

Nepal's Economic Diplomacy with India: Trends, Constraints and Strategic Directions

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Abstract

Nepal's relation with India is multidimensional and it is shaped by geographical proximity, open border, culture, religion and people-to-people ties. India has been the largest trade partner of Nepal, major source of Foreign Direct Investment (FDI), major development assistance partner, a large source of tourism and a significant labor destination for seasonal migrant workers. In the 1990s, after Nepal liberalized its economy, Nepal has prioritized economic diplomacy as a central pillar of its foreign policy. For Nepal, a Landlocked Least Developed Country (LLDC), economic diplomacy is important as it acts as a bridge connecting foreign policy and economic interests of the nation through bilateral, regional and multilateral platforms and helps in the sustainable economic development of the country. This study employs a qualitative approach to study the main dimensions of Nepal-India economic relations-trade, aid, investment, tourism and employment and highlights the persistent challenges in these areas. These include structural limitations, inadequate infrastructure, lack of diversification of transit routes, bureaucratic inefficiencies, donor-centric aid

priorities, untapped tourism potential and labor issues, while also focusing on the solutions for the effective economic diplomacy between Nepal and India. The results revealed the asymmetric power dynamics, politicization of economic issues, structural vulnerabilities and less proactive role of Nepal in economic diplomacy. This study concludes that Nepal has prioritized political dimensions over economic ones when conducting bilateral engagements with India. Depoliticization of economic issues at the domestic and bilateral level, along with the structural improvements with focus on proactive economic diplomacy will lead to balanced and sustainable economic relations.

Introduction

Diplomacy is a tool to protect national interests by managing aspects of international relations with the foreign actors through negotiation and formally practiced by ambassadors and envoys. As defined by Ernest Satow, it is the “application of intelligence and tact to the conduct of official relations between the governments of independence states, the conduct of business between states by peaceful means” (Roberts, 2012 p. 3).

After the Second World War, frameworks like the Marshall Plan, European reconstruction and the European Economic Communities became pivotal for the realization of the economic interests of countries. While the Cold War is largely noted for its ideological contestations, inter-state relations post that were further solidified on the basis of economic interests. There was a greater focus on aid and trade in 1950s and 1960s and investment in the 1980s and 1990s (Thapa, 2012).

It is due to globalization, liberalization, privatization, rise of interdependence and connectivity among the people and states in the world, that economic issues have now firmly been intertwined with political issues (Acharya, 2024). Economic diplomacy then becomes an instrument to implement the state’s economic policy to achieve the economic interest of the government, through communicating and negotiations with home and foreign institutions, business and international organizations, that are central to the state’s priorities. Objectives of economic diplomacy can be wide-ranged, including utilizing diplomatic instruments to promote international trade, tourism, foreign employment, attract foreign direct investment, mobilize resources for development, mobilizing the diaspora, among others (HLTF, 2018).

In Nepal, “economic diplomacy” was first used in 1996’s High-Level Foreign Policy Task Force (HLTF) report (HLTF, 2018). It framed the idea that economic diplomacy was an important part of Nepal’s foreign policy and that trade, investment, foreign employment and tourism were its pillars, with development cooperation being a later addition (Acharya,

2024; Khanal, 2025). Since then, there were other attempts, with economic diplomacy becoming an essential component of Nepal's foreign policy. One such being the Policy, Planning and Economic Analysis division, established under the Government of Nepal, Ministry of Foreign Affairs (MoFA) in 2050 B.S., with the institute allocating budget for economic diplomacy programs (HLTF, 2018). Articles 50 and 51(d) of the Constitution of Nepal, also, outline economic objectives, directive principles and policies relating to economy, industry and commerce (Constitution of Nepal, 2015). Likewise, Foreign Policy of Nepal has prioritized development assistance mobilization, foreign investment, international trade and tourism promotion among others as the key components of its economic diplomacy (Ministry of Foreign Affairs [MoFA], 2020).

As a country seeking to graduate as a Middle-Income Country status from the Least Developed Countries (LDCs) status by 2030 (Acharya, 2019), Nepal needs to promote her economic interests effectively to the outside world. India remains an important neighbor while looking at how important economic associations are seen with India.

Several publications on economic diplomacy, have looked into aspects of Nepal's potential and challenges, but not many have exclusively explained Nepal's economic diplomacy with India. The effectiveness of Nepal's diplomatic missions in India and their approaches adopted for economic diplomacy remain unclear. In this study, the researcher has tried to examine the facets of Nepal's economic diplomacy with India, looking into the key constraints, gaps identified in the literatures, and identifying the strategic directions required to move forward.

This research focuses on the main dimensions of Nepal-India economic relations trade, aid, investment, tourism and employment and examines the constraints affecting Nepal's economic diplomacy with India. Building on this, this research aims to identify the strategic directions that support to strengthen the bilateral economic cooperation between Nepal and India in future.

Review of Literature

Economic diplomacy denotes the formulation and advancement of policies relating to production, movement, exchange of goods, services, labor and investment in other countries (Pokharel, 2011). Economic diplomacy has been understood primarily as a "process of decision making and negotiation in international economic relations focused on core issues such as trade, investment and finance" (Woolcock, 2013, p. 209). Economic diplomacy facilitates trade and investment by negotiating market access, rules, or agreed norms and standards.

