
Nepal-India Relationship: Political, Economic, and Strategic Dimensions

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Abstract

Nepal and India share long historical, social, cultural and economic ties. Relation between two countries is significant. This research examines the multifaceted relationship between Nepal and India, focusing on the political, economic, and strategic dimensions that define their interactions. It provides a comprehensive analysis of how these dimensions influence bilateral relations, shaping regional stability and development. Using a mixed-methods approach, this research integrates qualitative analysis of historical documents, treaties, and diplomatic exchanges with quantitative analysis of trade data and economic indicators. Key political variables include diplomatic engagements, treaty agreements, and sovereignty issues, while economic variables encompass trade volumes, investment flows, and foreign aid. Strategic variables focus on military cooperation, border security, and geopolitical alliances. The findings reveal that while historical ties and economic interdependence foster a strong bilateral relationship, political disputes and strategic concerns often pose challenges. The study emphasizes that enhancing mutual trust through continuous diplomatic dialogue and collaborative development projects can mitigate conflicts and promote a more stable and prosperous partnership between the two countries. The research also contributes to the understanding of South Asian geopolitics.

Keywords: cooperation, foreign policy, geopolitical alliances, national interest, open border

Introduction

In a world increasingly shaped by globalization and regional integration, the relationships between neighboring countries play an eminent role in maintaining stability and fostering development. South Asia, with its complex political dynamics and diverse economic landscape, presents several cases of bilateral relations between countries. Among the nations in this region,

the relationship between Nepal and India stands out due to its deep historical roots, cultural affinities, and strategic significance. Nationally, Nepal's geopolitical position, nestled between two giant neighbors, India and China, significantly influences its foreign policy and domestic affairs. Historically, Nepal and India have shared a special relationship characterized by open borders, economic cooperation, and cultural exchanges. However, this relationship has also faced strains due to political disagreements, border disputes, and competing strategic interests. These tensions often surface in the form of diplomatic standoffs, trade disruptions, and public sentiment fluctuations, signifying the need for a deeper exploration of the underlying causes and potential solutions. The central problem addressed in this study is the fluctuating nature of Nepal-India relations, which oscillates between cooperation and conflict. Despite their interdependence, political disputes, economic disparities, and strategic maneuvers often complicate their bilateral engagements.

Imagine a scenario where a sudden border dispute between Nepal and India escalates, leading to significant economic disruptions and public unrest. This not only affects bilateral trade but also has broader implications for regional stability. The key research questions guiding this study include examining how political interactions between Nepal and India shape their bilateral relations; exploring the main economic linkages and their impact on both countries; and identifying the strategic interests driving the relationship and their influence on regional stability. The objectives of this study are to analyze the political dynamics influencing Nepal-India relations; assess the economic ties between the two countries, focusing on trade, investment, and aid; and investigate the strategic dimensions, including military cooperation and geopolitical alliances.

The research methodology for studying Nepal-India relations predominantly uses secondary data, focusing on qualitative analysis with some quantitative elements. Qualitative analysis includes examining historical documents, treaties, and diplomatic exchanges to understand political dynamics and sovereignty issues. This involves content analysis of official publications, policy papers, scholarly articles, media reports, and expert commentaries. For the economic dimension, the study analyzes trade volumes and foreign aid patterns using statistical data from government databases, international trade organizations, and economic research institutes.

Literature Review

Realism, a dominant theory in international relations, posits that states operate in an anarchic international system where their primary goal is survival, emphasizing power dynamics and security. In South Asia, realism explains strategic interactions between Nepal and India (Karki & Hari, 2020). Nepal and India exhibit significant power asymmetry, with India's larger economy and military strength often dominating. Realism highlights the importance of security concerns in shaping foreign policies; for India, maintaining influence over Nepal is crucial for northern border security, especially near China. Conversely, Nepal seeks to ensure its sovereignty amidst these competing powers. Historical instances, such as the 2015 border blockade, underscore how security interests strain relations (Dahal, 2020; Nepal, 2021). Liberalism offers an alternative framework, focusing on cooperation, economic interdependence, and the potential for peaceful relations through mutual benefits, particularly relevant in Nepal-India economic relations (Karki & Hari, 2020). Economic interdependence promotes stability and reduces conflict likelihood, benefiting Nepal's exports and infrastructure development and India's access to hydropower and transit routes to Tibet. Institutional frameworks, such as joint commissions, facilitate dialogue and cooperation, enhancing economic ties and stability (Kandel, 2020; Karki 2020).

