23, members from 22 of the 24 political parties represented in the Constituent Assembly elected veteran Communist Party of Nepal-United Marxist Leninist (UML) leader Madhav Kumar Nepal as Prime Minister. Madhav Kumar Nepal was sworn in on May 25, 2009.

The UCPN-Maoist, which holds the largest number of seats in the CA, pressed for Nepal's resignation and to reinstate Dahal. On June 30, 2010, Prime Minister Nepal announced his resignation "for the sake of consensus" and to end the country's political deadlock following months of Maoist protests. Since Nepal's resignation, Parliament has been unable in multiple sessions to decide on a candidate to replace him as prime minister. Prime Minister Nepal has continued as caretaker prime minister in the interim.

Human Rights

Since political reform began in 1990, some progress has been achieved in the transition to a more open society with greater respect for human rights; however, substantial problems remain. Poorly trained police sometimes use excessive force in quelling violent demonstrations. In addition, there have been reports of torture during detention and widespread reports of custodial abuse. In 2000, the government established the National Human Rights Commission (NHRC), a government-appointed commission with a mandate to investigate human rights violations. However, the government continues to stall in implementing the commission's recommendations and has not been able to enforce accountability for recent and past abuses. The King's February 2005 dismissal of the government, subsequent imposition of emergency rule and suspension of many civil rights--including freedom of expression, assembly, and privacy--was a setback for human rights in Nepal. During this 3-month period, censors were deployed to major newspapers, and many political leaders were kept under house arrest. The King's government restricted the media from publishing interviews, articles, or news items against the spirit of the royal proclamation of February 1, 2005 or in support of terrorist or destructive activities. The reinstated government, led by Prime Minister Koirala, reversed these decisions in May 2006. The interim constitution promulgated on January 15, 2007 ensured unrestricted freedom of expression and made the NHRC a constitutional body.

Both the Maoists and security personnel have committed numerous human rights violations. The Maoists have used tactics such as kidnapping, torture, bombings, intimidation, killings, and conscription of children. Within the Nepalese security forces, violations ranged from disappearances to executions. After the royal takeover on February 1, 2005 and subsequent imposition of the state of emergency, the security forces arrested many political leaders, student leaders, journalists, and human rights activists under the Public Security Act of 1989, although all were released by June 2005 when the King ended the state of emergency.
After the April 2006 cease-fire announced by the government and the Maoists, incidents of human rights violations by the government declined substantially while incidents of human rights violations by the Maoists remained relatively unabated. Even after signing a comprehensive peace agreement with the government in November 2006, Maoists' extortion, abduction, and intimidation remained largely unchecked. Although activities by other political parties have increased significantly in the rural parts of Nepal, political party representatives, police, non-governmental organization (NGO) workers, and journalists reported continuous threats and intimidation by Maoist or Young Communist League (YCL) cadres. During the January-February 2007 uprising in the Terai, reports of government security forces using excessive force to quell demonstrations were common.

Major daily English-language newspapers include "The Kathmandu Post," "The Himalayan Times," "Republica," and "The Rising Nepal." The last and its vernacular sister publication are owned by a government corporation. There are hundreds of smaller daily and weekly periodicals that are privately owned and of varying journalistic quality. Views expressed since the 1990 move to democracy are varied and vigorous. Currently, there are 325 (231 in use) FM radio and 33 (19 in use) television licenses for privately owned and operated stations, following liberalization of licensing regulations. Radio Nepal and Nepal Television are government-owned and operated. There are nearly 200 cable television operators nationwide, and satellite dishes to receive television broadcasts abound. However, despite its prominence, the Nepali press is still frequently subject to violence and intimidation by political groups.

Trafficking in women and child labor remain serious problems, but some improvement has been seen; in addition, the founder of a U.S.-backed anti-trafficking organization, Maiti Nepal, won the 2010 CNN Hero award. While Nepal is primarily a source country for destinations like India and the Middle East, internal trafficking is also a prominent issue. According to the State Department's 2008 Trafficking in Persons Report, 5,000 to 7,000 girls have been trafficked from rural parts of the country to Kathmandu, and there are over 20,000 child indentured domestic workers in Nepal. Lack of prosecution and police complicity in trafficking cases remain major problems. Discrimination against women and lower castes is prevalent.

ECONOMY

Nepal ranks among the world's poorest countries, with a per capita income of around $427 in 2009. Based on national calorie/GNP criteria, an estimated 55% of the population is below the poverty line of $1.25 per day. An isolated, agrarian society until the mid-20th century, Nepal entered the modern era in 1951 without schools, hospitals, roads, telecommunications, electric power, industry, or a civil service. The country has, however, made progress toward sustainable economic growth since the 1950s and is committed to a program of economic liberalization.

