



INDO-NEPAL WATER SHARING AND TRADE LINKAGES

Understanding Dynamics and Strategic Implications

CSS Core Project

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INTRODUCTION

Nepal and India share an open border, but the relationship is at its lowest due to border issues. The major disputed area is Kalapani that both Nepal and India claim. The new developments in the disputed region have resulted in conflicting interests of Nepal and India. The open border between India and Nepal plays a very important role in trade and economic profits for both nations. The relations between India and Nepal have also resulted in friendly treaties and have benefited both. In November 2019, the government of India released a new edition of the Indian political map which included the disrupted region of Kalapani within India's border, while on June 13, 2020, Nepal's parliament with the new amendment recognized the region as part of Nepal on the new map. The Kalapani region is of great significance in South Asian diplomacy as a tri-junction between Nepal, India, and China. The new road built by India passing through the disputed region of Kalapani region and resulted in a bilateral crisis between the two nations in 2020. Nonetheless, India's new road, up to the Lipulekh pass, is not an unprecedented change in the status quo.

India has controlled this territory and built other infrastructure here before, besides conducting its administration and deploying military forces up to the border pass with China¹. The border dispute is politically charged in Nepal and plays an important role in domestic politics. The border dispute also plays a strategic role in India's security, with the role of China and the trijunction between the nations playing a significant role. India and Nepal share an open border of about 1,880km and they have disputed borders over the Kalapani region including the Limpiyadhura-Lipulekh trijunction between India, China, and Nepal. The Kalapani area accounts for 370 sq. km which connects India with the Tibet region of China. The border dispute is interlinked with the discrepancy over the origins of river Kali. According to Nepal's claims, river Kali originates in Nepal's Dharchula district, and hence Kalapani, Limpiyadhura, and Lipu Lekh fall under Nepal's territory. While India considers Kalapani as part of Uttarakhand's Pithoragarh district with origins of River Kali below Lipu-Lekh pass and hence part of India's territory.

¹ Xavier, C., 2021. Interpreting the India-Nepal Border Dispute. [online] Brookings. Available at: <https://www.google.com/amp/s/www.brookings.edu/blog/up-front/2020/06/11/interpreting-the-india-nepal-border-dispute/amp/> [Accessed 12 January 2021].

Nepal surrendered a part of its western territory in 1816 after its forces were defeated by the British East India company. The subsequent Sugauli treaty defined the origin of the Kali river as Nepal's border point with India. But the two countries differ on the source of the Kali river². While India argues that the exact coordinates of the river were not mentioned in the treaty and claims that improved survey techniques have redrawn the map in the years since. In November 2019, India released a political map including the disrupted region of Kalapani into its territory. While Nepal amended its constitution in June 2020 and included the disrupted region between India and Nepal within its territory. This recent development in 2020 played a significant role in disrupted relations. Nepal sent a diplomatic note stating that such unilateral action by India in the disputed territory is a violation of Nepal's past understanding to resolve issues through diplomatic means.

India has been delaying the bilateral talks after the inauguration of the new road passing through the Kalapani region, there has been social media outrage and protests outside the Indian embassy in Nepal. The recent road development has also caused outrage in Nepal. Nepal is surrounded by two big powers India and China, the recent developments from both India and Nepal have disrupted the region of Kalapani being a trijunction with strategic significance for India's security. The conflict has caused nationalist sentiments in both nations giving political weightage to the dispute. The inauguration of an 80 km road has caused diplomatic tensions between the two nations. While India is ready for talks, it has been postponed due to the pandemic.

Nepal has shared its disenchantment with India over delayed bilateral talks and lack of communication. India reasoned pandemic for delayed talks while Nepal showed urgency for the border dispute in 2020. The Communist Party of Nepal is currently in power, that won elections on nationalist sentiments, and expressed displeasure in the India-Nepal border dispute. Nepal's government plays a significant role in negotiations and the amendment of the constitution while taking a bold step also caused irreplaceable diplomatic friction between the two nations. Prime minister Khadga's amendment has caused a strong point negotiation on Nepal's side with nationalist credibility to Khadga's moves in Nepal. The negotiations

² BBC News. 2021. India And China: How Nepal's New Map Is Stirring Old Rivalries. [online] Available at: <https://www.google.com/amp/s/www.bbc.com/news/amp/world-asia-52967452> [Accessed 14 January 2021].

with Nepal are difficult keeping the nationalist political survival for Prime minister Khadga and the people's sentiment in consideration.

Nepal claims that it has made efforts for a bilateral dialogue with India, but India has ignored Nepal's requests, arguing that a dialogue can occur only after the effects of COVID-19 ease. Unfortunately, the pandemic is growing instead of receding³. Meanwhile, India's engagement in bilateral and multilateral meetings with other nations indicates apathy towards Nepal. Nepal is significant for India's security and hence lack of negotiation might worsen the situation. China and India have disrupted relations in the Ladakh Region. The Kalapani region plays a significant role in India's security strategy against China. China has considered Nepal as a key player in the Belt and Road Initiative(BRI), with increased investments, aids, and gave an infrastructural boost to Nepal. India-Nepal friendly relations are important for India's security. Border security is an integral part of security for every country, the border dispute with Nepal is integral to Indian security.

The dispute can be used by the opposition parties in both countries as a strategic tool playing a significant role in domestic politics giving a nationalist approach to the dispute. Political parties in both countries may begin to use the border dispute as a political tool to advance their internal positions, further undercutting ties. While the issue is unlikely to resolve anytime soon, several bilateral projects currently exist including investments, water resources, defense cooperation, partnerships in education, and flood management. These projects might prolong the disastrous impacts on relations.

TRANS – BORDER WATER DISPUTES BETWEEN INDIA AND NEPAL

Water is a political issue in India and remains an important diplomatic concern due to water shortage and agrarian difficulties. India and Nepal's relations are interlinked with water-sharing agreements and disputes. The countries signed Kosi and Gamdak agreements to reach India's rising water demands. While there have been signed agreements between Nepal and India, no project except the Kosi barrage has been completed yet. The Mahakali Treaty signed in 1996 played an important role in India-Nepal

³ Nepal-India border dispute 2021. [online] Available at: <https://www.internationalaffairs.org.au/australianoutlook/nepal-india-border-dispute-india-craving-war/> [Accessed 12 January 2021].

relations. The bilateral relationships are interlinked with complex relations and water disputes. The two countries while sharing water also share an ambivalence in home countries. Nepal-India water relations are people to people relations involving culture and history but also complicated with bilateral relations involving governments and authorities. The water in Nepal is a prime resource, hence agreements on hydroelectric projects are difficult to achieve. The political instability in Nepal also plays a significant role in unsolved water disputes. The further complexity in water issue has been aggravated because of China's interference in Nepal's politics. The relationship between the countries is significantly impacted by water disputes, all the rivers of Nepal are flowing into India. The issue of floods and inundations in Nepal and India. Has created tensions in the past. The border issue is interrelated with water issues with utilization and transborder control treaties, dissatisfaction results in bilateral meetings with over-politicized water issues within Nepal.