Constructivism shifts focus to social and ideational factors, emphasizing identity, norms, and perceptions in international relations, particularly in Nepal-India relations (Nepal, 2021). Nepal and India share deep-rooted cultural, religious, and historical connections, fostering kinship and mutual respect, influencing diplomatic interactions and public perceptions (Dahal, 2020). In India, cultural and historical ties with Nepal are emphasized to maintain influence and regional unity (Kandel, 2020). Constructivism also explores how norms and perceptions shape interactions, with India's 'big brother' perception influencing Nepal's foreign policy and public sentiment. Diplomatic narratives, media portrayals, and public discourse impact the relations, with initiatives like people-to-people exchanges and soft power diplomacy aiming to build trust and reshape perceptions.

Sovereignty, a core concept in international relations, refers to the supreme authority within a territory. It encompasses internal sovereignty, the control over domestic affairs, and external sovereignty, the recognition by other states of this control (Krasner, 1999). Sovereignty

is crucial in maintaining the autonomy and territorial integrity of a state, allowing it to operate independently without external interference. In the realist framework, sovereignty is paramount as states navigate an anarchic international system where power and survival are central (Waltz, 1993). Conversely, liberal theories acknowledge sovereignty but emphasize international cooperation and the role of supranational organizations in moderating absolute state control (Nye, 1977). Nepal-India relations have been historically marked by tensions surrounding sovereignty. The 1950 Treaty of Peace and Friendship is a cornerstone of their relationship, granting reciprocal rights but also sparking debates on sovereignty and independence (Muni, 1992). Instances like the 1989 trade and transit dispute and the 2015 blockade illustrate how sovereignty concerns manifest in bilateral ties, often leading to nationalistic sentiments and diplomatic friction (Pant, 2018). These historical contexts highlight the delicate balance Nepal must maintain to assert its sovereignty while engaging with a more powerful neighbor.

The theory of comparative advantage, introduced by David Ricardo, posits that countries should specialize in producing goods where they have a relative efficiency, trading them for goods produced more efficiently by others (Ricardo, 1821). This principle underpins the economic interactions between Nepal and India, where each country leverages its strengths to maximize mutual benefits. For example, Nepal's hydropower potential represents a significant export opportunity, while India provides manufactured goods and financial services, illustrating the practical application of comparative advantage in their trade relationship. Developmental economics focuses on improving the economic conditions of developing countries through structural changes and policy interventions. Foreign aid is a critical component, providing financial resources, technical expertise, and capacity building. In the context of Nepal-India relations, Indian aid has played a substantial role in infrastructure development, education, and healthcare in Nepal. However, the effectiveness of aid depends on proper implementation, governance, and alignment with local needs, which can sometimes be challenging due to bureaucratic and political obstacles (Burnside & Dollar, 2000).

The security dilemma, a concept in realism, describes how states' actions to ensure their security can inadvertently threaten others, leading to an arms race or conflict (Herz, 1950). This theory is relevant in analyzing Nepal-India military relations, where India's security concerns influence its strategic investments in Nepal. Joint military exercises, training programs, and

defense cooperation aim to enhance mutual security but can also trigger apprehensions, particularly with Nepal's growing ties with China (Baral, 2021). Geopolitical alliances are strategic partnerships formed to enhance security, economic interests, and political influence. In South Asia, alliances significantly impact regional stability. Nepal's balancing act between India and China exemplifies the strategic maneuvering within this context. While India seeks to maintain its traditional influence, China's Belt and Road Initiative offers Nepal alternative development opportunities, shaping a complex geopolitical landscape. The dynamics of these alliances influence bilateral and regional relations, affecting peace and stability in South Asia.

Despite extensive research on Nepal-India relations, significant gaps remain. Studies often focus on historical and cultural ties, overlooking the impacts of contemporary political dynamics and economic policies. There is a lack of comprehensive quantitative analysis integrating economic indicators and trade data, and existing research tends to isolate strategic dimensions like military cooperation and geopolitical alliances from political and economic factors. Additionally, the influence of external powers, particularly China, on Nepal-India relations is underexplored. This research aims to fill these gaps by employing a mixed-methods approach to provide a holistic analysis of the political, economic, and strategic dimensions shaping Nepal-India relations.