Woolcock builds an analytical toolkit to help understand decision-making and negotiation in international economic relations, listing variables that can influence economic diplomacy, which include economic power, international institutions or regimes, markets, as well as the individual state interests. Digital diplomacy, regional and multilateral economic cooperation, sustainable development and climate change financing, public-private partnership and economic sanctions to that end have emerged as new trends within economic diplomacy (Paudel, 2023).

Bayne, moreover, adds to this and defines economic diplomacy as the “method by which states conduct their external economic relations. It embraces how they make decisions domestically, how they negotiate internationally and how the two processes interact” (Phlipot, 2012, p. 187). Economic diplomacy is “the process through which a country tackles the outside world to maximize their national gain in all field of activities including trade, investment and other forms of economically beneficial exchange where they enjoy competitive advantages’ (Rana, 2011).

Hamal (2014) describes that “economic diplomacy is a part of diplomacy that promotes economic interests of a nation in its interactions with other nations and international and regional organizations” (Hamal, 2014. p. 93). Hamal focused on the idea that there are different types of diplomacy like military, cultural, public, sports and so on. So, economic diplomacy focuses on the economic interests of a country while interacting with international actors, while keeping the other factors in the state’s overall consideration.

Nepal: Potential, Challenges and Opportunities

Concluding that economic diplomacy should be a major component of Nepal’s foreign policy to serve the country’s economic interests, Sahana Pradhan, the then Minister for Foreign Affairs, said MoFA had moved towards organizational reform to promote economic diplomacy. Under her leadership, the Multilateral Economic Affairs Division was created within the Ministry (Pradhan, 2008). Gyan Chandra Acharya, the then Foreign Secretary (2008) of Nepal focused on “trade, transfer of technology, investment, finance, tourism, labor and development cooperation,” as the “natural areas” of Nepal’s “economic engagement with the rest of the world” (Acharya, 2008).

Located between two rising economies - India and China - Nepal has huge potential of reaping economic benefit. It has been believed that Nepal can get the benefit from the economic rise of the India and China, by focusing “on connectivity and integration with neighboring countries” (Acharya, 2020, p. 39). For that, Acharya claims Nepal needs to “take certain strategic decisions in its economic policies, economic diplomacy and development

cooperation” (Acharya, 2020, p. 39). He further explains that “connectivity with the neighboring countries, transformation of Nepal’s landlocked economy to a ‘land-link’, development of north-south economic corridors, sustainability of external sources of income such as remittances, Nepal’s transformation to a Middle-Income Country and setting red-lines in development cooperation as well as gradually reducing dependence upon foreign aid and focusing on more sustainable sources of financing development” (Acharya, 2020, p. 39).

It has further been noted that Nepal’s economic diplomacy can be more effective, by setting “annual targets for activities with objective indicators, country-specific annual plans, a program budget to each mission abroad every year, direct monitoring and supervision of activities by the High-Levels Committee under the Minister for Foreign Affairs, Foreign Secretary Level committee, and Multilateral Economic Diplomacy Division of MoFA, close coordination and cooperation with the line ministries, private sector, and other relevant stakeholders” (Hamal, 2014, p. 98).

The Three-Year Interim Plan (2010/11-2012/13), considered economic diplomacy to be an important dimension of Nepal’s foreign policy and emphasized the importance of MoFA in making missions abroad more active in “areas of export, tourism, foreign investment, and foreign employment. It had the policy of providing additional financial and human resources to Nepal’s diplomatic missions” (Hamal, 2014, p. 98).

Nepal and India: Emerging Dynamics

India has, in present times, emerged as the fourth-largest economy in the world, primed to become a global economic powerhouse (Government of India, 2025). Nepal comes within the top ten export destinations for India with the total exports to these two countries amounting to over \$16 billion (Shringla, 2024, p. 86-87). Delhi’s footprints in Nepal can be noted in terms of the routes connecting them, the development assistance, and it serving as a major destination for migrant workers.

Stressing on Nepal’s importance to India, Nayak (2014) has noted that “Nepal is only one country whose citizen are given national treatment in India” (Nayak 2014, p. 44). On the other hand, India is important for Nepal because India is the largest investor and trade partner of Nepal. Around 60 % of Nepal external trade and 32.2% of Nepal Foreign Direct Investment (FDI) comes from India (NRB, 2025). For uninterrupted economic growth and trade with other countries, India has opened 22 transit routes with Nepal, across the open border (Consulate General of India, 2025). Though India’s traditional influence in Nepal has been challenged by China, US, EU and other countries leading to mistrust and suspicion between Nepal and India (Sharma, 2024).

India has been providing assistance to Nepal since 1951. Its assistance for Nepal's development projects in 2010/11 alone amounted to NRs. 6.3 crores (Nayak, 2014, p. 57). Investments have been especially visible in sectors like infrastructure, health and education. It has also been a prime destination for skilled and unskilled migrant workers ranking second in the remittance contributor countries/destinations. There are, moreover, around 40,000 Gorkhas serving in the Indian Army and another 5000 in the paramilitary forces of India, alongside 150,000 pensioners, including their dependents (Nayak, 2014, p. 58).