During the April 2018 visit of the Prime Minister of Nepal to India, both countries agreed upon water cooperation, and bilateral meetings were held with no conclusive output. The hydro-developments are limited with the potential for better relations between the two nations. The larger disagreement from Nepal is based on limited profit and diverse national narrative on sharing water resources with India. Another important factor is dominant Indian technology and economy that overpowers negotiations. While water is the backbone of the Nepali economy, the optimization of benefits is in bilateral talks. An important Power Trade Agreement was signed between the two countries in 2014 paving the way for the power developers of the two countries to trade electricity across the border without restrictions. Private/public power developers from India have reached agreements with the Investment Board of Nepal to develop two mega hydropower projects – Upper Karnali and Arun III⁴.

The Kosi Agreement was signed in 1954 (later amended on December 19, 1966) to construct a barrage three miles upstream of Hanuman Nagar, which was primarily meant to control the massive floods and devastation in Bihar. The Kosi is the wildest river with the most devastating effects in the Indian state of Bihar, for which it is also referred to as the “sorrow of Bihar” because of the seasonal damage it has caused, a scheme to attenuate the effects of the Kosi was deemed necessary. It is unconventional to

⁴ Mofa.gov.np. n.d. Nepal-India Relations – Ministry of Foreign Affairs Nepal MOFA. [online] Available at: <https://mofa.gov.np/nepal-india-relations/> [Accessed 12 January 2021].

witness a diversion structure having no storage capacity at all being proposed for controlling floods. The associated barriers control floods to some extent, but they are basically for controlling the vagaries of the river. Along with some irrigation facilities from the west canal, since 1970, Sunsari-Morang Irrigation Project has been operational for irrigation in Nepal, but the irrigation supply remains unsatisfactory. Similarly, the people displaced by the construction of the barrage are deprived of proper financial compensation, which India was obliged to pay as per the agreement, its revision in 1966 did not propitiate Nepal. In 1978 India agreed to finance yet another project to overcome Nepali resentment. A sum of 1,805 lakh of Nepali Rupees was made available to Nepal for it to undertake the renovation and extension of the Chandra Canal, its distribution system, and the related works to provide irrigation for net command area of 34,690 hectares in Nepal territory.

The Gandak Agreement signed between Nepal and India in 1959 (amended on April 30, 1964) permitted the latter to build a barrage on the Gandak River at Bhaishalotan (Balmiki Nagar) for irrigation in both nations and the construction of a hydroelectric power plant. The Agreement, unlike the Kosi Agreement, contains detailed descriptions of the irrigation facilities to be provided from the project to Nepal, and the construction of a powerhouse with an installed capacity of 15,000 kW in the Nepalese territory on the main western canal for the supply of electricity to both nations⁵. The treaty was unsuccessful as Nepal never received the promised quantity of water or the compensation for displaced people.

The Tankapur Agreement was signed on December 6, 1991. The Agreement provided for the construction of the left afflux bund (the retaining wall) on Nepalese territory for which Nepal provided 2.9 hectares of land (MoU on Tankapur Barrage Project, 1991). This MoU is being considered as a hasty decision and lopsided one in favor of India, so it is highly criticized. It is being considered that then Nepalese Government, led by Girija Prasad Koirala, did not appreciate the legal, socio-economic, and political ramifications involved in the issue, or decided to overlook them to appease India⁶. The state of bilateral relationship influences India-Nepal water cooperation. The Mahakali Treaty was signed between Nepal and India in

⁵ Bagale, D. R. (2020, December 1). Nepal-India water cooperation: consequences of mutuality or hegemony? | Water Policy | IWA Publishing. IWA. <https://iwaponline.com/wp/article/22/6/1098/77973/Nepal-India-water-cooperation-consequences-of>

⁶ Ranjan, A., 2016. Contours of India- Nepal Relationship and Trans- Boundary Rivers Water Disputes. [online] Nepjol.

1996 and included Sarada Barrage, Tanakpur Barrage, and Pancheshwar Multipurpose Project. It was ratified by more than a two-thirds majority of the Nepalese parliament, amidst strong disapproval from many parliamentarians. The instrument of ratification was exchanged during the visit of the Prime Minister of India to Nepal on June 4, 1997, and the agreement entered into force from 5 June 1997, for the life of 75 years, with provisions for review after every ten years⁷. The agreements help built a relation of prosperity and water sharing to exploit hydro power for mutual interest of both nations. The Mahakali Treaty is in force and is in the implementation process. However, the implementation process has been too slow with no signs of making any headway. The Detailed Project Report (DPR), which was to be prepared in six months, has not been finalized even after more than two decades because of certain unresolved issues. This delay in the implementation of the Mahakali Treaty has created a deadlock in Nepal–India water cooperation⁸.

The role of non-state actors and external state is significant in Nepal. The influence on political decisions of a state through non-state actors can create a discrepancy in international relations. Nepal is surrounded by China and India; Nepal tries to maintain neutral relations with both. China being an emerging superpower plays an important role in Nepal's politics. With external influence such as China, Nepal has trade deals and hydroelectric projects which decreases Nepal's dependency on India hence making stronger negotiations on the water issue. While India recognizes the relations between Nepal and India, the challenges have not been resolved to create tougher ties and giving larger space to non-state actors. NGOs also play an important role in raising voices against trade deals and hydro projects with India. The new map by the Indian government showing a disputed region between India and Nepal inside India resulted in protests in Nepal with anti-India sentiments.

When India showed disagreement in the 2015 Constitutional Amendments of Nepal, anti-India sentiment built in the nation. Nepal's nationalistic

⁷ Bagale, D. R. (2020, December 1). *Nepal–India water cooperation: consequences of mutuality or hegemony?* | *Water Policy* | IWA Publishing. IWA.
<https://iwaponline.com/wp/article/22/6/1098/77973/Nepal-India-water-cooperation-consequences-of>

⁸ Bagale, D. R. (2020, December 1). *Nepal–India water cooperation: consequences of mutuality or hegemony?* | *Water Policy* | IWA Publishing. IWA.
<https://iwaponline.com/wp/article/22/6/1098/77973/Nepal-India-water-cooperation-consequences-of>

propaganda against India also plays a role in shaping bilateral negotiations. The CPN (Maoists) have become difficult political power (non-state actors so far, but state actors now) and this brings new implications for India's internal security mainly because of their known linkages with Indian Left-Wing Extremists. Furthermore, India's dominance in Nepal does not remain the same as in the past as the Maoists have been continually upping the ante against India, accusing India of invoking internal Nepali affairs⁹. Consequently, Nepal can significantly add to India's Maoist threat by supporting the rebels in the red corridors of India.

