

India-Nepal Relations

(STUDY MATERIAL FOR LONG QUESTION AND SHORT NOTES)

THE HISTORY OF INDIA-NEPAL TIES

The start of ties between the modern day states of India and Nepal can be traced back to the [1950 Peace and Friendship Treaty](#). Articles 5, 6 and 7 of the treaty were the key components of the treaty. Article 5 allowed Nepal access to weaponry from India. Article 6 established national treatment for both Indian and Nepalese businesses ([ie once imported, foreign goods would be treated no differently than domestic goods](#)). Article 7 established reciprocal treatment of Indian and Nepali citizens in the two countries, in residence, property, business and movement. While light on details, it did serve the purpose of establishing ties between the two nations and Article 5 especially signalling a potential for deeper ties between the two countries. A year previously had also seen the Communist Revolution in China, as well as the Tibetan conflict, which would have been an issue in the minds during the signing of the treaty.

1950 also saw the signing of the [Treaty of Trade and Commerce](#) between India and Nepal. Along with strengthening trade ties, the treaty would also streamline customs and duties regulations between the two nations, an important factor for Nepalese trade, given that it is a landlocked country. An Indian military mission would also be established in Kathmandu and be the [source of tension](#) in Nepal towards India.

The 1960s would mark the beginning of Nepal balancing its relations with both India and China. 1962 King Mahendra dissolving the parliamentary government and installing the [Panchayat System](#), which was marked by the lack of political parties and constituted of a structure consisting of village panchayats all the way up to a national panchayat. Furthermore, the King was to remain as the head of state under this system.

Prior to that, in 1960, Nepal would sign another Peace and Friendship Treaty, with [China](#) this time around. Furthermore, in 1961, Nepal would [sign](#) a border treaty and also agree to the building of a highway route that would connect with China. All this signalled a drift away from India, but post the 1962 war between India and China, Nepal would sign a 'secret' agreement with India that allowed Nepal to only import arms from India in 1965. This would however

be [cancelled](#) by Nepal in 1969, along with a call for Indian military personnel being removed from Nepal.

Multiple Trade and Transit Treaties were signed between India and Nepal as trade ties strengthened between the two countries in the 1970s and the 1980s. The first being in [1971](#), and in [1978](#). 1978 also saw an increase in the number of [joint investments](#) between Indian and Nepalese firms, all signalling further cooperation between the two nations.

Meanwhile, on the China front, Nepal would not see any significant developments in the 1970s, or the early 1980s, although strong relations would be [maintained](#) between China and Nepal throughout this time, as Nepal continued to balance its relations between India and China. The tipping point would come in 1989, with the failure to negotiate a new trade treaty and the purchase of weaponry from China, leading to the expiration of vital trade and transit of goods treaties between India and Nepal, placing [massive strain](#) on Nepal's economy.

That massive strain would result in the restoration of the parliamentary democracy in Nepal in 1990 and after visits and meets in the early 90s between Indian and Nepalese leaders, trade ties would resume again with the [signing](#) of new treaties.

The 2000s would see the monarchy getting restored under King Gyanendra, only to be overthrown in 2006 and abolished in 2008, when Prime Minister Dahal (also known as Prachanda) started his first tenure as Prime Minister of Nepal. Under King Gyanendra, China [delivered](#) arms to Nepal after India had stopped its weapons supply once the King seized power. India would normalize its relations with Nepal once again after the King Gyanendra was removed from power.

RECENT DEVELOPMENTS

[Currently](#), India remains the largest foreign investor in Nepal, is providing aid and is jointly constructing hydel power projects with Nepal, some of which was announced during Prime Minister Modi's [2014 visit](#) to Kathmandu, with the extension of a \$1 billion credit line. Wary of these developments, China too has made recent efforts to maintain a presence in Nepal, with investment in the [Araniko Highway](#) that connects Kathmandu with the Nepal-China border and facilitates easier trade and movement of goods between the two countries. Hundreds of millions of dollars have also been [pledged](#) to Nepal by China for infrastructure and even military aid.

Last year saw the Madhesi crisis, when people from the Madhesi community [setup blockades](#) at vital border crossings for trade with India, as they

protested for better representation in Nepal's constitution. This resulted in tensions between India and Nepal, with then Nepal Prime Minister KP Sharma Oli asking India to [remove](#) the official blockade. However, India [denied](#) any role in the blockade, stating that internal tensions in Nepal were the cause behind the blockade.

Prime Minister Dahal [visited](#) India this past week and along with Prime Minister Modi, signed agreements aimed at improving infrastructure and aiding the post-earthquake reconstruction efforts in Nepal. Border security and hydropower were other topics that were discussed. The purpose of the visit was to restart the ties that had taken a hit post the Madhesi crisis and blockade controversy, which led to Nepal [increasing](#) its ties with China.

Soon after there were reports in Chinese state-run media that stated the visit to India was [detrimental](#) to the previously burnished Nepal-China ties. There were also unconfirmed reports that President Xi Jinping of China was to cancel his future trip to Nepal, but the Chinese Foreign Ministry has come out and [denied](#) those reports.

LOOKING AHEAD

Landlocked between two major regional powers, the quick readthrough of Nepal's ties with India and China shows that not being overly dependent on either India or China is a crucial aspect of Nepal's foreign policy. Strategically, it makes sense for Nepal to balance between India and China, as being landlocked hinders Nepal's opportunity to trade with the rest of the world freely and being overly reliant on either nation would only lead to potential problems if either country withdrew their support. The latest developments hence, suggest no diversion from this historical status quo and future talks between China and Nepal should be expected.