Nepal finds a large and accessible market in India for its finished industrial goods, where it locates cheap raw materials as well. And while it stays as the largest trade partner for Nepal with business amounting to \$2 billion, China's presence is unmistakable, along with the anti-Indian sentiment in the country (Nayak, 2014, p. 58). There have been issues in the hydro sector, with delay concerns with projects like the 6000 MW Pancheshwar dam. Political instability is also an issue. In the past, in spite of initiatives like Bilateral Investment Promotion and Protection Agreement (BIPPA), Indian companies were wary of investments, owing to opposition from the Maoists (Nayak, 2014, p 59). India though, in recent years, has been backing connectivity projects and trade infrastructure in Nepal to remove the constrictions in trade flow. Integrated Checks Posts, as well as cross-border connectivity projects (road and rail) has been undertaken (Mehta et. al., 2024, p.88).

Nepal stands as India's 14th largest export market in 2024-25, and is also a major location for Indian investors (Embassy of India, 2025). More than 30 percent of FDI stock is accounted for by India firms, measuring almost \$600 million, and around 150 Indian companies operate in sectors of power, manufacturing, services, among others (Shringla, 2024). There have been attempts at reforms till date by Nepal to improve the business climate in Nepal, and potential areas for Indian investors could "include vehicle assembly, hydropower, medicinal and aromatic plants and pharmaceuticals" (Shringla, 2024, p. 87).

The theory of economic diplomacy explains how states use economic instruments such as trade, investment, finance, foreign aid and sanctions to achieve their foreign policy objectives and national interests. Realism is an important theory in international relations that explains how state use economic tools to increase their power and influence in international system. Realist believes that the international system is anarchic and sovereign states are the principal actors in the international politics (Jackson & Sorensen, 2013). According to realist theory, states are rational and unitary actors that pursue their own national interests. National security and survival are the most important priorities of each state. In pursuit of national security, states struggle to increase national power. National power and capabilities

determine the relations among states. National interest, defined in terms of national power, guides the actions of the states in international relations (Jackson & Sorensen, 2013). Realist argue that national interest and power are primary important and economic relations can be used strategically. Strong states dominate economic negotiations. Economic sanctions, trade restrictions and strategic investment are the instrument for realist to achieve national interests of the country.

Similarly, liberalism is another important theory in international relations which believes in cooperations among states. Liberal scholar argue that countries cooperate economically because trade and interdependence create mutual benefits and reduce conflict. Liberalist assumptions are trade promotes peace and stability, economic cooperation leads to prosperity for all parties and international institutions facilitate economic diplomacy (Jackson & Sorensen, 2013). Economic diplomacy theory explains how states employ economic instruments such as trade, investment, aid, finance and sanctions to pursue foreign policy goals, enhance national power, and shape international economic relations (Jackson & Sorensen, 2013).

Research Methodology

This study is based on a qualitative research design, utilizing an analytical approach towards the examination of the major constraints and future pathways to study aspects of Nepal-India economic diplomacy. It studied avenues for strategic cooperation between the countries, the role of missions when actualizing the goal, and the overall bilateral dynamics. Also, analysis of policy documents, academic publications and sector-specific reports such as Constitution of Nepal, reports of high-level foreign policy taskforce reports, Foreign Policy of Nepal and trade-related bilateral agreements were systematically reviewed.

The research has also analyzed data related to bilateral trade, policy documents, reports, academic journals, books, relevant institutional documents that look into industry-specific strategies and trends as secondary sources of information. The data focusing on constraints and apparent opportunities will later be considered in the final evaluation of the pathways Nepal can explore when pursuing the tools of economic diplomacy when engaging with India. All reports and data are mentioned with proper citation.

Findings and Discussion

Nepal's economic relations with India have a long historical foundation. As Nepal's immediate neighbor and one of the world's rapidly growing economies, India remains a highly significant partner in Nepal's economic development. This section examines the

current status, opportunities and challenges of Nepal's economic relations with India. In particular, Nepal's economic diplomacy with India is analyzed through key dimensions, including Nepal-India trade relations, Indian foreign direct investment in Nepal, India's development assistance to Nepal, the flow of Indian tourists to Nepal, and foreign employment opportunities for Nepali workers in India.

Trade

Kautilya has mentioned that Nepal used to be a major exporter of wool to India during ancient times although the trade relations were informal, based on good faith and customary practices, without any customs barriers (Bhandari, 2010). Nepal was known for handicrafts products, and it facilitated trade between India and Tibet during 16th to 18th centuries (Shaha, 2001; Regmi, 1971, as cited in Khanal, 2023).

Nepal and British India first signed their official trade agreement in 1792 amidst the political tension (Khanal, 2023). The Sugauli Treaty (1816) further eased the entry of Indian goods into the Nepali market. Nepal was able to maintain a positive trade balance with India throughout the 1800s (Bhandari, 2010). For example, from 1899-1900, Nepal exported goods worth NRs. 25 million to India while it imported goods worth NRs. 15.8 million from India (Bhandari, 2010). Trade regulation between Nepal and India was marked by the Nepal-Britain Treaty of 1923. This treaty negatively impacted Nepalese local industries, though intended to facilitate imports in Nepal. The exemption of customs duty on imports to Nepal caused flooding of cheaper goods from India and other countries. As a result, the earlier positive trade balance began to decline. The trade relationship between Nepal and India was formalized by the 1950 Treaty of Peace and Friendship, which allowed citizens of both countries to engage in economic activities in either country without discrimination (Vashisht, 2024). Furthermore, the 1950 Treaty of Trade and Commerce was protectionist in nature, favoring Indian industries. First, Nepal had to add customs duties to the imported goods from other countries at a rate not lower than that applied in India to prevent the cheap re-export of goods to India. Second, Nepal was required to add an export duty high enough to prevent the sale of Nepalese products at prices lower than those made in India (Bhandari, 2010). Nepal-India Treaty of Trade and Agreement of Cooperation to Control Unauthorized Trade (2009) governed trade between two countries (Embassy of India, 2025). Nepal has unilateral duty-free access to the Indian market through the treaty.