With the involvement of China and the security threat imposed against India, Nepal is of strategic importance for the national security of India. India has played a significant role in Nepal's development, the cooperation between the two nations is immensely important for national security. The escalatory move by Nepal to deport police force near the border after India's long Himalayan road inauguration has impacted the relations that require an urgent bilateral meeting. Another strategic importance of Nepal is with water resource, climate change and diminishing groundwater of India by 2030 plays an important role in maintaining friendly relations with Nepal. India's involvement in the political crisis of Nepal will determine the future relations of the two nations. Although the two have a history of national cooperation and free border, better bilateral relations can secure India's border from drug trafficking and illegal trade.

CHINA'S INVOLVEMENT IN NEPALESE PROJECTS

Chinese-stimulated growth is metamorphosing Nepal and establishing important contemporary institutions for vast bilateral nation formulating projects and the diversification of geopolitical interconnection covering the Himalayan stretch. Nepal being a landlocked country is stowed between two major economies India and China. For an extended period of time, Nepal has been obliged by an average transportation system and persisting governmental vulnerabilities, fabricating circumstances that have muddled

⁹ Ranjan, A., 2016. CONTOURS OF INDIA- NEPAL RELATIONSHIP AND TRANS- BOUNDARY RIVERS WATER DISPUTES. [online] Nepjol. Available at:

<<https://www.google.com/url?sa=t&source=web&rct=j&url=https://www.nepjol.info/index.php/joia/article/download/22637/19251/&ved=2ahUKewjn v5uhlpuAhVQfX0KHQPhBr8QFjANegQIFxAB&usg=AOvVaw2Bfj3DVS6EQ wr3ri4DcFJw&ccshid=1610620271926>> [Accessed 12 January 2021].

Nepal's economic development. Development initiatives in Nepal are significantly determined by foreign aid and in last few years, contentions on the development has progressively centered around the Chinese assistance and financing. Specifically, after the year 2014, the arrangement of the Chinese financial aid and technological competence demonstrate a crucial turnaround of growth outline and enforcement.

The ties between Nepal and China encompass a prolonged convention of significant level of visits frequently which have been presenting an opportunity for bolstering and integrating the bilateral ties. The two nations have been using the bilateral, local, and multilateral mediums to conduct conventions between the respective governments for sustaining the relationship and offer perspective on the matters of shared interest. Nepal and China's economic association goes back to the validation of bilateral ties in the 1950's. The first *"Agreement between China and Nepal on Economic Aid"* was signed in October 1956 and from the mid-80s, the Chinese Government has been pledging grant assistance to the Government of Nepal under the Economic and Technical Cooperation Program in order to implement mutually acceptable development projects¹⁰. Some of the significant Nepalese projects with the Chinese involvement include:

1. **Upper Trishuli Hydropower Project- Power station and Transmission**

The Upper Trishuli Hydropower Project is a China funded project which began producing electricity in the year 2019. Upper Trishuli 3A Hydropower Project, developed by Nepal Electricity Authority (NEA), the state-owned power production and utility body, and constructed by China Gezhouba Group Company, is located at the border of Rasuwa and Nuwakot districts in the central Region¹¹. Nepal's geophysical conditions yield suitable hydropower settings for the nation. In the past few years, several Chinese hydropower development corporations have engaged in project of varying magnitude, interpreting a beneficial part in mitigating Nepal's power shortage, and assisting the prospects of hydropower growth. It was assumed that if the project functions suitably, it will eventually be able to reach the 8 percent of the nation's power requirements and hence alleviate its reliance on India for energy supply.

2. **Food/Material Assistance in northern 15 bordering districts –**

¹⁰ Nepal-China Relations - Ministry of Foreign Affairs Nepal MOFA.

¹¹ Nepali prime minister inaugurates China funded hydro project in Nepal - Xinhua | English.news.cn. (2019).

The government of Nepal has permitted the China International Development Cooperation Agency to provide the development assistance and create capitals in 15 northern districts of Nepal to meet their developmental needs and the 15 districts share a common border with China's Tibet Autonomous Region¹². The office was instituted in the month of August, in the year 2020, with an aim to bolster the long-term planning and the general cooperation of the Chinese assistance to Nepal. The agreement endorsed between China and Nepal took place in the year 2014, in Katmandu and therefore China decided to give 10 million Yuan yearly to assist Nepal advance its northern districts neighboring China's Autonomous Region. The assistance provided by the Chinese government was used in health care facilities, education and etc.

3. Kathmandu Ring Road Improvement Project

In the year 2011, China decided to assist Nepal with US\$40 million for the initial phase in revamping and expanding the Katmandu Ring Road. ***'China will provide assistance the entire 27-kilometer four lane two-way roads around Kathmandu to eight lanes with a two-way bicycle lane and a pedestrian pathway, bus station, parking lots, maintenance of the main road stream, bridges, construction of one simple urban flyover and three pedestrian overpass'***¹³. The Prime Minister of Nepal, K.P. Sharma Oli asserted that the Chinese assistance plays a paramount role in attaining the national objective of "Prosperous Nepal". The PM immensely acknowledged the Chinese aid and propounded that the ties between the two nations have achieved new levels contemporarily. The Chinese ambassador affirmed that the ties between the two nations will continue to evolve and reach new heights.

4. Pokhara International Regional Airport

The Pokhara Regional International Airport is a significant venture of the Belt and Road initiative that is yet to be completed. It is presumed that the airport will be the largest China aided project in Nepal, situated in Pokhara Lekhnath Metropolitan city. The international airport is anticipated to become Nepal's second prime international airport. At the time of the Chinese president Xi Jinping's visit to Nepal, the two nations adopted a joint statement, asserting that they will cooperate together to complete the project soon.

¹² Chinese development agency to aid 15 northern Nepali districts. (2021).

¹³ \$40 million grant to widen Kathmandu Ring Road (Phase 1).

5. Upgradation of Syaphrubesi – Rasuwagadhi Road

The upgradation of the Syaphrubesi – Rasuwagadhi road is set to be remodeled to a two lane, all-weather highway. This road section makes up the final stretch of the crucial Galchhi-Trishuli-Rasuwagadhi highway linking Nepal and China¹⁴. The road is being remodeled with the aid of China and is guaranteed that the construction of the road will be finished within 39 months. As per the bilateral assistance agreement signed in December 2016 between Nepal and China, a portion of the Rs 15.7 billion (RMB 1 billion) fund will be used to repair and improve the Syaphrubesi – Rasuwagadhi section of the highway¹⁵. The 82 km highway is considered the basis for executing the Transit Transport Agreement signed between the two countries in the year 2016.

