

1. India – Nepal Relations – I R

India and Nepal have amended the Treaty of Transit to facilitate the movement of rail-based freight between Jogbani in India and Biratnagar in Nepal

Historical and Legal Foundations

Treaty of Peace and Friendship (1950) – Foundation of bilateral ties; provides for open borders, reciprocal rights for citizens, economic and security cooperation; remains central to the relationship and a frequent reference point in diplomatic dialogue.

Shared history and cultural continuity – Centuries of people-to-people contact, shared religious sites, language overlaps in border regions and long-standing social ties underpin the relationship beyond formal treaties.

Geography and Strategic Importance

Shared border and Indian states – Nepal borders five Indian states – Sikkim, West Bengal, Bihar, Uttar Pradesh, and Uttarakhand – creating extensive land and human linkages.

Landlocked dependency – Nepal's lack of sea access makes transit through India critical for trade, imports, and connectivity to global markets, giving bilateral logistics and infrastructure cooperation strategic importance.

Regional strategic theatre – Nepal occupies geostrategic space between India and China; its policies and infrastructure choices have implications for regional balance and influence.

Trade and Economic Relations

India as primary trade partner – India accounts for the dominant share of Nepal's trade and remains its largest export destination and investor base.

Trade composition and volumes (India FY 2022–23 figures) – India constituted roughly 64.1% of Nepal's total trade – about \$8.85 billion USD overall; Indian exports to Nepal were approximately \$8.015 billion USD while Nepal's exports to India were about \$839.62 million USD.

FDI presence – Indian firms account for a substantial share of foreign direct investment in Nepal (around 33.5% of total FDI stock), reflecting deep commercial linkages.

Trade asymmetry – There is a persistent trade imbalance favouring India; this asymmetry is a recurring economic and political talking point in Kathmandu.

Connectivity, Transit and Multimodal Corridors

Key transit corridors – Recent liberalisation includes corridors such as Kolkata–Jogbani, Kolkata–Nautanwa (Sunauli), and Visakhapatnam–Nautanwa (Sunauli) to strengthen multimodal connectivity and facilitate Nepal's access to Indian ports and third-country trade.

Multimodal objectives – Improve road-rail-port coordination, reduce transit time and costs for Nepali cargo, and enable smoother movement between Indian ports and Nepal's hinterland.

Infrastructure projects – Cross-border rail links, upgraded road corridors, Integrated Check Posts (ICPs), and logistics facilitation are priority areas for bilateral investment and cooperation.

Benefits for Nepal – Greater options for trade routes, reduced dependence on a single port or corridor, and opportunities to diversify logistics chains and trading partners.

Development Cooperation and Aid

India as largest development partner – India provides grants, concessional lines of credit, and technical assistance across health, education, connectivity, and infrastructure.

Signature projects – Collaborative efforts include airport and highway projects, cross-border rail feasibility and development, transmission lines, and social sector investments.

Post-disaster assistance – India's Operation Maitri after the 2015 earthquake remains a high-profile example of emergency response and reconstruction support.

Energy and Power Cooperation

Longstanding power ties – A Power Exchange Agreement since 1971 facilitates cross-border energy trade and cooperation to meet border-region needs.

Joint Vision 2022 (Power Sector) – Emphasizes joint development of hydropower projects in Nepal,

cross-border transmission infrastructure, and coordinated grid operation to support regional energy security and export potential.

Mutual benefits – Nepal's hydropower potential and India's market demand create complementarities for investment, grid integration and energy trade.

Defence and Security Cooperation

Military-to-military ties – Defence assistance includes training, equipment supply, joint exercises (e.g., SURYA KIRAN) and institutional exchanges; honorary rank exchanges at the army-chief level reflect ceremonial goodwill.

Security collaboration – Cooperation on border management, counter-trafficking, counter-terrorism, and intelligence sharing supports regional stability while also being sensitive politically.

Gorkha connections – Recruitment links (Gorkha regiments) and cultural-military ties are longstanding elements of defence relations.