Being the Nepal's largest export destination, India comprises about 63.01% of the total trade worth \$8.02 billion in FY 2023/24. Major exports of Nepal to India are cardamom, rolled iron sheets, edible oil, juices, plywood and jute whereas Nepal imports petroleum products, iron, steel, automobiles, machinery and cereals.

Nepal and India, which share a porous border, has unequal trade treaties. The 1950 treaty of trade and commerce has been an infringement on the economic sovereignty of Nepal. The imports from India are so high that it amounts to 16% of Nepal's GDP (Embassy of India, 2025).

The total trade volume between Nepal and India amounted to \$8.54 billion (Nepali FY 2023-24) (Embassy of India, 2025). Of the total trade amount, Nepal exported goods worth \$1.20 billion while it imported goods worth \$7.33 billion, resulting \$6.13 billion trade deficit for Nepal in the Indian FY 2024/25 (Embassy of India, 2025). The trade deficit is lowered by 1.23% than the previous year. The trade data between Nepal and India from 2000 onwards reveal an unbalanced trade relationship. Nepal's imports from India increased significantly from \$575.65 million in 2000 to \$3.25 billion in 2010. The import reached to \$4.01 billion in 2015 and \$6.26 billion in 2020. This highlights Nepal's increasing demands of Indian goods. On the other hand, Nepal's exports to India showed mixed trends. Exports reached \$317.79 million in 2000, which increased to \$570.59 million in 2010. The exports in 2015 decreased to \$419.09 million and further increased to \$6.23 million in 2020 (World Bank & United Nations Conference on Trade and Development, 2020). This trade data from 2000 to 2020 reveals trade imbalance between Nepal and India continues. It reflects Nepal's structural weakness, limited export diversification and heavy dependence on Indian imports. More importantly, it exposes the lack of economic diplomacy to reduce ballooning trade deficit.

Nepal has not been able to increase its exports despite having duty-free access to the Indian market (Vashisht, 2024). Nepal's export potential to India is \$17 million, while India's export potential to Nepal is \$3.71 billion. This stark difference reducing trade deficit with India remains a herculean task (Taneja et al., 2020). Nepal has not been able to utilize the quota given in acrylic yarn and copper products (Vashisht, 2024). This indicates that a limitation exists in the domestic production and export capacity rather than the trade policies. Despite the reciprocal duty provisions of the 2009 treaty, Nepal applies a 5-9% agriculture reform fee on certain agricultural products from India, which indicates policy inconsistencies (Vashisht, 2024; Taneja et al., 2020). Out of 27, most land customs stations (LCS) between Nepal and India lack modern facilities- warehouses, cold storage, testing labs, electronic data exchange systems (Vashisht, 2024; Taneja et al., 2020).

According to Paudel (2023), "trade agreements increase trade engagements...open up foreign markets to domestic exporters" (Paudel, 2023, p. 100). However, this statement doesn't fit in Nepal's context. Nepal diversified its economic relations after its liberalization

in 1990. That increased trade volume but more trade engagements did not increase Nepal's export. Likewise, Vashisht (2024) explains that the trade deficit with India is not due to the tariff-rate quotas or discriminatory trade policies; instead, it is a part of Nepal's structural problem, as it has a trade deficit with all major trade partners. He points out factors like remittance-generated/ driven imports, farmland being abandoned, declining agricultural productivity, gaps between demand and supply, and limited export potential.

Contrastingly, Timalsina (2023) offers an alternate viewpoint, stating that Nepal's trade and transit problems are due to unequal treaty provisions with India. He blames India's micromanagement in Nepal's administrative and political affairs. Non-tariff Measures (NTMs) is another issue. Nepal applies higher NTMs in chemicals in Indian exports, whereas India applies more Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) measures on Nepal's exports (Vashisht, 2024). Moreover, India has strict standards on restrictions of certain chemicals, detailed labelling, and pre-shipment certification which are not met by Nepal's existing standards and testing facilities (Vashisht, 2024).

In this context, taking regressive protectionist policies will not remove the persisting trade challenges and improve the trade performance of Nepal. Harmonized standards and regulations, quality infrastructure, digitalized and integrated systems, joint mechanisms, high potential land customs stations should be prioritized to address the ongoing operational bottlenecks (Vashisht, 2024; Sidana & Tiwari, 2025; Choudhary & Ghosh, 2014).

