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India–Nepal Relations Strengthened by Trade, Connectivity, Energy Cooperation and Post-Flood Humanitarian Engagement

Published On: 22-09-2026

Recent Developments:

- Nepal's Finance Minister **Dr. Swarnim Wagle** visited New Delhi in September 2026 and held discussions with Union Finance Minister **Nirmala Sitharaman** and External Affairs Minister **S. Jaishankar** on bilateral economic relations, post-flood reconstruction and rehabilitation. This was his first official visit to India since assuming office as Nepal's Finance Minister.
- The **India–Nepal Inter-Governmental Sub-Committee on Trade, Transit and Cooperation to Control Unauthorised Trade** met in New Delhi on **16–17 September 2026**. The discussions covered market access, customs, trade facilitation, standards, food safety, plant quarantine, border infrastructure, freight movement, Integrated Check Posts, and rail and road connectivity.
- The meeting also focused on improving the utilisation of existing infrastructure, removing operational bottlenecks, facilitating legitimate cross-border trade and strengthening mechanisms against **unauthorised trade and commercial fraud**. Both sides agreed to maintain institutional engagement and pursue time-bound follow-up on issues requiring further examination.
- Nepal's **26 August 2026 Bhote Koshi River flash floods** caused extensive damage to houses, roads, bridges, hydropower facilities and other critical infrastructure. India provided humanitarian assistance, technical teams and rescue support, while India also approved electricity exports of up to **654 MW for 18 hours daily from 13 September to 31 December 2026** to help address Nepal's post-flood power shortage.

India–Nepal Relations: Strategic Overview:

Geographical and Civilisational Linkages:

- India and Nepal share a **1,770-km-long open and largely unfenced border**, connecting Nepal with the Indian states of **Sikkim, West Bengal, Bihar, Uttar Pradesh and Uttarakhand**.
- Nepal is a **landlocked country** and depends substantially on transit facilities through India for access to seaports and international markets, making cross-border connectivity a central component of bilateral relations.
- The relationship extends beyond conventional diplomacy because India and Nepal share **civilisational, cultural, religious and people-to-people linkages**, including interactions around Lumbini, Pashupatinath, Janakpur and the Ramayana circuit. The Ministry of External Affairs describes the relationship as a special and unique partnership rooted in shared heritage and extensive people-to-people contacts.

Treaty Framework:

- The **India–Nepal Treaty of Peace and Friendship, 1950** provides the foundational framework for the special relationship and establishes provisions concerning peace, security and economic cooperation.

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- The Treaty provides for mutual consultation on major international issues affecting the interests of both countries and envisages cooperation in **economic, scientific and technical fields, trade, transport, communications, flood control, river-basin development and hydropower**.
- The Treaty is complemented by arrangements concerning **trade and transit**, which are particularly important for Nepal because of its landlocked geography and dependence on external transit routes.

Major Areas of India–Nepal Cooperation:

Trade and Economic Relations:

- India remains **Nepal's largest trading partner**, and the September 2026 IGSC meeting demonstrated the continuing institutional focus on market access, customs cooperation and trade facilitation.
- The bilateral trade relationship covers agricultural and dairy products, food products, pharmaceuticals, medical devices, **AYUSH products**, petroleum products, machinery and other manufactured goods.
- The 2026 IGSC discussions included **electronic verification of Certificates of Origin, customs automation, digitalisation and pre-arrival exchange of information**, which can reduce transaction costs and strengthen compliance with trade rules.
- Nepal's trade dependence on India also creates an important policy challenge because greater market integration must be accompanied by **diversification, productive capacity and balanced trade opportunities** for Nepal.

Connectivity and Transit:

- India's role as Nepal's principal transit partner makes **road, rail, integrated check posts and land-port infrastructure** strategically important.
- Major connectivity initiatives include cross-border railway links, Integrated Check Posts, road infrastructure and freight connectivity, with projects linking Nepalese commercial centres to Indian transport networks.
- India and Nepal have also expanded petroleum connectivity through cross-border pipelines, while additional infrastructure projects seek to improve the movement of fuel and other essential commodities.
- The **Integrated Check Posts at Birgunj, Nepalgunj and Biratnagar** are operational, while development work has progressed for additional facilities, including Bhairahawa and Dodhara Chandani.
- Improved connectivity can support **regional value chains, tourism, trade diversification and Nepal's access to global markets**, while also strengthening India's economic linkages with the Himalayan region.