6. Upgradation of Civil Service Hospital

The Civil Service Hospital of Nepal is being upgraded and renovated with its service expansion and state-of-art physical infrastructure with support from the Government of China¹⁶. The Minister of Federal Affairs and General Administration Lal Babu Pandit and Chinese Ambassador to Nepal Yu Hong jointly set down the premise for the project. The upgradation of the Civil Service Hospital is anticipated to lay the foundation of the development of the nation's health care facilities. The assistance provided by the Chinese government is believed to strengthen the ties between the two nations.

BILATERAL MECHANISMS BETWEEN NEPAL AND CHINA

There are numerous bilateral mechanisms between both Nepal and China and Nepal-China Joint Consultation Mechanism, guided by the Foreign Secretary of Nepal and Vice Minister of the Foreign Ministry of China is considered significant in reviewing the domain of bilateral ties. The 12th Meeting of Nepal-China Joint Consultation Mechanism was held in Beijing on 13th December 2018¹⁷. With regards to the meetings, there were extensive analysis on all significant issues of bilateral interactions and both the nations evaluated the development made in ties to past discussions, accords and undertakings. *Besides, there are other bilateral mechanisms, which include Nepal-China Inter-Governmental Economic and Trade Committee, Nepal-China Joint Committee on Agriculture Cooperation,*

¹⁴ Upgradation of Syaphrubesi-Rasuwagadhi road section starts. (2019).

¹⁵ Upgradation of Syaphrubesi-Rasuwagadhi road section starts. (2019).

¹⁶ Civil Service Hospital upgrading underway with China's assistance.

¹⁷ Nepal-China Relations - Ministry of Foreign Affairs Nepal MOFA.

*Border Law Enforcement Cooperation, Border Customs Meeting, Joint Tourism Co-ordination Committee, Nepal-China's Tibet Trade Facilitation Committee (NTTFC), Energy Cooperation Mechanism, Mechanism for Facilitation on the Implementation of China-Nepal Cooperation Programme and Projects in Nepal etc.'*¹⁸.

The 8th meeting of NTTFC was conducted on 5-6 July 2018 in Kathmandu, Energy Cooperation Mechanism Meeting was conducted in Kathmandu on 28th September 28th September 2018. The First meeting of the Mechanism for Facilitation on the Implementation of China-Nepal Cooperation Programme and Projects in Nepal was conducted on 3rd December 2018. After both the nations signed the Memorandum of Understanding on Cooperation under the Belt and Road Initiative on 12th May 2017, contemporary approaches for bilateral cooperation were instituted. *'The two countries signed three separate bilateral Agreements on Economic and Technical Cooperation on 23 December 2016, 15 August 2017, and 21 June 2018 for providing Chinese grant of one billion Yuan each to Nepal for implementing post-disaster reconstruction projects, livelihood projects and other mutually agreed projects.'*¹⁹.

In the year 2019, President Xi Jinping visited Nepal and attended various meetings with President Bhandari and Prime Minister K.P. Sharma Oli. Both the leaders validated that the bilateral relationship between the two nations is determined by unity, equal opportunities and understanding. The bilateral ties between the two nations have evolved over time. Both sides decided to, on the basis of the Five Principles of Peaceful Coexistence, Charter of the United Nations, and principles of good neighborliness, elevate China-Nepal Comprehensive Partnership of Cooperation Featuring Ever-lasting Friendship to Strategic Partnership of Cooperation Featuring Ever-lasting Friendship for Development and Prosperity.²⁰

IMPLICATIONS FOR INDIA

China's effective outreach to Nepal in the recent times has been relatively stimulated by India's escalating force posturing close to the border, which initially, was the result of China's engagements along the border. India's discontent against the increasing China's geostrategic interest in Nepal is justified since it has expanded its financial connections and considerable military aid. 'China is working for the promotion of trade and tourism, joint

¹⁸ Nepal-China Relations - Ministry of Foreign Affairs Nepal MOFA.

¹⁹ Nepal-China Relations - Ministry of Foreign Affairs Nepal MOFA.

²⁰ Joint Statement Between the People's Republic of China and Nepal. (2019).

border management, development of hydropower projects, building infrastructure for greater connectivity²¹. Therefore, the strengthening ties between China and Nepal constitute a critical concern for India. China has gradually started making Nepal its strong accomplice and is increasingly financing in its strategic areas to acquire India's status by its funding, dealings, and assistance strategy. As apparent from the developing Chinese interest in Nepal, its increasing development rate will leave India behind in not-so-distant future. This will eventually decrease India's investments along with the contraction in India's income from Nepal. Since the past three years, Chinese trade with Nepal has expanded by 61 percent and has proposed zero duty treatment.

India and Nepal maintain an intense social, strategic, economic, and strategic relationship that have been established many year ago. Although, relations weaken when they are subjected to transforming principles of time. India and Nepal relations have begun to be strained gradually as the economic association between the two nations have failed to keep up with India's development. The suitable opportunities rendered by India's blooming economy have become progressively beyond reach, and hence insignificant for the common population of Nepal. The Modi government has stepped up to make Nepal its prime concern in accordance with its 'Neighborhood First' policy.

However, the increasing existence of China in Nepal is an actuality that India has to accept and rather than deploring the Chinese presence India should consider other narratives with regards to relations with Nepal. India needs to take into consideration the deep-rooted individual to individual relation and social association whilst it accentuates the allegiance for an unbiased and sustainable relation between both the nations. China's continuing fascination with Nepal and with Tibet's substantial network of road, rail and air would negate India's opportunity in having a greater strategic access to Nepal. Fundamentally China's expansion along the Indo-Nepal border will subvert the Indian security. A downright Pro-China Nepal would be alarming and will restrict its access to Nepal. The Chinese swindling of the anti-Indian beliefs will escalate Nepal's malevolence towards India. The Chinese government has based security envoys inside Nepal to preclude anti-Chinese sentiments. To conclude, with the high-terrain border, inferior road infrastructure in Nepal, along with a single operative trade transit point between Nepal and China the economic ties among the two nations will subsequently strengthen. Although, the

²¹ China's strategic foray in the post-monarchy Nepal: implications for India | Revista Misión Jurídica. (2021).

emblematic message of the various establishments will call into question India's conventional existence in Nepal.

INDO – NEPAL TRADE RELATIONS

India and Nepal have conventionally shared intense trade and commercial ties as neighbours in the South Asia Region. When Nepal was confronted, a prolonged political precariousness that led to the emergence of various trade barriers, India continued to be Nepal's constant trade partner. India is Nepal's largest export market, the biggest source of its imports, the top investor of foreign capital stock and the largest donor of foreign aid²². India also delivers transit provisions by the means of its territory to access the sea ports for trading globally, considering Nepal being the landlocked nation. The signing of the India-Nepal Treaty of Peace and Friendship in 1950's instituted the foundation for the distinctive trade relations that exists between the two nations.