Nepal-India transit treaty should include conflict resolution mechanisms in the provision to ensure smooth supply of goods even at politically tensed situation between the countries (Sidana & Tiwari, 2025). Nepal needs to explore more opportunities for corridor through China and Bangladesh to diversify trade. Doing the same isn't easy as there's lack of direct connectivity which makes trade costlier. The manual customs procedure delays cross-border trade. For an example, digitization and India's one-stop solution to monitor the location and movement of Nepalese imports and exports can ease the trade (Sidana & Tiwari, 2025). Harmonized customs standards should be implemented to facilitate pre-clearance of goods and reduce bottlenecks at transit points. Customs reforms improve trade performance as well as increase investors' confidence creating more predictable and stable business environment (Sidana & Tiwari, 2025).

The export of goods, services, and intellectual properties contributes significantly to the national economy of LDCs like Nepal. Nepal has adopted an open, liberal and market-oriented economy after 1990. The revised Trade Policy 2015 recognizes trade

promotion as an important component of economic diplomacy, it has provisions for free trade agreements with countries and regional organizations that have relatively high trade potential to increase international market access, make agreements for alternative trade and transit routes with neighboring countries to decrease the costs, mobilize diplomatic missions abroad for trade promotion, investment facilitation, and market studies (Ministry of Commerce and Supplies [MoCS], 2015).

The trade sector is also gaining importance in periodic plans. National Trade Integration Strategy (NTIS), 2072 has a provision of linking exports with products having comparative advantage, increase export capacity, and improving trade facilitation (NTIS, 2072). Being a member to WTO, SAFTA, BIMSTEC, BBIN has also helped Nepal to strengthen trade relations at the regional level. Nepal needs to identify markets where Nepali products can gain comparative advantage, maintain healthy labor relations, develop trade-related physical infrastructure, strengthen coordination among institutions, implement policy reforms and invest in regional connectivity, improving overall competitiveness (MoFA, 2018).

India's Foreign Investment in Nepal: Trends and Patterns

India remains a major source of FDI in Nepal (KC & Nepal, 2025; Adhikari, 2013; Taneja et al., 2020). Until 1980s, India was the only investor in Nepal, with the total FDI inflows worth \$0.5 million annually (Vashisht, 2024). The investment turned to be negative in some years as they withdrew investment (Taneja et al., 2020; Vashisht, 2024). The formal investment by India dates back to 1951-1952 with the establishment of Nepal Commercial Cooperation as a joint venture (Mukherji 2011, as cited in Vashisht, 2024). The investment was mostly from the Indian state-owned enterprises till the 1980s. The Industrial Enterprises Act and the Foreign Investment and Technology Transfer Act (FITTA) of 1992 opened new avenues for private investors, further encouraging the trade-investment linkage under bilateral trade agreements (Nayak & Rai, 2024; Taneja et al., 2020; Vashisht, 2024). Foreign Investment Policy (2015), FITTA (2019), Public-Private Partnership and Investment Act (2019), Special Economic Zone Act (2018), and supporting legislations like Labour Act, Industrial Enterprise Act, Electronic Transaction Act aimed for progressive liberalization and competitive investment environment in Nepal (Taneja et al., 2020; Nayak & Rai, 2024).

Despite several policy reforms Nepal still struggles to attract FDI (Nayak & Rai, 2024; Vashisht, 2024). The total FDI committed to Nepal was NRs. 60.61 billion, while the total recorded foreign investment was NRs. 11.20 billion (Department of Industry, 2025). India had been the largest source of FDI in Nepal till FY 2022/23 with a share of 35% in

Nepal's total FDI stock (Nepal Rastra Bank [NRB], 2024). While India's share decreased, China's share increased from 12% in FY2022/23 to 44.77% in FY2024/25 (NRB, 2024; Department of Industry, 2025). The amount of FDI inflow from India to Nepal increased from NRs. 2.73 billion in FY 2023/24 to NRs. 4.49 billion in FY 2024/25. However, India's share of Nepal's total FDI decreased from 21.54% in FY 2023/2024 to 19.55% in FY 2024/25. This reflects a highly competitive FDI landscape of Nepal with increasing interest of investors from other countries and a relatively decreasing India's share. FDI in Nepal from India including paid-up capital, reserves, and loans, amounted to NRs. 27.3 billion in FY 2015/16 (NRB, 2019). The Indian FDI increased significantly to NRs. 75.81 billion in FY 2020/21 (NRB, 2022, p. 14) and further to NRs. 103.45 billion in FY 2022/23 (NRB, 2024). This indicates the rising importance of Nepal as a destination for Indian investment.

India's investment isn't consistent. The investment is dominated by state-owned hydropower projects rather than private investors (Nayak & Rai, 2024). During the Maoist insurgency (1996-2006), Indian companies were targeted mainly, affecting about 47 firms in 2004 (Nayak & Rai, 2024). In 1990s, leftist groups opposed privatization and deregulation, which further exacerbated policy uncertainty (Shrestha, 2022). Frequent government changes, policy shifts, increasing anti-Indian sentiments, and unresolved bilateral issues weakened Indian investors' confidence (Nayak & Rai, 2024; Vashisht, 2024).