Energy and Hydropower Cooperation:

- Energy cooperation is one of the most strategically significant pillars of the bilateral relationship because Nepal possesses substantial hydropower potential while India has a large and growing electricity market.
- India and Nepal have pursued **cross-border power trade, hydropower development and transmission connectivity**, including projects such as Arun III, Lower Arun and Phukot Karnali.
- Under the long-term power trade arrangement, India and Nepal set a target of developing conditions for **10,000 MW of electricity exports from Nepal to India over 10 years**, creating opportunities for investment in hydropower and transmission infrastructure.
- In **November 2024**, Nepal began exporting electricity to Bangladesh through the Indian grid, marking the first trilateral power transaction of this type and demonstrating the potential of **sub-regional energy integration**.
- In September 2026, India approved electricity exports of up to **654 MW** to Nepal for 18 hours daily until 31 December 2026 after floods damaged Nepal's hydropower infrastructure, demonstrating the reciprocal nature of bilateral energy interdependence.

Defence and Security Cooperation:

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- India and Nepal maintain long-standing defence cooperation based on **training, military exchanges, capacity building and institutional interaction**.
- The two countries conduct the **Surya Kiran** joint military exercise alternately in India and Nepal, focusing on areas such as disaster response, counter-insurgency and interoperability.
- India supports the modernisation and training of the **Nepali Army**, while the traditional practice of conferring the honorary rank of General on each other's Army Chiefs symbolises the depth of military ties.
- Nepal's citizens have historically served in the **Gorkha regiments of the Indian Army**, creating a distinctive military and people-to-people connection.

Humanitarian Assistance and Disaster Relief:

- India has repeatedly provided **Humanitarian Assistance and Disaster Relief** to Nepal, reflecting the geographical and humanitarian interdependence of the two countries.
- During the **2015 Nepal earthquake**, India launched **Operation Maitri**, one of its major overseas disaster-relief operations.
- Following the **Bhote Koshi flash floods of August 2026**, India supplied relief materials and medicines and deployed specialised tunnel-rescue and forensic teams. Indian assistance also included equipment for restoring damaged transport infrastructure.
- The disaster highlighted the importance of **cross-border disaster management**, particularly because floods and landslides in the Himalayan region can have consequences for downstream areas in India.

Digital and Financial Connectivity:

- India and Nepal have expanded cooperation in **digital payments and financial connectivity**, including the linkage of India's Unified Payments Interface with Nepal's National Payments Interface for cross-border personal remittances.
- Such connectivity can reduce transaction costs, improve formal financial channels and strengthen economic integration between border communities.
- Digital cooperation is also expanding into language and technological domains through collaboration involving **Digital India Bhashini and Kathmandu University**.

Cultural and People-to-People Relations:

- India and Nepal share extensive **religious, linguistic, cultural and familial linkages**, which are often described through the expression "**roti-beti relationship**" because of longstanding cross-border social and marital ties.
- Religious circuits involving **Pashupatinath, Janakpur, Lumbini and the Ramayana circuit** provide opportunities for cultural diplomacy and tourism cooperation.
- These connections constitute an important element of India's neighbourhood policy because they operate beyond formal state-to-state relations.

Areas of Concern in India–Nepal Relations:

1950 Treaty and Perceptions of Asymmetry:

- Some sections of Nepalese political opinion have argued that the **1950 Treaty of Peace and Friendship** reflects an unequal relationship and should be revised to reflect Nepal's contemporary national interests.
- India has stated its willingness to review and update the Treaty in a **constructive and forward-looking manner**, making treaty revision an issue that requires sustained diplomatic dialogue.
- The challenge is to update the institutional framework while preserving the practical benefits of open borders, economic cooperation and people-to-people relations.

Boundary Disputes:

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- The **Kalapani–Lipulekh–Limpiyadhura** issue remains a significant boundary-related disagreement between India and Nepal.
- Nepal has included areas around **Limpiyadhura, Lipulekh and Kalapani** within its constitutional map, while India maintains its position on the boundary based on historical documents and established arrangements.
- India and Nepal have previously completed authentication and initialling of boundary strip maps covering most of their common boundary, but the remaining disputed areas require **diplomatic dialogue and technical boundary mechanisms**.

Trust Deficit:

- Political narratives in Nepal have periodically raised concerns about perceived Indian influence in Nepal's domestic political affairs, while India has concerns regarding developments affecting its **security and strategic interests**.
- Differences can become more pronounced during periods of political transition, making institutional dialogue important for preventing bilateral disagreements from becoming broader public controversies.

China Factor:

- Nepal's growing economic and infrastructure engagement with **China** has added a strategic dimension to India–Nepal relations.
- Chinese involvement in infrastructure, connectivity, investment and trade provides Nepal with additional economic options, while India remains attentive to developments that could affect its strategic and security environment.
- Nepal's policy challenge is to pursue diversified external partnerships while maintaining its sovereignty and strategic autonomy; India's challenge is to remain a reliable development and connectivity partner without creating perceptions of excessive political involvement.

