

India–Nepal Relations in a Changing South Asian Geopolitical Landscape

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Abstract: This article examines the evolving bilateral relationship between India and Nepal against the backdrop of intensifying great-power competition in South Asia. Drawing on the 1950 Treaty of Peace and Friendship, the open-border regime, the 2015–16 economic blockade, the May 2020 Nepali map controversy over Kalapani–Lipulekh, and expanding Chinese infrastructure investments, the analysis highlights both enduring linkages and emerging frictions. Particular attention is paid to hydropower cooperation (Arun-III, Arun-IV and Pancheshwar), electricity exports to India and Bangladesh, labour-migration remittances, and Nepal’s balancing strategy between its two giant neighbours. The study concludes that while structural asymmetries and territorial disputes continue to strain trust, pragmatic energy and connectivity initiatives offer pathways for a more mature partnership.

Keywords: *India–Nepal relations; Kalapani dispute; 1950 Treaty; hydropower diplomacy; Chinese investment in Nepal; open border; Madhesi blockade; South Asian geopolitics.*

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Introduction

The relationship between India and Nepal occupies a singular place in South Asian geopolitics. Bound by geography, history, culture and an open border that permits unrestricted movement of people and goods, the two countries have long described their ties as ‘special’. Yet the partnership has never been free of friction. In recent years, the rise of China as a major investor and infrastructure partner in Nepal, combined with recurring boundary disputes and Nepal’s internal political dynamics, has placed the bilateral relationship under new strain. This article analyses the contemporary state of India–Nepal relations within the broader context of a transforming South Asian strategic landscape.

Nepal’s location as a landlocked buffer state between India and the Tibet Autonomous Region of China gives it outsized strategic significance. For India, Nepal is both a security concern and an economic opportunity; for Nepal, India remains the indispensable neighbour whose policies can determine the kingdom-turned-republic’s prosperity and political stability. The 2015–16 ‘blockade’ during the Madhesi agitation, the May 2020 publication of a new Nepali map claiming the Kalapani–Limpjadhura–Lipulekh trijunction, and the steady growth of Chinese projects have all tested the limits of the traditional ‘special relationship’ (Muni 2020).

At the same time, concrete areas of cooperation—particularly in hydropower and cross-border electricity trade—have expanded. Nepal now exports power to India and, via Indian territory, to Bangladesh. Projects such as Arun-III and the long-delayed Pancheshwar multipurpose scheme illustrate both the potential and the persistent political obstacles to deeper integration.

Meanwhile, labour migration and the open-border regime continue to bind the two societies at the grassroots level, even as elite-level trust has eroded. The changing geopolitical landscape, marked by China’s Belt and Road Initiative and India’s Neighbourhood First policy, has introduced new variables that both capitals must navigate with care.

This analysis proceeds in ten sections. After tracing the historical evolution of the relationship, it examines Nepal’s position between India and China, the persistent territorial and water disputes, trade and energy cooperation, security and migration dynamics, and future prospects. The article concludes with a set of policy recommendations designed to strengthen the partnership while respecting the sovereignty and developmental aspirations of both nations.

Historical and Contextual Evolution

The 1950 Treaty and the Open-Border Regime

The foundational document of modern India–Nepal relations remains the 1950 Treaty of Peace and Friendship. Signed in the aftermath of Indian independence and the consolidation of the Nepali monarchy, the treaty granted citizens of both countries reciprocal rights to reside, own property, and engage in business without restriction. It also committed the two governments to consult on matters of mutual security. While the treaty has been criticised in Nepal as unequal, it institutionalised the open border that has allowed millions of Nepalis to work and study in India and vice versa (Jha 2010). The treaty’s provisions on national treatment and non-discrimination have proved remarkably durable, surviving multiple regime changes in both countries.

The open-border regime has proved remarkably resilient. Even during periods of political tension, the 1,751-kilometre frontier has remained largely unregulated. Remittances from Nepali migrant workers in India constitute a significant, if often understated, component of Nepal's economy. Official estimates suggest that more than two million Nepalis live and work in India at any given time, sending home several hundred million dollars annually (Ministry of External Affairs, Government of India, 2024). This human traffic has created dense social networks that transcend official diplomacy and provide a buffer against elite-level disagreements.

Post-2008 Engagement and the 2015–16 Blockade

Following the abolition of the Nepali monarchy in 2008 and the promulgation of a new constitution in 2015, India's engagement with Nepal entered a more turbulent phase. The Madhesi agitation of 2015, centred in the southern Tarai plains, protested the new constitution's federal provisions. When India expressed concern over the treatment of Madhesis, many of whom share close ethnic and linguistic ties with Indian communities across the border, a de facto blockade of petroleum and essential supplies ensued in November 2015. Lasting several months, the blockade caused severe hardship in Nepal and precipitated a sharp deterioration in bilateral trust (Bhasin 2020). The episode demonstrated the extent to which domestic politics in one country can rapidly spill over into the bilateral domain.