Due to absence of formal protection mechanism Indians were hesitant to invest in Nepal until Nepal ratified the Bilateral Investment Promotion and Protection Agreement (BIPPA) and Double Taxation Avoidance Agreement in 2011 (Taneja et al., 2020; Nayak & Rai, 2024). Still, Indian investors are facing policy related and operational challenges. Lack of coordination among FDI-governing agencies, complicated land acquisition, trade union activities and politically motivated strikes, lack of tax rebates on reinvested profits, insufficient protection of intellectual property rights (copyright, trademark, and patent infringements), complex and lengthy process for profit repatriation and foreign-exchange conversion procedures and lengthy process though "one-window" system of Investment Board, rampant corruption and unreliable infrastructure remain as major challenges. (Taneja et al., 2020; Vashisht, 2024; Nayak & Rai, 2024; Acharya, 2024; KC & Nepal, 2025). Citing administrative difficulties some Indian companies withdrew investments Vashisht (2024). Although Nepal has huge potential to generate clean energy, actual investment remains low (Acharya, 2024; Vashisht, 2024).

To address these challenges, Nepal must simplify the investment approval and profit repatriation process, make a functional single-window system without procedural

delays, rationalize royalties and taxes on export-oriented projects like hydropower, strengthen intellectual property protection, and ensure labor discipline and worker rights (Vashisht, 2024; Nayak & Rai, 2024; KC & Nepal, 2025). Full implementation of BIPPA, expansion of bilateral agreements to new promising sectors, and setting up joint public-private coordination platforms are further required to gain the trust of investors (Nayak & Rai, 2024; Acharya, 2024). Furthermore, infrastructure development in areas of power supply, cross-border connectivity, and industrial logistics is much needed, along with depoliticization on economic matters (KC & Nepal, 2025; Vashisht, 2024). Following these reforms will help Nepal gain better FDI inflows supporting sustainable economic growth through infrastructure development, industrialization, employment and revenue generation. The large-scale investments aimed at economic development in the least developed and developing economies require the transfer of technology and managerial skills along with capital inflow.

FITTA (2075) aims to promote foreign investment and technology transfer, while Company Act (2073) ensures ease and transparency in establishing, operating and monitoring the companies. Industrial Enterprise Act (2073) aims to streamline entry, operation and exit process of the businesses. The establishment of one stop service centre along with several policy and institutional reforms were introduced. In 2018, Nepal was ranked third in South Asia after India and Bhutan based on the Ease of Doing Business (World Bank, n.d.).

Nepal has high potential on capital intensive and labor-intensive investments based particularly on the natural resources. Water resources, transportation, agriculture, tourism, mining, and minerals, information and communication technology, productive industries, health, education, and financial sectors are attractive sectors for investment opportunities. Achieving sustainable and high economic growth requires coordinated action among key concerned institutions and private sector.

India Development Assistance to Nepal

India's first aid was used to build Kathmandu airport in 1951. Over the years, India has offered grants and lines of credit to Nepal for connectivity, irrigation, health, education, and heritage preservation. India committed \$1billion aid for quake victims after 2015's earthquake, provided 100,000 doses of vaccine during corona crisis and offered \$75 million when for Jajarkot earthquake victims (Embassy of India, 2025).

India views aid as "an instrument of gain political and economic influence" (Kragelund, 2011, p.594, as cited in Mukherjee, 2015). In the first three decades of bilateral

aid from India to Nepal (1951-1972), nearly 53% of the total (Rs. 902 million) was for road building (Vohra, 1980, as cited in Mukherjee, 2015). India has assisted in the construction of highways in Nepal, cross-border rail links, integrated check posts (ICPs), cross-border petroleum pipeline (Embassy of Nepal, New Delhi, n.d.). While doing so, India prioritizes benefits to Indian firms, economic growth, and long-term trade linkages while giving aid. For example, India focused on roads only if they were connected to the Indian border (Mihaly, 1965, as cited in Mukherjee, 2015). This highlights that the development priorities were based on donor's strategic interests, not as per the receiver's needs. In the broader context, from 2005-2010, India allocated nearly 75% of the total \$2 billion committed to developing countries in the strategic sectors like infrastructure (energy, water, transport, communications, and industry) (Tierney et al. 2011, as cited in Mukherjee, 2015). India provides aid to areas of its strategic significance. This reflects India's donor-centric approach where aid is given based on donor's strategic and economic interests rather than based on recipient's needs.

Official Development Assistance (ODA) disbursement from India to Nepal was \$50.73 million in FY 2010/11 (Ministry of Finance 2011). It declined to \$35.77 million in FY 2015/16 (MoF, 2017) and then increased to \$72.3 million in FY 2020/21 (MoF, 2021). In the FY 2022/23, the ODA disbursement increased to \$99.8 million (MoF, 2025). In recent years, there seems to be an increase in the strategic significance of aid (development assistance as a strategic instrument of economic diplomacy). The data illustrates India's engagement is in the areas of infrastructure, connectivity and reconstruction projects of Nepal. Aid is less likely to create independence as compared to trade, foreign direct investment (Kapur & Suri, 2014 as cited in Mukherjee, 2015).

Changing its discourse on foreign aid India has started to refer "cooperation and partnership" in recent years from what it used to call "subsidies to neighbors" earlier (Mukherjee, 2015). India has the same objective as that of US in Nepal which is to limit China's influence (Mihaly, 1965, as cited in Mukherjee, 2015). India tends to increase its aid commitments to counter aid China or western countries. When India constructed airport in Kathmandu, the runway was built short so that Chinese airplanes couldn't land on it.