India has been affected significantly from its northern neighbor's nation's foreign policy. Even though India and Nepal sustain strong social, economic, and political ties, both nations strained their relations from the border disputes that were stimulated after the defense minister Rajnath Singh laid the foundation of a paramount road passing through Lipulekh to Kailash and Mansarovar which could link India to the Tibetan Plateau. This led to protests by the Nepali government contending that the road would challenge the national sovereignty and status quo of the nation. India was the crucial and paramount trade partner of Nepal, with more than 65 percent of trade passing through India thereby providing India with an opportunity to dominate a substantial part of Nepal's exports and imports. Simultaneously, China aimed to dominate Nepal's economic and political sphere and the country is becoming increasingly pro-China under the administration of Prime Minister K.P. Oli. The cross-border flux of goods between India and Nepal is administered by three legal instruments-

Bilateral Trade Treaties

Trade between India and Nepal is administered by the ***Bilateral Trade Treaty*** signed in the year 1971 (amended in the years 1991, 1993, 1996, 2002, 2009), by which both the nations provide tariff and other duty adjustments on essential and produced commodities imported from both the nations. The fundamental characteristics of these treaties are –

²² Taneja, N., Prakash, S., Bimal, S., Garg, S., & Roy, R. (2019).

- For primary products, both countries provided duty-free access on imports of 14 primary products on a reciprocal basis from each other in 1991 and expanded the list to 16 products under the 2009 treaty²³. Although Nepal imposes a price on the import of several agricultural products.
- In the case of manufactured products, Nepal provides India a rebate in the chargeable customs duty based on ad valorem and this rebate is 5 percent of the applicable tariff rate of up to 30 percent and 3 percent of applicable tariff rate of more than 30 percent²⁴. India obtains the rebate on Nepal's MFN rate with regards to imports and subsequently, it is regarded as the bilateral rate of duty.

South Asian Preferential Trade Agreement (SAPTA)

The South Asian Preferential Trading Agreement (SAPTA) was a strategy ascertained by the South Asian Association for Regional Cooperation (SAARC) to ameliorate trade relations among the Asian nations by the means of special treatment. The agreement was interceded in the year 1993 by the 7 developing nations. The SAPTA had two fundamental objectives –

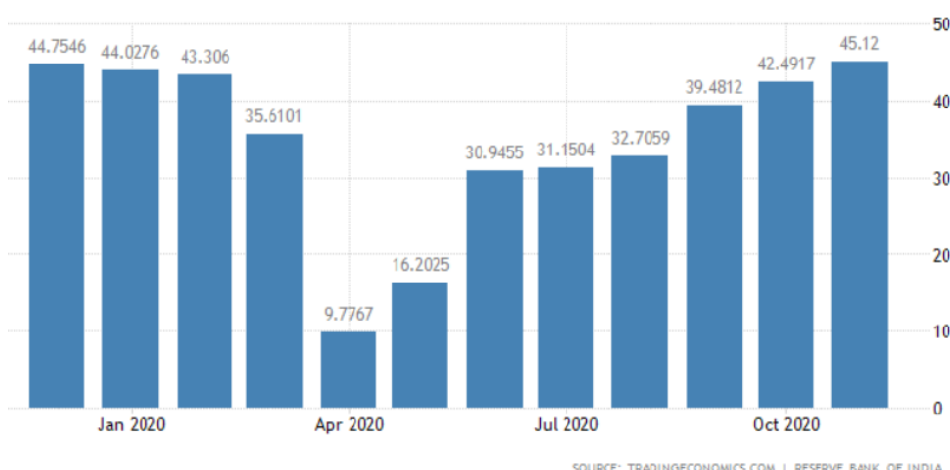
- To stimulate and maintain mutual trade.
- To establish economic cooperation between the nations.

In the year 2006, SAPTA was supplanted by the South Asian Free Trade Agreement (SAFTA). As stated by Article 22 of the South Asian Free Trade Agreement, the concessions accorded under the SAPTA were accessible to the nations up till the Trade Liberalization Programme under the SAFTA was achieved. Nepal has not accepted the whole tariff liberalization under the SAFTA because of which the concessions delineated as per the SAPTA are not ceased.

²³ Taneja, N., Prakash, S., Bimal, S., Garg, S., & Roy, R. (2019).

²⁴ Taneja, N., Prakash, S., Bimal, S., Garg, S., & Roy, R. (2019).

India's ties Nepal subsisted to flourish in the year 2019 with high level bilateral visits and escalated energy association, embracing the inauguration of the first '**cross-border petroleum pipeline**' in South Asia, in midst of China's major financing in the nation. Nepal possess a distinct and unusual importance within the foreign policy of India because of its strategic position, historic relations, economic and social ties. In the year 2019, Nepal's export to India surged by **63 percent** to a 20-year increase of **\$649 million**, disregarding a contraction in the Indian imports. An analysis of UN com-trade database revealed that India is not only the largest destination (**68 percent**) for Nepali exports, but it is also the only market that offers Nepal a growth opportunity²⁵. Moreover, a surge in exports to India increased Nepal's aggregate exports to \$966 million in the year 2019. The surge in the trade depicted that the goods and service tax (GST), initiated by the Indian government in the year 2017, within the domestic tax reforms, cannot be regarded as an impediment.

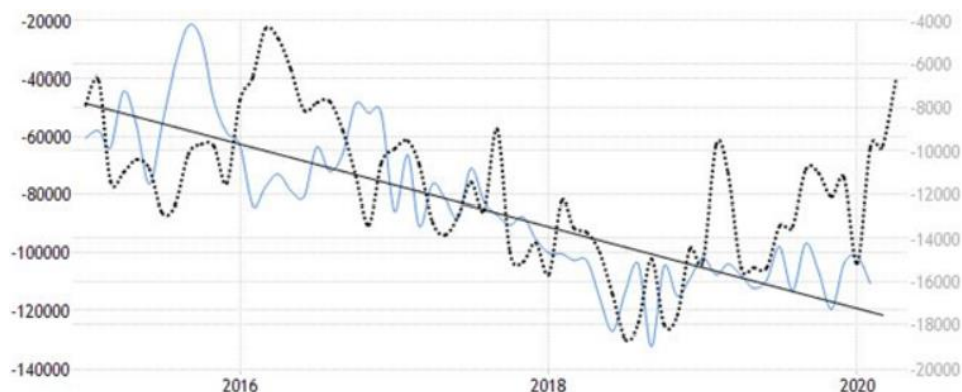


Source-<https://tradingeconomics.com>

Nepal's trade deficit has been constantly rising, particularly with regards to India. Only in the first ten months of the fiscal year **2019/2020 (Mid July 2019 to Mid May 2020)** the trade deficit was about **US\$7,890,508.99**, among which Nepal's trade deficit with India was **US\$4,769,504.29 (about**

²⁵ Opinion | Nepal needs a better strategy. (2021). from <https://kathmandupost.com/columns/2020/07/05/nepal-needs-a-better-strategy>

60 percent of the total trade deficit)²⁶. India covers for over two-third of Nepal's merchandise trade, about one-third of trade in services, one-third of foreign direct investments, almost 100 percent of petroleum supplies, and a significant share of inward remittances on account of pensioners, professionals and workers working in India²⁷.



