

India–Nepal Relations in Transition

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Introduction

The bilateral relations between India and Nepal have a long history that has been shaped by a complex interplay of several factors including, but not limited to, geography, history, and asymmetrical interdependence. The 1950 Treaty of Peace and Friendship¹ laid the institutional foundation for bilateral engagement by establishing an open-border regime that enabled the free movement of people, goods, and capital. This framework created a network of economic and social linkages, integrating Nepal closely with India's economy and society.

The countries have famously cited the phrase of '*Roti-Beti ka Rishta*' (Relations due to bread and daughter), highlighting the trade and cultural interplay at work between them. Even today, this open-border system remains one of the defining features of the relationship, facilitating labour mobility, trade flows, and deep cultural interaction.

However, recent tensions between the two countries in May-Jun 2026², especially under the new government formed in Nepal with Prime Minister Balendra Shah of the Rastriya Swatantra Party heading the nation, has put a question on the amicable relations. This article looks at the historical ties that connects India and Nepal, the recent developments regarding border dispute and trade, and how the countries have worked towards resolving the frictions. It also highlights the emerging role of China with a non-Communist regime heading the government in Nepal, while looking at the future trajectories.

Concerns and Issues in India-Nepal Relations

The two neighbouring countries, India and Nepal, have been sharing close ties since centuries, not just in terms of trade and diplomacy, but also in terms of people-to-people connect. This proximity, especially in the recent years, has also generated periodic tensions, particularly around issues of sovereignty and political autonomy. Nepal has, at various points, expressed concerns that aspects of the 1950 Treaty reflect an unequal relationship³, while India has emphasised the mutual benefits of economic integration and security cooperation. These competing perceptions have contributed to a persistent undercurrent of mistrust that surfaces during periods of political stress.⁴

Territorial disputes have been another recurring source of friction, most notably in the Kalapani–Lipulekh–Limpiyadhura region. The origins of this dispute lie in differing interpretations of the 1816 Treaty of Sugauli, which defined the boundary along the Mahakali River without precise cartographic clarity. The issue gained

renewed prominence in 2020, when Nepal issued a revised political map incorporating the contested territories, leading to a significant diplomatic standoff.⁵ Since then, the dispute has become embedded in Nepal's domestic political discourse, often resurfacing during electoral cycles and events of nationalist mobilisation.⁶ The persistence of such issues underscores the extent to which historical ambiguities continue to shape contemporary bilateral relations.

Emerging Issues in May–Jun 2026

The developments of May–Jun 2026 between India and Nepal did not constitute a singular crisis but a constellation of localised tensions that collectively reflect a broader pattern. One of the most significant issues during this period was the emergence of border disputes in the Uttarakhand–Nepal sector.⁷ Allegations of encroachment in certain areas prompted both governments to initiate a joint land survey aimed at verifying the status of the contested land.⁸ This decision is analytically important because it demonstrates a shift toward technical and institutional mechanisms for dispute resolution, reducing the likelihood of political escalation.

Simultaneously, India undertook measures to tighten security along sections of the India–Nepal border.⁹ While officially described as precautionary, such actions are typically associated with concerns about cross-border vulnerabilities, including informal migration, smuggling, and potential security threats. The open-border system, while facilitating economic exchange, also presents governance challenges that periodically necessitate increased surveillance and administrative control. This duality—openness combined with vulnerability—remains a central feature of the bilateral relationship.

Domestic political developments in Nepal further contributed to the evolving dynamic. Nationalist rhetoric surrounding territorial issues, particularly the Kalapani dispute, continued to feature in political discourse during this period.¹⁰ However, unlike earlier episodes, such rhetoric did not escalate into a full-scale diplomatic confrontation with India. This suggests a degree of restraint on the part of Nepal's political leadership, possibly reflecting an awareness of the economic and strategic costs associated with prolonged tensions.

Diplomatic Engagement and De-escalation

Despite the emergence of these issues, both India and Nepal demonstrated a clear preference for diplomatic engagement and conflict management. The joint land survey represents a key confidence-building measure, allowing technical experts to assess disputed areas and, thereby, depoliticising the issue to some extent.¹¹ Such mechanisms are particularly important in disputes where historical ambiguities and nationalist sentiments can easily complicate negotiations.