Trade Imbalance and Economic Dependence:

- Nepal's substantial dependence on India for trade, transit and essential imports creates structural asymmetry in the economic relationship.
- At the same time, Nepal seeks greater **market access, export diversification and investment opportunities**, making trade facilitation and productive-capacity development important areas for future cooperation.
- The 2026 IGSC discussions on market access and customs facilitation therefore have significance beyond routine trade administration.

Security and Open-Border Challenges:

- The open border facilitates legitimate movement of people, employment, tourism and family relations but can also create challenges involving **human trafficking, smuggling, narcotics, counterfeit currency and other forms of cross-border crime**.
- Effective border management therefore requires a balance between **security coordination and preservation of legitimate people-to-people movement**.
- Institutional cooperation between security agencies, customs authorities and local administrations remains important for addressing these challenges.

Way Ahead:

Towards a Balanced Neighbourhood Partnership:

- India and Nepal should strengthen **institutionalised dialogue** through mechanisms dealing with trade, security, water resources, energy, boundary management and development cooperation.

- Bilateral trade should move beyond dependence on a limited range of commodities by promoting **Nepalese exports, value addition, investment and integration into regional supply chains**.
- Connectivity projects should be completed through predictable financing, transparent implementation and effective coordination so that Nepal can obtain reliable access to Indian and international markets.
- Hydropower cooperation should be expanded through **transparent investment frameworks, cross-border transmission infrastructure, long-term power purchase arrangements and environmental safeguards**.
- Disaster cooperation should evolve from emergency relief towards **joint risk assessment, early-warning systems, flood forecasting, resilient infrastructure and climate adaptation**.
- India and Nepal should address boundary issues through established diplomatic and technical mechanisms while maintaining the broader relationship independently of unresolved disputes.
- Greater economic and digital integration, including **cross-border payment systems and energy connectivity**, can create practical interdependence and strengthen bilateral relations at the societal level.

Value Addition for UPSC:

Strategic Significance:

- **Neighbourhood First:** Nepal is central to India's immediate neighbourhood because of geographical proximity, open borders, economic interdependence and cultural linkages.
- **Himalayan Security:** Stable India–Nepal relations are important for border management, Himalayan ecology, disaster response and India's northern security environment.
- **Energy Security:** Nepal's hydropower potential and India's electricity market create opportunities for mutually beneficial **cross-border energy trade**.
- **Regional Integration:** Nepal–India connectivity can contribute to wider **BBIN and South Asian regional connectivity**, particularly through transport, energy and digital networks.
- **Disaster Diplomacy:** The 2026 floods demonstrate how **HADR, resilient infrastructure and climate adaptation** can become important components of neighbourhood diplomacy.
- **Economic Diplomacy:** Trade facilitation, investment and infrastructure cooperation can help address Nepal's development needs while creating economic opportunities for both countries.

Key Facts for Prelims:

- **Common Indian states:** Sikkim, West Bengal, Bihar, Uttar Pradesh and Uttarakhand.
- **Major bilateral treaty:** Treaty of Peace and Friendship, 1950.
- **Important trade mechanism:** Inter-Governmental Committee and Inter-Governmental Sub-Committee on trade, transit and cooperation to control unauthorised trade.
- **2026 IGSC meeting:** New Delhi, 16–17 September 2026.
- **Major connectivity facilities:** Integrated Check Posts, cross-border rail links, roads and petroleum pipelines.
- **Long-term power trade target:** 10,000 MW from Nepal to India over 10 years.
- **First Nepal–Bangladesh power transaction through India:** November 2024.
- **2026 emergency power assistance:** Up to 654 MW for 18 hours daily until 31 December 2026.
- **Major 2026 disaster:** Bhote Koshi River flash floods of 26 August 2026.
- **Major Indian disaster-relief operation in Nepal:** Operation Maitri, launched after the 2015 earthquake.

Mains Answer Framework:

- **India–Nepal relations represent a distinctive form of neighbourhood partnership shaped by geography, open borders, historical ties, economic interdependence and shared cultural linkages.** The relationship has expanded from traditional political and security cooperation towards trade facilitation, connectivity, hydropower, digital payments and sub-regional energy integration.
- However, unresolved boundary issues, perceptions surrounding the 1950 Treaty, trade asymmetry, open-border security challenges and the evolving role of China create areas requiring sustained diplomatic engagement.

- The way forward lies in strengthening **mutually beneficial economic integration, transparent development cooperation, resilient connectivity, energy partnerships, disaster-management mechanisms and institutionalised dialogue**, while addressing contentious issues through established bilateral mechanisms and respecting each country's sovereignty and strategic autonomy.