Results and Discussion

One of the foundational documents in Nepal-India relations is the 1950 Treaty of Peace and Friendship, which established close bilateral ties and granted reciprocal rights of residence, ownership, and participation in commerce in each other's territory (Husain, 2023). The treaty, however, has been a subject of debate in Nepal, with many viewing it as an infringement on Nepalese sovereignty. This sentiment has led to calls for its revision to reflect contemporary realities (Khobragade, 2016). Key political events have significantly influenced Nepal-India relations. The 1989 trade and transit blockade by India was a major turning point. The blockade, resulting from Nepal's procurement of Chinese arms, strained bilateral ties and highlighted Nepal's vulnerability due to its landlocked status (Chand, 2018). Similarly, the 2015 blockade, following Nepal's promulgation of its new constitution, reflected ongoing tensions and led to significant economic and humanitarian impacts in Nepal (Hatlebakk, 2017).

Diplomatic engagements between Nepal and India have been complex, often shaped by sovereignty issues. Nepal's attempts to assert its sovereignty are frequently met with Indian concerns over regional security and influence. The Kalapani border dispute exemplifies such tensions, where territorial claims have fueled nationalist sentiments and impacted bilateral diplomacy (Aryal & Pulami, 2024). These engagements showcase a delicate balancing act, with Nepal seeking to maintain its independence while managing its relations with a more powerful neighbor. Economic interactions between Nepal and India are characterized by significant trade volumes and a diverse range of commodities exchanged. Nepal imports a wide array of goods from India, including petroleum products, machinery, and foodstuffs, while exporting items like agricultural products, carpets, and garments (Taneja et al., 2020). Despite this robust trade relationship, Nepal faces a substantial trade deficit with India, which has implications for its economic stability (Karel & Kharel, 2020). The economic policies of both countries have profound impacts on their bilateral relations. India's economic liberalization and its policy shifts have opened up new opportunities for Nepalese exports but have also exposed Nepal to greater competition (Alam, 2020). Nepal's economic policies, including its efforts to diversify trade and attract foreign investment, are influenced by its economic dependence on India and the need to mitigate trade imbalances (Timalsina, 2023).

Foreign aid and investment flows are crucial components of Nepal-India economic interactions. India is a significant provider of aid to Nepal, funding various infrastructure, health, and education projects (Timalsina, 2023). These investments not only support Nepal's development needs but also enhance India's influence in the region. However, the effectiveness and sustainability of these aid flows depend on proper governance and alignment with Nepal's development priorities (Sapkota, 2011). Military cooperation and border security are vital aspects of Nepal-India relations. Both countries have engaged in joint military exercises, training programs, and defense cooperation agreements to enhance mutual security (Thapliyal, 1998). However, border security issues, such as the presence of armed groups and illegal cross-border activities, pose ongoing challenges. The Kalapani dispute shows the complexity of maintaining secure and well-defined borders (Aryal & Pulami, 2024). India's strategic interests in Nepal are driven by its desire to maintain regional stability and counter external influences, particularly from China. India's investments in Nepal's infrastructure and economic sectors aim to reinforce

its strategic position (Rose, 2021). Conversely, Nepal seeks to leverage its strategic location to balance its relations with India and China, aiming to secure economic benefits and political autonomy (Dahal, 2018).