Source - <https://thekootneeti.in/2020/06/07/nepals-increasing-trade-deficit-with-india-and-bangladesh/>

Initially India was the primary source for Foreign Direct Investments (FDI) in Nepal and contemporarily it has witnessed its status dwindle with the emerging Chinese dominance. For example, in the year 2019, China holds for about 40 percent of new FDI's opposed to India's 30 percent. The contraction in the Indian investments in Nepal manifests two fundamental factors-

- The socio-economic relations between both the nations has not adequately adjusted with the changing dynamics. These ties were the chief elements of the investments conventionally and assisted its course. Since these factors have dawdled, Indian investments have contracted.

²⁶ Pulami, M. (2020). Nepal's Increasing Trade deficit with India and Bangladesh., from <https://thekootneeti.in/2020/06/07/nepals-increasing-trade-deficit-with-india-and-bangladesh/>

²⁷ Pulami, M. (2020). Nepal's Increasing Trade deficit with India and Bangladesh., from <https://thekootneeti.in/2020/06/07/nepals-increasing-trade-deficit-with-india-and-bangladesh/>

- India commenced to steer India's investment onrush in Nepal. The notion of increasing Chinese investments in Nepal determined in terms of geo-politics. This approach has subverted India's endeavors in Nepal, additionally disintegrating the conventional economic relations among the two nations. It also affected the notion of Indo-Nepal relations and rather than it being about the historic ties between the citizens of the two nations, Indo-Nepal economic relation set off to become about governments with array of geo-political nuances.

As the Indian government emphasized on being associated with the Nepali government through the means of bilateral and authority to authority investments, China, subsequently, delegated its enterprises directly with the citizens of Nepal. While the authorities in India and Nepal concentrated on sustaining relations among themselves, a contemporary economic relation between China and Nepal has started to be redefined.

NEPAL'S TRADE PROSPECTS WITH CHINA

Nepal's economic association with China has strengthened in the past few years through enhanced infrastructural integration, financing, trade, and tourism. China has surfaced to become Nepal's largest source of (FDI) and has continued to remain the same since the past three years. Economic ties between the two nations are predicted to advance in the following years as Nepal has laid precedence over intensifying connectivity by signing a Memorandum of Understanding (MOU) on cooperation under the Belt and Road Initiative in the year 2017 and acceding to administer the MOU at the foremost political extent. When Nepal's PM K.P. Sharma Oli visited China in the year 2018, the two nations consented to execute the MOU on the BRI to, *'enhance connectivity in key areas including ports, roads, railways, aviation and communications within the prime framework of Trans-Himalayan Multi-Dimensional Connectivity Network, according to a joint statement issued during the visit'*²⁸. Nepalese infrastructure expert Surya Raj Acharya said that cross-broader highways, railways, transmission lines and internet connectivity would bring drastic changes to Nepal's socio-economic landscape. "Geography is not a barrier to extending railways in

²⁸ A new chapter in China-Nepal economic relations - Xinhua | English.news.cn. (2018). from http://www.xinhuanet.com/english/2018-11/04/c_137581454.htm

this region," Acharya said²⁹. China is the second largest trading partner of Nepal with bilateral trade accounting for \$1.37 billion. In the year 2017-2018, trade between the two nations increased by 25 percent. China has also proposed duty-free access to around 8000 Nepali commodities. In order to completely utilize and gain from the trade relations between both the nations, it is presumed that Nepal should operate on its capabilities. In the month of September 2020, commerce officials of both the nations held a high-level discussion to converse trade ties between Nepal and China. According to the various sources, China emphasized greatly on enhancing the trade relations between the two nations and this indicated that China is inclined to make attempts to cease the blockages in the trade relations among the two nations. According to the Commerce Joint Secretary Prakash Dahal, *"We have incorporated on our agenda obstacles of trade as well as available facilities, implementation of past agreements, and other issues of cooperation"*³⁰.

After the greatly publicized visit of the Chinese President Xi Jinping to India could not have an impact on most people, the president arrived in Nepal and this was the first visit by any Chinese leader to Nepal in 23 years. The visit led to a commitment of nearly \$500 million in economic assistance for Nepal and the signing of 20 new agreements concerning health care, agriculture, tourism, and infrastructure. While Xi promised to upgrade the Arniko Highway linking Kathmandu with Tatopani transit point, the highlight was the pact to conduct a feasibility study for an ambitious Chinese-built railway through the Himalayas³¹. For the last couple of years Nepal has been dependent upon Indian ports for its trade and in order to reduce its dependance on India, Nepal signed a transit protocol with China in the year 2019. The protocol came into effect in the year 2020, according Nepal access to four sea ports and three land ports in China. Nepal's acting as the geopolitical bridge between India and China, will eventually become a significant ally for both the nations in the subsequent years and regardless

²⁹ A new chapter in China-Nepal economic relations - Xinhua | English.news.cn. (2018). from http://www.xinhuanet.com/english/2018-11/04/c_137581454.htm

³⁰ Nepal, China officials to discuss trade relations today. (2020), from <https://english.onlinekhabar.com/nepal-china-officials-to-discuss-trade-relations-today.html>

³¹ Pant, H. (2019). China-Nepal ties are deepening. What can India do, from <https://www.dailyo.in/politics/china-nepal-relations-xi-jinpiing-tibet-hong-kong-protests/story/1/32094.html>

of which nation Nepal sways towards or prefers to be independent will impact the trajectory of its economic, cultural, and political development.

INDIA-NEPAL: FAILURES TO INSTRUMENTALIZE AGREEMENTS

Although India-Nepal bilateral ties are driven by people-to-people relations, finalization of agreements also requires warm business and government relations. One of the primary obstacles to finalizing agreements with Nepal is the market challenges that the country imposes. Market challenges can be solved easily if the political scenario of the country is peaceful. Nepal has seen 25 governments in the last 28 years. This sheds light on the political instability that the country is experiencing. Political instability frightens off any foreign investor. This also leads to fluctuations in bilateral policies and bureaucratic delays. Apart from stability, agreements can be easy to conclude if the investment limit is enough and unhampered. Only in May 2019, the Government of Nepal increased the minimum FDI (Foreign Direct Investment) limit to Rs. 5 crores from Rs. 50 lakhs. Thus, before May 2019 it was very difficult for public and private sector companies to step into the Nepali market.