Indian Tourist in Nepal

Nepal-India holds enormous potential for cultural and religious tourism as both the countries share similar religion, culture and history (Choudhary & Ghosh, 2014). In Nepal, Pashupatinath is the greatest pilgrimage destination for Indian tourists. For Hindus, the Ramayana connects Nepal and India through Ram, Sita, and Valmiki. Likewise, for

Buddhists, Gautam Buddha connects Lumbini in Nepal (place of birth) and Bodh Gaya in India (place of enlightenment).

Nepal's natural beauty, architecture, rich history, culture, traditions, and spirituality make it an exceptional destination to promote tourism (Investment Board Nepal, 2024). There are plenty of investment opportunities in eco and adventure tourism. The rich biodiversity makes Nepal investment-friendly for agro-forestry industries along with potential in the traditional medicine and Ayurvedic sector (Vashisht, 2024). The bilateral cooperation between Nepal and India is required in this sector.

Tourism can contribute to economic diplomacy. But bureaucratic hurdles, centralized mindsets in promoting tourism, fragmented investments; lack of skilled human resources and poor connectivity as well as financial transaction are blocking flow of tourists (NTB, 2025). According to NTB (2022), the number of Indian tourists visiting Nepal in 2000 was 95,915; in 2005 was 96,434; with a rise to 120,898 in 2010. However, the flow of tourists declined to 74,814 in 2015 and to 40,336 in 2020. The COVID-19 pandemic reduced the number of Indian tourists. In 2024, the Lonely Planet had ranked Nepal at eighth position among ten best countries to visit considering its natural, historical, religious, cultural and adventure aspects.

The Constitution of Nepal considers tourism as an important pillar of national economy. The Tourism Policy 2065 highlights the need for tourism promotion for economic transformation while the 15th Periodic Plan (2076-82) aims to develop Nepal as a safe, quality, tourism- friendly and attractive tourism destination; diversify tourism destinations and deliver the benefits the tourism sector equitably to the people. Since several global are related to tourism, Nepal should also consider tourism while formulating tourism related strategies.

With the expansion of the tourism sector, it is necessary to identify new trends such as eco-tourism, agri-tourism, educational tourism, health tourism, rural tourism, volunteer tourism, wedding tourism, adventure tourism, seminar tourism, sports tourism and so on and to specialize tourism related activities accordingly. While specializing, factors such as geography, local culture, availability of infrastructure, level of education and awareness, seasonal adaptability, collaboration with public, private, cooperative and community sectors should be considered.

Since the main means of promoting tourism is publicity, it is necessary to conduct regular, systematic, comprehensive and effective promotional programmes within and outside the country. In order to so, support of Nepali missions abroad, use of information

and technology and collaboration with the Non-Resident Nepalis (NRNs) and private sectors are required. Similarly, information and communication can be encouraged with the help of media. Cultural programmes and tour of travel writers also promote tourism. Branding Nepal's tourism, increase flight services agreements, building trekking trails and promotion of famed climber help tourism.

The NTB has mentioned that Nepal's tourism has 12 unique qualities such as the Himalayas, Everest, Kathmandu, cultural diversity, rare flora and fauna, diversity in climate and ecology, potential for adventure tourism, unreach/undiscovered unknown places, spirituality and purification, friendliness, purity, and special dishes. Since these qualities are authentic/ original characteristics of Nepal, it is necessary to carry out tourism promotional activities keeping these elements in mind. Tourism is an important area for economic diplomacy.

Foreign Employment: Nepali Workers in India

Nepal's constitution envisages to acquire foreign currency, technology and skills through foreign employment. The ongoing national periodic plan mentions that "foreign employment" should be a choice - not an obligation - of Nepali citizens. The prevailing law to regulate Nepal's foreign employment regime is the Foreign Employment Act, 2007. Two aspects of foreign employment management are crucial: regulation and welfare. The regulator aspects of foreign employment are handled by the Department of Foreign Employment, and the welfare aspects are steered by the Foreign Employment Board (Ministry of Labour, Employment and Social Security [MoLESS], 2024).

The history of labor migration can be traced back to the Sugauli Treaty in 1816, where the treaty had provision for recruiting Nepali Gurkhas in the East India Company. India becomes the second largest destination for Nepali migrant workers, comprising about 11%, after Middle Eastern countries (nearly 14%) (National Statistics Office, 2025). The Indian migrants in Nepal constitute more than 93% of the total migrants in seven censuses (1961-2021) (National Statistics Office, 2025). Out of the total Indian migrants, women migrants were more mainly because of the open border easing socio-cultural connection, i.e., marriage migration from India to Nepal, especially to the Terai area. About 45% of the immigration was due to marriage. The total Indian immigrants to Nepal in 1961 was 0.32 million, which increased to more than double, being 0.71 million in 2021. Indian immigrants constitute the largest number by nationality, i.e., 97% followed by China (1.4%). They are mostly reported in the Bagmati Province and Terai region (99.2%) of Nepal (National Statistics Office, 2025).