Agriculture remains Nepal's principal economic activity, employing over 73% of the population and providing 34% of GDP. Only about 25% of the total area is cultivable; another 33% is forested; most of the rest is mountainous. Rice and wheat are the main food crops. The lowland Terai region produces an agricultural surplus, part of which supplies the food-deficient hill areas. Because of Nepal's dependence on agriculture, the magnitude of the annual monsoon rain strongly influences economic growth.

In FY 2009-2010 Nepal's exports decreased by 6% from 2007-2008. Imports grew by 187% in FY 2009-2010 from 2007-2008. Exports constrained by political turmoil and a poor investment climate were also impacted by the worldwide financial crisis. According to the revised estimates of the Central Bureau of Statistics, GDP growth increased marginally to 3.72% in 2005-2006 and slipped to 3.19% in FY 2006-2007. In 2009 GDP grew by about 4.7%. In addition to a growing trade deficit, Nepal posted a balance of payments (BOP) deficit of $36 million for the first time in 2009-2010. Nepal receives substantial amounts of external assistance from India, the United Kingdom, the United States, Japan, and the European Union (EU). Several multilateral organizations--including the World Bank, the Asian Development Bank, and the UN Development Program--also provide significant assistance. On April 23, 2004, Nepal became the 147th member of the World Trade Organization (WTO). With eight of the world's ten highest mountain peaks--including Mt. Everest at 8,848 m (29,000 ft)--Nepal is a tourist destination for hikers and mountain climbers. However, the decade-long insurgency and a global economic slowdown threatened the tourism industry. But 2007 witnessed a renewed wave of tourism. Figures from the Department of Immigration showed a 37.2% increase in arrivals in 2007, which surpassed the numbers of tourist arrivals during 1999, the peak tourism year prior to 2006. Since the
political parties and Maoists brokered a comprehensive peace agreement in November 2006, renewed tourist arrivals have given relief to the tourism-based hotel, trekking, mountaineering, and aviation industries. For the first 7 months of 2010, tourist arrivals by air increased by nearly 20%. In 2011, Nepal will celebrate its Year of Tourism.

Swift rivers flowing south through the Himalayas have massive hydroelectric potential to service domestic power needs and growing demand from India. Only about 1%-2% of Nepal's hydroelectric potential is currently tapped. Several hydroelectric projects, at Kulekhani and Marsyangdi, were completed in the early to late 1980s. In the early 1990s, one large public-sector project, the Kali Gandaki A (144 megawatts--MW), and a number of private projects were planned; some have been completed. Kali Gandaki A started commercial operation in August 2002. The most significant privately financed hydroelectric projects currently in operation are the Khimti Khola (60 MW) and Bhote Koshi (36 MW) projects.

The environmental impact of Nepal's hydroelectric projects has been limited by the fact that most are "run-of-river," with only one storage project undertaken to date. The planned private-sector West Seti (750 MW) storage project is dedicated to electricity exports, but has not materialized due to financing difficulties. An Australian company has completely pulled out of the project, leaving the Nepali partner with the license which expires mid-2011. Starting in December 2006, the Department of Electricity Development obtained proposals from 14 foreign companies for survey licenses of three projects--600 MW Budhi Gandaki, 402 MW Arun III, and 300 MW Upper Karnali. The Ministry of Water Resources, after delaying the evaluation process for more than a year, finally awarded the 300 MW Upper Karnali to Indian private sector developer GMR Energy Ltd. In March 2008, the 402 MW Arun III was awarded to India's state-owned Sutlej Jal Vidyut Nigam (SJVN). The Department of Electricity Development had invited fresh global tenders for the 600 MW Budhi Gandi project in December 2007, but it failed to attract investors. Currently, domestic demand for electricity is increasing at 12%-13% a year.

Population pressure on natural resources is increasing. Overpopulation is already straining the "carrying capacity" of the middle hill areas, particularly the Kathmandu Valley, resulting in the depletion of forest cover for crops, fuel and fodder, and contributing to erosion and flooding. Additionally, water supplies within the Kathmandu Valley are not considered safe for consumption, and disease outbreaks are not uncommon. Although steep mountain terrain makes exploitation difficult, mineral surveys have found small deposits of limestone, magnesite, zinc, copper, iron, mica, lead, and cobalt.

Progress has been achieved in education, health, and infrastructure. A countrywide primary education system is under development, and Tribhuvan University has several campuses. Although eradication efforts continue, malaria has been controlled in the fertile but previously uninhabitable Terai region in the south. Kathmandu is linked to India and nearby hill regions by an expanding highway network.