Cultural and Social Linkages

People-to-people bonds – Cross-border marriages, pilgrimage flows (Pashupatinath, Janakpur etc.), linguistic and familial ties foster strong social connectivity.

Perceptions of closeness – The "roti-beti" metaphor is often used to describe familial and social interdependence between communities across the border.

Areas of Concern and Frictions

Perceptions of asymmetry and dependency – Segments in Nepal perceive the bilateral relationship as unequal; concerns about economic dependence and political influence shape domestic narratives.

Treaty sensitivities – The 1950 Treaty is sometimes viewed in Kathmandu as asymmetrical; India has stated willingness to discuss it constructively if Nepal so desires, but renewal or revision is politically sensitive.

Kalapani boundary dispute – Kalapani is the most prominent territorial contention; control on the ground and competing historical claims have made it a persistent bilateral irritant.

Trust deficit and political narratives – Periodic accusations in Nepal of Indian interference in internal politics and rhetoric about Indian hegemony strain trust.

External influence – India is concerned about growing Chinese engagement in Nepal's infrastructure and economic space; Kathmandu's balancing acts between Beijing and New Delhi can be a source of tension.

Border management and security threats – Cross-border crime, human trafficking, smuggling, and the need for effective yet sensitive border management remain practical challenges.

Recent Policy Shifts and Practical Measures

Transit liberalisation – Expansion of permitted transit corridors and multimodal access points aims to ease Nepal's trade with third countries and balance reliance on specific ports.

Infrastructure facilitation – Establishment/upgrading of ICPs, transport protocols and customs cooperation to speed cargo movement and reduce non-tariff barriers.

Economic diplomacy – Increased focus on trade facilitation, private-sector linkages, and investments to deepen economic interdependence in ways that are mutually advantageous.

Way Forward – Strategic and Policy Directions

Trust-building measures – Institutionalised dialogues, transparent cooperation frameworks, and confidence-building mechanisms can help reduce suspicions and manage disputes.

Balanced economic partnership – Joint projects that deliver visible local benefits in Nepal (jobs, local infrastructure) and mitigate perceptions of one-sided advantage will help rebalance narratives.

Multilateralising cooperation – Leveraging regional institutions and third-party financiers for large infrastructure and energy projects can give greater legitimacy and reduce bilateral friction.

Integrated connectivity planning – Coordinated multimodal transport, logistics hubs, and streamlined customs procedures are critical to convert corridor liberalisation into lower trade costs.

People-centred engagement – Expanding cultural, educational and professional exchanges will reinforce social bonds and resilience of ties beyond political cycles.

Dispute management mechanisms – Institutional channels to discuss boundary issues, treaty concerns and other frictions in a timely, depoliticised manner will reduce escalation risks.

Key Facts & Revision Points

Treaty of Peace and Friendship signed in 1950 – core legal instrument. India is the dominant trade partner and largest donor; trade (FY 2022–23) with Nepal amounted to roughly \$8.85 billion USD, of which India's exports to Nepal were ~\$8.015 billion and Nepal's exports to India ~\$839.62 million. Indian firms comprise roughly 33.5% of Nepal's FDI stock (as provided). Important transit corridors recently liberalised include Kolkata–Jogbani, Kolkata–Nautanwa (Sunauli), and Visakhapatnam–Nautanwa (Sunauli) to strengthen multimodal connectivity. Kalapani is the largest and most prominent territorial dispute between the two countries.

Useful Questions for Exams or Essays

1. What are the principal drivers of India–Nepal economic interdependence, and how do they shape Nepal's foreign policy choices?
2. Discuss the implications of transit corridor liberalisation for Nepal's trade diversification and India's role as a transit partner.
3. Examine the main sources of mistrust between India and Nepal and propose measures to address them.
4. Analyse the strategic implications of increasing Chinese presence in Nepal for India–Nepal relations.
5. Evaluate the role of energy cooperation in enhancing bilateral ties and Nepal's development prospects.

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