This also decreases the scope of agreements, only limited to small sectors and companies. Only the projects that require minimal investment could be concluded before May 2019. Although these changes were brought in too late as the COVID-19 pandemic hit both the countries shortly after the amendment. Thus, materializing the increased FDI became difficult and the step taken by the Government of Nepal became redundant anyway. But more investment from India can be expected in the coming years due to the increased limit. Red tape put on FDI in Nepal is another factor that hampers probable bilateral agreements even more. The FDI from India has declined owing to the regulatory red tape on the legislation and the legal system of Nepal. As a result, foreign investment from India fell by approximately 51 percent in 2019-20 as compared to the previous year.

High regulations also invite high corruption as the middlemen in any business start taking bribes for easier functioning. With red tape on FDI, corruption also results in reluctance and delaying in signing the agreements. Even if the agreements are signed, they are not executed well on time due to corruption. Nepal's CPI (Corruption Perception Index) is 113 out of 180, fallen by 2 ranks, while India stands at 80. Labor rigidity in Nepal also discourages FDI from India. Various instances such as the shutdown of Dabur in Nepal and, later on, the United Telecom Company, a joint venture of BSNL and a Nepalese company, were due to overlooked Labor law issues

in Nepal. A solution to this problem, too, was proposed with the Labor Act, 2017. But these laws, on the other hand, have also decreased the ease of doing business in Nepal. Since the new Social Security Fund was introduced by the government, it became difficult for many foreign investors and small cap companies to meet the cost. Apart from these market challenges, India is also not able to keep up with the changes in Nepal. One of the examples of this is the amendments demanded by Nepal in the 70-year-old India-Nepal Peace Treaty, 1950. Nepal displays its concerns regarding the clause in the treaty which states that Nepal shall seek consent of India before signing any arms agreement with another nation. Nepal finds this clause redundant now as it's a developing country today and does not require India's assistance in military. Another concern is with respect to a visa-free entrance of Indians in Nepal. Due to the disparity in population, Nepal is skeptical if their country might be populated with too many Indians. Since this treaty is one of the earliest treaties between India and Nepal, thus highly valued, unfulfilled demands relating to the Peace Treaty create diversion for other dialogues too.

With problems in the existing agreements, there is also a presence of ambiguity in the recently signed agreements as well. For instance, Power Trade Agreement, 2014 states that, "The agreement enunciates that it will enable cooperation in the power sector, including developing transmission interconnections, grid connectivity, power exchange, and trading through the governmental, public and private enterprises of the two countries on mutually acceptable terms". Thus, this creates a platform for uncertainty and requires scrutiny. Mutually acceptable are not clearly defined in the treaty. Thus, it is unknown whether any terms would be a win-win situation for India. Apart from this, owing to the changes in Nepal's domestic politics, agreement with inadequate semantics can lead to redundancy. Delay in ratification of treaties and agreements also plays a role in further delay of implementation of the agreement.

These bilateral agreements need even more attention after the rise in an anti-India sentiment in Nepal. This is recently coined as "Anti-India Nationalism" by the media in the two countries. Nepal was severely hit by the pandemic recently. Anti-India sentiment proliferated among people as it was used as a tactic by the Government of Nepal to distract people from the incumbency of the government. Although the anti-India sentiment is not a baseless agenda. It is also, to some extent, India's making as well. People of Nepal hold grudges against the economic blockades of 2015. After Nepal was hit by an earthquake, due to tension in bilateral relations, India stopped its supplies of essentials to Nepal. This gave rise to anti-India

sentiments among the people of Nepal which was further fostered by the government recently. To counter the blockades, India built a pipeline to Nepal in 2019. The pipeline ensured LPG supply to Nepal irrespective of the circumstances. This was a confidence building measure taken by the Indian government. This also brings profits to India as IOC (Indian Oil Corporation) got a captive customer. Although, apparently, this was not enough to wash away the tainted image of India among the people, especially the youth, of Nepal. Since people-to-people relations is the base of bilateral ties, factors like these affect the business-to-business and government-to-government relationship to a great extent as well. For instance, Nepali PM KP Sharma Oli even taunted India with its national emblem calling it “Simheva Jayate” instead of “Satyameva Jayate”. Such actions by the Prime Minister led to diplomatic tensions and failure in implementation of bilateral agreements later. Also, there was a controversial statement made by the Army Chief of India when he accused Nepal of acting on behalf of another nation while commenting on border issues that recently arose between India and Nepal. A statement by Indian Foreign Minister, S. Jaishankar, on Gautam Buddha being a proud Indian had created a squabble between the two countries.

One of the areas where India lacked, that led to failure in finalizing agreements is the lethargic response by India in materializing those agreements. Projects like Pancheshwar Multipurpose Project, Arun III and Upper Karnali have suffered a great deal due to lack of India’s ability to keep up with the deadlines. Similar lethargy in Indian bureaucracy was apparent in BBIN Motor Vehicle Agreement. Also, India has very few infrastructure projects in Nepal as well. Even Nepali Information Minister, Sherdhan Rai, has said to Indian media, during their visit to the country, that India might face a trust deficit with Nepal due to its delayed actions. Delay in delivering promises also affects people-to-people relationships between the countries. This is also evident in the number of Nepali students pursuing their education in India now as compared to previous years.

The number of Nepali students choosing India to pursue higher education is decreasing. In 2019, more students from Nepal went to China than to India. There is also a rise in Chinese study centres in higher education institutions in Nepal. This suggests that there might be a paradigm shift in the youth of Nepal towards China from India. India needs to attend to third country operations in Nepal. There is smuggling of fake currency notes, Chinese products and terrorist elements. Pakistani mafias also export terrorism to India through Nepal. These factors also influence bilateral agreements as discussions about any other topics are hindered with these

operations. To counter this, the Indian Government has been organizing training programmes for Nepalese Police Forces. Establishments like FICN Coordination Centre and Terror Funding and Fake Currency Cell have also been set up by the security agencies. But these hurdles will continue to bring trust issues between India-Nepal as long as they exist. Thus, it is important for India to eliminate third country operations. Apart from these, Bhutanese refugees have also been a minor irritant between the two countries. India still struggles while diplomatically handling the situation between Nepal and Bhutan as several Bhutanese refugees of Nepali origin live along Bhutan border in India. Scrutinizing the causes of failure in instrumentalization of agreements, India and Nepal carry a lot of baggage from the past. One of the paths towards cohesion is to look towards future projects. For example, India and Nepal recently collaborated on Integrated Check Post in Birgunj and Biratnagar. Also, the two countries are working on joint railway lines, from Barhni to Kathmandu and from Raxaul to Kathmandu. Completion of these projects will be an important milestone for the bilateral relationship.

RECOMMENDATIONS

As discussed above, there are many disputes and differences that India and Nepal have. These factors affect the relations between these two countries at all levels. While these countries solve their disputes, solutions present both countries with new opportunities in different fields. Blockades, of 2015, put a pressure on India to improve its public opinion among Nepalese people to which India reciprocated with inaugurating a gas pipeline that resolved this issue permanently, at least for LPG supply. Therefore, every dispute opens a door for new opportunities that India can seize. While dealing with the border disputes, India can seek China's accord on the issue in Nepal as well. Since, as discussed, China also has an influence in Nepal. China and India also have transnational roads to and through Lipulekh. Thus, China is considering the territory, claimed by Nepal, as a part of India. This gives India an upper hand in the situation.