Economic cooperation during this period remained robust, underscoring the resilience of the bilateral relationship. Nepal's procurement of approximately 80,000 tonnes of fertiliser from India through a government-to-government agreement highlights the depth of economic interdependence between the two countries.¹² This is especially significant in the context of global supply chain disruptions, where India continues to serve as Nepal's primary and most reliable source of essential goods. The continuation of such cooperation even during periods of political tension indicates that economic considerations often act as a stabilising force in the relationship.

Diplomatic signalling also played an important role in maintaining stability. Nepal's foreign minister visited India before traveling to China, a sequence that reflects Kathmandu's effort to balance its external engagements while acknowledging India's continued importance.¹³ Both countries also avoided any kind of inflammatory rhetoric that had characterised earlier crises, such as the 2015 blockade¹⁴ or the 2020 map dispute.¹⁵ This relative restraint suggests that both sides have internalised the costs of escalation and are increasingly committed to managing disagreements through dialogue and institutional channels.

Strategic Importance of Nepal and the China Factor

Nepal occupies a central position in India's strategic calculus due to its geographic location, economic linkages, and cultural ties. As a buffer state between India and China, Nepal plays a critical role in India's northern security architecture. Any instability or external influence in Nepal has direct implications for India's strategic environment. The open border further amplifies this importance by creating dense networks of interaction that extend beyond conventional state-to-state relations.

Economically, Nepal remains heavily dependent on India for trade and transit. A significant proportion of Nepal's imports and exports pass through Indian territory, and Indian markets continue to be a primary destination for Nepali goods.¹⁶ Additionally, Nepal's river systems are vital for India's water security and hydropower development, particularly in the Gangetic plains, where issues of flood control and irrigation are of critical importance. These structural factors ensure that Nepal's stability and alignment remain central to India's long-term strategic interests.

However, the strategic landscape is increasingly influenced by China's expanding role in Nepal. Over the past decade, China has significantly increased its economic and infrastructural engagement under the Belt and Road Initiative.¹⁷ In 2026, this engagement continued to expand into sectors such as technology, tourism, and development assistance. From India's perspective, this growing presence raises concerns about potential dual-use infrastructure and the broader implications of strategic encirclement.

Nepal, however, has pursued a policy of strategic hedging rather than alignment. By engaging both India and China, it seeks to maximise economic opportunities while preserving political autonomy. This approach reflects a broader pattern observed among smaller states in geopolitically contested regions, where diversification of partnerships is used as a means of enhancing bargaining power.¹⁸ While this strategy provides Nepal with greater agency, it also introduces new complexities into its relationship with India, particularly in the context of intensifying regional competition.

Future Trajectories and Strategic Outlook

The developments of May–Jun 2026 indicate that India–Nepal relations are transitioning from episodic crises to a more continuous and managed form of strategic interaction. Disputes are increasingly fragmented across multiple domains, including border management, economic engagement, and geopolitical alignment. At the same time, the growing reliance on institutional mechanisms suggests a shared interest in preventing escalation and maintaining stability.

Looking ahead, several possible trajectories can be identified. A continuation of current trends could lead to a stable equilibrium characterised by incremental dispute resolution and sustained economic cooperation. However, domestic political dynamics in Nepal remain a potential source of volatility, particularly if nationalist narratives around territorial issues gain renewed prominence.¹⁹ Such developments could reintroduce elements of unpredictability into the bilateral relationship.

The role of China will also be a critical factor in shaping future dynamics. A significant expansion of Chinese strategic presence in Nepal could intensify India's security concerns and lead to greater competition for influence. Conversely, if managed carefully, Nepal's engagement with both India and China could contribute to a more balanced regional order, although this would require a high degree of diplomatic skill and mutual trust.

Ultimately, the structural realities of geography, economic interdependence, and cultural ties will continue to anchor India–Nepal relations. Even as Nepal seeks to diversify its external partnerships, its reliance on India for trade, transit, and essential supplies remains substantial. The challenge for both countries lies in managing tensions without undermining these foundational linkages.

Conclusion

In conclusion, the India–Nepal relationship in 2026 reflects both continuity and transformation. While historical disputes and structural asymmetries persist, the mechanisms for managing them have evolved significantly. Nepal's pursuit of strategic autonomy, combined with China's growing influence, has introduced new dimensions

to the bilateral dynamic. Yet, the enduring interconnectedness of the two countries ensures that cooperation remains both necessary and inevitable. The future of India–Nepal relations will depend on their ability to institutionalise trust, manage competition, and adapt to an increasingly complex regional environment.

Endnotes

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