The major reason for migration is linked to economic reasons. The Nepal-India treaty of 1950, (articles 6 and 7) has a foundational role in shaping the migration pattern between these two countries. India's digital public infrastructure (DPI) allows Nepali migrants to have access to digital identity (Aadhaar) and digital financial transaction through unified payment interface (UPI). The study by Yerrapureddy et al. (n.d.) shows that despite DPI, Nepali workers face job insecurity, remain mostly in the informal economy due to poor integration. The open border additionally increases the risk of cross-border human trafficking and other forms of harassment. Moreover, there is high tendency of distortion of labor data as Nepali migrant workers are remain unseen in the official surveys, in both countries.

Nepal is at the forefront among small countries in terms of remittance size. However, it is challenging to manage the remittances from Nepali workers abroad sustainably by channeling them into Nepal through the banking sector and utilizing them in the productive sector. It is necessary to strategically manage returnee migrant workers and utilize their skills and experience in the country. In future, it seems necessary to create employment opportunities for youth within the country. However, since large number of young workforces is in foreign employment, it is compulsory to make it safe, organized, and dignified. In issues related to economic diplomacy, Nepal's diplomatic missions abroad should take diplomatic initiatives in collaboration with the relevant ministries to protect and promote Nepal's national interests.

Role of Missions: Grasping the Scope of Demand

Moving beyond traditional roles, Nepal's Embassy in India and the Consulate General Office in Kolkata, can play a proactive role in identifying and informing Nepali business community about valuable and highly demanding goods in India. These offices should also do timely researches and inform Nepali entrepreneurs regarding demand of Nepali products in India.

Despite several bilateral agreements signed between two countries aimed at to promoting free trade India often halts smooth supply of Nepali agricultural goods at the border points. To end long standing obstacles diplomatically Nepal government and Nepali diplomatic missions in India should act promptly to resolve hassles so that Nepali farmers could get benefit. By arranging periodic bilateral meetings between importers of India and Nepali entrepreneurs' diplomats from both the countries can ensure hassle-free trade.

Nepali entrepreneurs and famers are facing huge backlashes due to lack of timely information regarding Indian market policies. Nepali diplomatic missions in India stay

updated regarding the changes of Indian economic policies and brief Nepali businessmen and other beneficiaries instantly to promote the country's economic interests.

On FDI, Nepal has huge potential especially in the field of clean energy, herbal, technology and transpiration sectors. In recent years, India has emerged one of the largest countries investing abroad. Nepali diplomatic missions in India should give their utmost priority to potential investors regarding investment opportunities in Nepal. The mutual benefits in case of bilateral business promotion should be highlighted so that more investment could pour in the Himalayan nation. Some development projects initiated by Indian companies such as Upper Karnali, West Seti and Arun III are left unfinished despite years of wait. Given this context, Nepali missions should also facilitate proactively to complete those projects in time. That will bolster bilateral ties and more investors would agree to invest in Nepal.

Nepali diplomatic missions can play their role in tourism promotion in India by inviting top politicians, celebrities, travel vloggers and players. Indian premier Narendra Modi's visit to Muktinath had significantly increased the number of Indian tourists in the region. Since millions of Hindu followers are interested to visit revered Pashupatinath, Muktinath and other Hindu shrines. Lumbini, Swyambhunath and Boudhanath are other destination for Buddhist devotees.

Nepal's efforts to connect religious and tourist destinations with the Indian cities have not been materialized fully. Even as Nepal built two international airports in Pokhara and Bhairahawa to promote tourism. These airports are not operated in full swing mainly after India refused to give its airspace for international aircrafts landing in Pokhara and Bhairahawa. Nor India has endorsed Nepali airlines companies' plan to connect Indian cities with Pokhara and Lumbini. That has largely affected Nepal's tourism. If Nepali diplomats in India success to give an amicable solution to this long-standing issue that could be a big respite for Nepal.

Millions of Nepalis migrant workers in India are unregistered and work informally. Their status often remain unclear and are facing a numerous challenges. Nepali diplomats can conduct surveys Indian labor market, categorize them as skilled and unskilled works and push for their social welfare. Diplomats in India should act inline to ensure human rights of Nepali workers.

Conclusion

Nepal's economic relations with India rests on several treaties, decades of cultural interactions and historical transactions within key sectors of value to both countries. The trends have shifted in recent years with newer sectors of engagements drawing interest from the regional power, and this coincides with India's rising economic potential. At the end of the considerations, the relations remain deeply asymmetric and Nepal's own interest calculation requires a much more focused approach that delves into its internal constraints as well as the persistent challenges in the bilateral associations when developing a coherent strategy for economic diplomacy with India. There are both opportunities and vulnerabilities that line such deliberations.

India's rapid growth has meant a rising energy demand and regional expansion seen in its connectivity agendas across South Asia, and beyond. Nepal is a part of it, but persisting political instability, along with a widening trade deficit, vulnerability to external shocks and an exclusive reliance on India's three ports has meant that its negotiating capacity is limited when looking at the leverage it actually holds in the relationship. Nepal can define and sharpen its focus when collecting market intelligence and facilitating bilateral stakeholder meetings when moving towards negotiating tables with practical arrangements regarding cooperation on issues of trade and transit, investment, tourism and foreign employment. Both internal reforms and coordination with missions are, however, required to generate actual impact, necessitating a convening of coherent field and policy insights on sector-specific engagements guiding the state interests and initiatives. It is important to stress here that while missions are important for economic diplomacy, they are a part of a wider system that requires clear directives, institutional stability and reform to realize state interests.

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