During the crisis, Nepal explored alternative transit routes through China and sought to diversify its energy imports. Although India eventually facilitated transit via the Chittorgarh corridor in Rajasthan for certain commodities, the episode left a lasting impression on Nepali policymakers that New Delhi could weaponise economic dependence. The blockade thus accelerated Nepal's 'China pivot' and prompted a recalibration of its traditional India-first foreign policy. It also exposed the fragility of the open-border regime when political will in New Delhi turned against unrestricted movement of goods.

Nepal between Two Giants: China and India

China's growing presence in Nepal has become the most visible manifestation of the changing geopolitical landscape. Since the 2010s, Beijing has financed roads, hydropower plants, airports and telecommunications infrastructure under the Belt and Road Initiative. Chinese companies have secured contracts for projects that India had long considered its natural domain. Diplomatic engagement has also intensified: high-level visits, cultural centres and Confucius Institutes have proliferated. The 2017 transit agreement between Nepal and China, allowing Kathmandu access to Chinese ports, marked a symbolic break from exclusive dependence on Indian transit routes.

Nepal's balancing strategy is driven by both economic pragmatism and political calculation. Successive governments in Kathmandu have sought to leverage Chinese investment to reduce dependence on India while maintaining the open border and security cooperation that India demands. This hedging has produced friction. Indian officials have privately expressed concern over the security implications of Chinese projects near the border and over Nepal's willingness to host Chinese military or intelligence personnel (Kumar 2021). The competition for influence has manifested in subtle diplomatic signalling, media narratives and development assistance packages.

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Yet bilateral trade statistics reveal a paradox. While Chinese investment has grown rapidly, India remains Nepal's largest trading partner by a wide margin. The volume of formal trade, however, has stagnated or even declined in recent years, partly because of non-tariff barriers and partly because Nepali importers have diversified sourcing. The result is a situation in which shrinking bilateral trade is increasingly outweighed by growing Chinese investment and diplomatic influence, creating a new asymmetry that India finds difficult to counter. Nepal's ability to play one neighbour against the other has increased, but so has the risk of becoming a pawn in great-power rivalry.

Territorial and Water Disputes

The Kalapani–Lipulekh Controversy

The most acute territorial dispute centres on the Kalapani–Limpiyadhura–Lipulekh trijunction in the far west. In May 2020, Nepal published a new official map that incorporated approximately 335 square kilometres of territory long administered by India. The move followed India's inauguration of a new road linking Lipulekh to the Indian state of Uttarakhand, which Kathmandu viewed as a unilateral alteration of the status quo. India rejected the map, asserting that the area has been under its control since the 19th century and that the 1950 treaty's provisions on boundary demarcation had never been invoked to alter the alignment (Nepal 2020). The controversy quickly became a lightning rod for Nepali nationalism and featured prominently in domestic political discourse.

Boundary demarcation talks have proceeded fitfully. A joint technical committee has met sporadically, but political will on both sides has been insufficient to resolve the issue. The dispute has become a potent symbol of Nepali nationalism and a convenient mobilising tool for political parties across the spectrum. Any Indian concession risks domestic backlash in Uttarakhand, while any Nepali retreat risks accusations of capitulation in Kathmandu. The absence of a mutually acceptable mechanism for dispute resolution continues to cast a shadow over the broader relationship.

River-Water and Hydropower Cooperation

Water resources constitute both a source of tension and a potential foundation for deeper cooperation. The Mahakali Treaty of 1996, which governs the Pancheshwar multipurpose project, has remained largely unimplemented for nearly three decades. Successive Nepali governments have accused India of delaying the project, while Indian officials cite Nepal's internal political instability and unrealistic demands on cost and benefit sharing. The 6,480-megawatt project, if realised, would transform the energy security of both countries and provide substantial irrigation benefits to the Tarai region.

More recently, progress has been visible on the Arun River. The 900-megawatt Arun-III project, developed by India's Satluj Jal Vidyut Nigam, is nearing completion and is expected to export the bulk of its power to India. The 670-megawatt Arun-IV project is also advancing. These initiatives have been accompanied by agreements allowing Nepal to export electricity to Bangladesh through Indian transmission infrastructure, marking the first trilateral energy cooperation in the subcontinent. The success of these projects demonstrates that technical cooperation can advance even when political relations are strained.

Trade, Energy, and Connectivity

Formal trade between India and Nepal reached approximately US\$1.2 billion in 2023, heavily skewed in India's favour. Nepal's landlocked status and limited transit options have long constrained its export competitiveness. The 2015 blockade exposed the vulnerability of relying on a single neighbour for transit; since then, Nepal has sought to operationalise alternative routes, including the Chittorgarh corridor in India and direct road links with China. The Integrated Check Posts at Birgunj, Biratnagar and other border points have improved customs efficiency, yet non-tariff barriers and infrastructure bottlenecks continue to hinder two-way trade.