DEFENSE

Nepal's military consists of the nearly 95,000-strong Nepalese Army (NA), which is organized into six divisions (Far-Western, Mid-Western, Western, Central, Eastern, and Valley Divisions) with separate Aviation, Parachute, and Security Brigades as well as brigade-sized directorates encompassing air defense, artillery, engineers, logistics, and signals which provide general support to the NA. According to recent amendments to the interim constitution, the President is the Supreme Commander of the NA. General Chhatra Man Singh Gurung is Chief of the Army Staff (COAS), and also the senior commissioned officer of the NA. Talks are currently underway to negotiate the integration of the Maoist People's Liberation Army into the NA and other security forces.

Since 1958, the NA has contributed over 50,000 peacekeepers to 28 peacekeeping missions such as the UN Interim Force in Lebanon (UNIFIL), the UN Protection Force (UNPROFOR) in the former Yugoslavia, the UN Operational Mission in Somalia II (UNOSOMII), the UN Mission in Haiti (UNMIH), and the UN Mission of Support in East Timor (UNTAET). NA units are presently serving in the UN Mission in Sierra Leone (UNAMSIL), the UN Mission in the Democratic Republic of the Congo (MONUC), and the UN Mission in Haiti (MINUSTAH), among others. The NA currently has approximately 5,000 peacekeepers deployed. Approximately 3,400 of the world-famous Nepalese Gurkha soldiers serve in the British Army, and 40,000 serve in the Indian Army.
The U.S. Pacific Command (USPACOM) coordinates U.S. military engagement and security assistance with Nepal through the Office of Defense Cooperation. Cumulative U.S. military assistance to the NA has consisted of $22.56 million in grant assistance: $10.7 million in Foreign Military Financing (FMF), $6.26 million in professional and technical training provided under the International Military Education and Training Program (IMET in FY 2010 was $896,000), and approximately $5.6 million for Global Peace Operations Initiative funding to increase the pool of international peacekeepers and promote interoperability. Many NA officers attend U.S. military schools, conferences and seminars such as those provided by the National Defense University (NDU), Marshall Center, and the Asia Pacific Center for Strategic Studies (APCSS).

FOREIGN RELATIONS

As a small, landlocked country wedged between two much larger and far stronger powers, Nepal seeks good relations with both India and China. Nepal formally established relations with China in 1956 and, since then, their bilateral relations have generally been good. Because of strong cultural, religious, linguistic, and economic ties, Nepal's association with India traditionally has been close. India and Nepal restored trade relations in 1990 after a break caused by India's security concerns over Nepal's relations with China. A bilateral trade treaty signed with India in 1991 is renewed every 5 years. The most recent renewal was on March 6, 2007, which expires on March 5, 2012. A transit treaty with India, which allows Nepal to trade with other countries through the Calcutta/Haldia ports, was extended on March 30, 2006 for 7 years.

Nepal played an active role in the formation of the economic development-oriented South Asian Association for Regional Cooperation (SAARC) and is the site of its secretariat. Nepal is also a signatory of the agreement on South Asian Free Trade Area (SAFTA), which came into force on January 1, 2006. A SAFTA tariff liberalization program (TLP) was scheduled to be implemented July 1, 2006. All member countries, except for Nepal, whose TLP started on August 1, 2006, reduced tariffs for each other. However, on July 1, 2006, Pakistan officially toughened its stance of not trading with India under the SAFTA arrangements and did not announce TLP for India. Due to the stalemate between India and Pakistan, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation Free Trade Agreement (BIMSTEC-FTA), which was initially scheduled to come into force on July 1, 2006, was deferred indefinitely. The BIMSTEC Summit scheduled for February 8, 2007, in India was also deferred due to political instability in member states, including Nepal, but eventually took place in November 2008. On international issues, Nepal follows a non-aligned policy and often votes with the Non-Aligned Movement in the United Nations. Nepal participates in a number of UN specialized agencies and is a member of the World Trade Organization, World Bank, International Monetary Fund, Colombo Plan, and Asian Development Bank.

U.S.-NEPAL RELATIONS

The United States established official relations with Nepal in 1947 and opened its Kathmandu Embassy in 1959. Relations between the two countries have always been friendly. U.S. policy objectives toward Nepal center on helping Nepal build a peaceful, prosperous, and democratic society.

Since 1951, the United States has provided more than $1.2 billion in bilateral development assistance to Nepal. In recent years, annual bilateral U.S. assistance through the U.S. Agency for International Development (USAID) and the Department of State has averaged $54 million. U.S. foreign assistance programs support Nepal's peace process and transition to democracy, and promote long-term development through agriculture, health, family planning, environmental protection, and vocational education programs in Nepal. The United States also contributes to international institutions and private voluntary organizations working in Nepal. The Peace Corps temporarily suspended its operations in Nepal in 2004 due to increasing security concerns, and officially terminated its Nepal program in 2006.