While resolving the border dispute with Nepal, India and China can also create a new platform for their cooperation and dialogue. At the same time, India also needs to restrain from internationalizing this issue. Thus, a perfect balance needs to be figured out while dealing territorial disputes. Resolving this dispute bilaterally should be the first priority of India. From the incidents in 2015, it is well understood that blockades are not a solution to any problem. Blockades have only catalyzed the issues between India and Nepal. Leaders of India and Nepal need to refrain from verbal fights. This would save the time and energy for constructive projects. As mentioned,

there were instances of top representatives of both countries making controversial statements on other countries emblem and sovereignty. This harms the public opinion of the leader in the other country. Furthermore, to contradict or answer those, leaders from the other side, too, organize a conference. This uses up the representative's resources and time over an unnecessary issue. Both the governments need to include the private sector in the agreements. Inclusion of the private sector might resolve the issue of delayed completion of projects and increase ease of doing business in Nepal as well. As discussed above, the government-to-government and people-to-people ties are going through tough times and business-to-business relationships have not been established yet. Thus, including the private sector would help India and Nepal exploit different opportunities for agreements. Business-to-business relationships can also be strengthened by easing complex regulations in exports and imports.

These regulations hurt small businesses more than MNCs. Good investment in small businesses will help India improve its image among locals in Nepal, too. This relationship should also be improved through keeping the Labor class satisfied. Since Labor law rigidity is a concern in Nepal, labors need to be kept on board with decisions of Indian companies in Nepal. An unhappy Labor class can harm any government-to-government relationship. Meanwhile, India and Nepal also need to diplomatically figure out a solution on cost of doing business for Indian companies in Nepal. The countries also need to develop their army-to-army cooperation. With recently India's Army Chief visit to Nepal, two countries should be looking forward to more army cooperation. Security cooperation will also assist India in eliminating third country operations in Nepal.

India can organize more training programs in Nepal to strengthen Nepalese forces as well. Crime free Nepal is, certainly, in everyone's interest. More security cooperation will also improve bilateral ties. India also needs to be more apolitical while formalizing agreements with Nepal. Development projects are mostly harvested by local politicians of Nepal. Thus, India's attempt to connect with local people of Nepal is also hindered due to the political connection that these development projects have. Similar apolitical stance needs to be taken while offering Nepalese students' scholarships for higher education in India. Scholarships should be offered on a merit basis rather than based on any political recommendations. These steps will build a good will among the youth of Nepal for India.

India-Nepal should also keep the Oversight Mechanism active to keep the on-going development projects in check. Not only prime ministers of both countries should be a part of this such a process but even policy planners

and administrators should collaborate on a regular basis. One of the major reasons behind China's rising influence is their goodwill driven projects in Nepal which are ready by the deadline promised. Also, India and Japan have good relations, primarily, because Japan has given huge Official Development Assistance to India. Similarly, India needs to make more investments in Nepal, not with expectations of immediate returns but, looking at the big picture. India can also make Nepal aware of the countries that have fallen into the Chinese Debt-trap. Awareness spreading and trust building measures need to be prioritized by the Indian government.

Apart from these measures, politicization of water in the bilateral ties also needs to be kept in check. Water is amongst the most valuable and disputed resources between India and Nepal. Water often becomes a political issue as well. Nepalese parties raise water issues to allure votes in domestic politics. Thus, using water as a political tool will only harm the relationship between the two countries. These measures are of acute importance for India due to the hostile neighborhood it already has. Even with countries like Pakistan and Bangladesh, India continues to face water disputes and even in these countries water is used as a political weapon. Thus, solutions drawn while negotiating with one country might even solve similar disputes with other countries as well.

While dealing with Nepal, India can take a leaf out of its own book of foreign policies. Policy frameworks like the Pancheshwar and Gujrat Doctrine advocate looking at long term returns of building trust in neighboring countries. India should prefer solving all problems diplomatically with Nepal. Following these two policies, India has earned its goodwill in Bhutan. Similarly, India has a huge scope of having the same relationship with Nepal since they share very similar heritage.

CONCLUSION

The relationship between Nepal and India is complex due to border issues and water disputes. The two nations while sharing an open border they tackle a lot of border disputes. There has been free movement of people across the border because of treaty of peace and friendship of 1950. The bilateral relations between India and Nepal has been accompanied by high-level visits, negotiations, and summits. India and Nepal have several bilateral institutional dialogue mechanisms, including the India-Nepal joint commission, Ministry of India and Foreign Minister of Nepal. The connectivity and development in Nepal have been partnered by India's support through various programs and aid. Cooperation in water resources has been an integral part of bilateral relations, the ganga river basin is largely supported by rivers flowing from Nepal to India. The growing water

needs of India is supported by joint cooperation of India and Nepal over water resources.

Along with water and border cooperation, India and Nepal share energy cooperation and trading partners which economically benefits both nations. India has contributed to Nepal's economy for better relations through investments in development programs as well as education by providing scholarships and jobs in India. With the economic development, both nations also share a people to people connect through art and cultural exchange with the help of cultural programs and events organized to cherish India and Nepal cooperation. The complexity of India Nepal relations is in border disputes with current developments on the issue. There is a need for urgent action on border dispute with diplomatic talks. The growing anti-India sentiments in Nepal is problematic for India-Nepal relations. The youth of in November organized a protest outside Indian embassy in Kathmandu to share their discontent. The lack of dialogue since the inauguration of a new road passing through the disputed border region of India and Nepal has worsened the relations.

India and Nepal share 1,800 Kms long open border which share a history of people to people connect and Nepal being the top trading partner among India's six neighbours plays an important role in good bilateral relations for India with its neighbours. Both countries have signed Transit and Transportation Agreement (TTA) along with treaty of friendship and cooperation that binds them together. The deep historic relations between the two nations has been impacted by anti-India sentiments in Nepal and growing role of China in Nepal. Nepal is a small, but rich with water-resources, and upper riparian to all Indo-Nepalese transboundary rivers. It is estimated that the Nepalese rivers could generate up to 83,000 MW of hydroelectric power, which is more than the combined total hydroelectric power produced by USA, Canada, and Mexico. To harness the shared hydro power India and Nepal have signed various water-sharing treaties, but most of them have been either not operative or being criticized by the people from Nepal. Nepal's acting as the geopolitical bridge between India and China, will eventually become a significant ally for both the nations in the subsequent years and regardless of which nation Nepal sways towards or prefers to be independent will impact the trajectory of its economic, cultural, and political development.

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