Energy cooperation has emerged as the brightest spot. In addition to Arun-III and Arun-IV, Nepal and India have agreed to develop the 480-megawatt Pancheshwar project under a revised cost-sharing formula. Cross-border transmission lines have been upgraded, and Nepal's electricity exports to India crossed 1,000 megawatts for the first time in 2024. The successful export of power to Bangladesh via Indian grids in 2023–24 demonstrated that technical and commercial arrangements can overcome political hesitations. These developments point toward the emergence of a sub-regional electricity market that could benefit all three countries.

Nevertheless, connectivity remains hostage to political cycles. Indian proposals for a rail link from Raxaul to Kathmandu have progressed slowly, while Chinese-funded roads in northern Nepal have raised Indian concerns about dual-use infrastructure. The net result is a patchwork of projects rather than a coherent regional connectivity vision. Greater coordination between Indian and Chinese initiatives, perhaps through a trilateral dialogue, could unlock significant efficiency gains for Nepal's landlocked economy.

Security, Migration, and People-to-People Ties

The open border continues to serve as both a security asset and a liability. While it facilitates legitimate movement, it also allows for the unregulated flow of goods, people and, potentially, militants. India has repeatedly sought tighter border management, including the construction of a fence along sensitive stretches, but Nepal has resisted any measure that might erode the open-border principle. Joint patrolling and intelligence sharing have improved in recent years, yet the fundamental tension between security imperatives and the cultural reality of an open frontier persists.

Labour migration remains the most tangible people-to-people link. Hundreds of thousands of Nepalis cross into India daily for work in agriculture, construction and services. Remittances from these workers, together with earnings from Gulf and Malaysian employment, account for nearly a quarter of Nepal's GDP. Any disruption to the open border would therefore inflict immediate economic pain on Nepal. The 1950 treaty's provisions on free movement have thus acquired an economic significance that far exceeds their original security rationale.

The 2015–16 blockade nevertheless revealed the limits of societal resilience. The prolonged shortage of fuel and medicines generated widespread anti-Indian sentiment, particularly among Madhesis who felt caught between Kathmandu and New Delhi. Cultural and religious ties—shared Hindu festivals, pilgrimage

circuits and intermarriage—have proved insufficient to prevent the erosion of elite-level trust. Rebuilding that trust will require sustained people-to-people initiatives and a willingness on both sides to acknowledge the legitimate grievances of border communities.

Prospects for the Partnership

The trajectory of India–Nepal relations will be shaped by three variables: the evolution of China–India competition, Nepal's domestic political stability, and the success or failure of flagship energy projects. If Arun-III and Pancheshwar deliver tangible benefits to both sides, they could generate momentum for broader cooperation. Conversely, renewed boundary tensions or a fresh political crisis in Kathmandu could push Nepal further into China's orbit. The next five years will be decisive in determining whether the relationship settles into a stable, if competitive, equilibrium or descends into prolonged estrangement.

India's 'Neighbourhood First' policy continues to emphasise connectivity and development assistance, yet implementation has been uneven. Chinese projects, by contrast, often move faster because they are backed by state financing and less encumbered by environmental or social safeguards. The competition is therefore not merely between two neighbours but between two models of engagement. Nepal's ability to extract maximum developmental benefit from this competition while preserving its sovereignty will test the maturity of its foreign policy establishment.

Conclusion

India–Nepal relations have entered a more complex and contested phase. The 1950 treaty and the open border remain the structural backbone of the relationship, but they are no longer sufficient to guarantee harmony. Territorial disputes, the legacy of the 2015 blockade, and China's expanding footprint have introduced new sources of friction. At the same time, hydropower cooperation and electricity exports demonstrate that pragmatic, mutually beneficial projects can still advance despite political headwinds. The partnership is maturing, not dissolving. Both sides recognise that neither can afford outright rupture.

The challenge for policymakers in New Delhi and Kathmandu is to translate this recognition into concrete mechanisms that manage disputes, expand economic interdependence, and preserve the unique people-to-people fabric that distinguishes India–Nepal relations from any other bilateral pairing in South Asia. A forward-looking agenda that prioritises energy integration, transparent boundary management and inclusive migration governance offers the best prospect for a resilient and mutually beneficial partnership in the decades ahead.

Policy Recommendations

- Resume boundary demarcation talks under a time-bound mandate and consider joint development of the disputed Kalapani–Lipulekh area pending final settlement.
- Accelerate implementation of the Pancheshwar project by finalising the revised Detailed Project Report and establishing a dedicated binational implementation authority.

- Expand trilateral electricity trade with Bangladesh and explore similar arrangements with Bhutan to create a sub-regional power market.
- Establish a standing India–Nepal Joint Working Group on migration and remittances to protect the rights of cross-border workers and formalise remittance channels.
- Develop a transparent framework for third-country investment in Nepal that addresses Indian security concerns while allowing Nepal to diversify its economic partnerships.

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