The influence of external powers, particularly China, significantly impacts the strategic dynamics between Nepal and India. China's growing presence in Nepal through infrastructure projects under the Belt and Road Initiative (BRI) poses a strategic challenge to India's traditional influence (Bhattarai, 2021). This trilateral interaction adds a layer of complexity to Nepal-India relations, influencing diplomatic strategies and regional stability (Tripathi, 2019). Political disputes, such as territorial claims and constitutional disagreements, have periodically strained Nepal-India relations. These disputes often trigger nationalist sentiments and affect diplomatic engagements, requiring careful management to prevent escalation (Subedi & Timilsina, 2020). Addressing these political challenges through dialogue and mutual respect is essential for maintaining stable and constructive bilateral ties (Timilsina, 2023). Economic disparities and developmental needs present both challenges and opportunities for Nepal-India relations. While India's economic growth offers opportunities for Nepal's market access and investment, it also highlights the developmental gaps between the two countries (Karel & Kharel, 2020). Collaborative efforts in areas such as infrastructure development, education, and healthcare can help bridge these gaps and foster mutual economic benefits (Alam, 2020). Strategic maneuvers by both Nepal and India, influenced by internal and external factors, play a crucial role in regional stability. Nepal's balancing act between India and China, along with India's strategic investments in Nepal, is key elements in this dynamic (Limbu, 2022). Ensuring regional stability requires careful navigation of these strategic interests, promoting cooperation over competition, and prioritizing long-term peace and development (Khobragade, 2016)

Political Dimension of Nepal-India Relationship

The diplomatic history between Nepal and India is marked by both cooperation and conflict, shaped significantly by historical and contemporary engagements and treaties. The 1950 Treaty of Peace and Friendship is pivotal in understanding the foundations of this relationship. This treaty established open borders and granted mutual rights to both countries' citizens to reside, own property, and engage in business activities within each other's territories (Husain, 2023). While facilitating economic and social integration, this treaty has been a point of

contention, particularly for Nepal, which perceives certain clauses as undermining its sovereignty and autonomy. Critics in Nepal argue that the treaty disproportionately favors India, limiting Nepal's ability to conduct an independent foreign policy (Khobragade, 2016). Diplomatic engagements between the two countries have often revolved around addressing these imbalances. Various bilateral talks and joint commissions have been set up to revisit and renegotiate aspects of the treaty, although with limited success. These engagements reveal the underlying tensions, with Nepal consistently advocating for a more balanced relationship that respects its sovereignty, while India seeks to maintain its strategic and economic interests in Nepal. Despite these challenges, diplomatic engagements have also resulted in several cooperative initiatives, such as infrastructure projects and trade agreements, reflecting the dual nature of Nepal-India relations characterized by both cooperation and conflict.

Border disputes have been a significant source of tension in Nepal-India relations, with the Kalapani region dispute being one of the most prominent. The Kalapani area, located at the tri-junction of Nepal, India, and China, has been a contentious issue for decades. The dispute over this strategically important region has led to several diplomatic standoffs, with both countries publishing conflicting maps and asserting their respective claims (Aryal & Pulami, 2024). Nepal's position on the Kalapani dispute is rooted in historical claims and national sovereignty. Nepal argues that the territory belongs to it based on historical treaties and maps from the 19th century. The dispute resurfaced prominently in 2019 when India published a new political map that included Kalapani within its borders, leading to widespread protests in Nepal and a subsequent release of a new map by the Nepalese government that included the disputed territory (Tripathi, 2019).

The border disputes are not merely about territorial control but also symbolize deeper issues of national identity and sovereignty. For Nepal, asserting its territorial claims is seen as a defense against perceived encroachments by India and a way to maintain its national integrity (Subedi & Timilsina, 2020). Conversely, India's strategic interests in these border regions are driven by security concerns, particularly regarding its northern frontier with China. The proximity of these disputed areas to the India-China border adds another layer of complexity to the Nepal-India border issues, as any changes in the status quo could have broader geopolitical implications. The persistence of these disputes highlights the fragility of Nepal-India relations

and underscores the difficulties in achieving a balance between cooperation and sovereignty. Effective diplomatic dialogue and confidence-building measures are essential to mitigate these tensions. Regular high-level meetings, joint boundary committees, and increased people-to-people contacts can help build trust and foster a more cooperative bilateral relationship. Involving neutral third parties for mediation and adopting international legal frameworks for dispute resolution could provide structured avenues for resolving these issues.

Economic Dimension of Nepal-India Relationship

The economic interdependence between Nepal and India is evident in their trade volumes and the exchange of major commodities. Trade between the two countries continues to grow, with India being Nepal's largest trading partner. In the fiscal year 2022-2023, bilateral trade reached approximately NPR 1,500 billion (USD 12.5 billion), signifying the robust economic linkages (Nepal Rastra Bank, 2023). Major commodities exported from Nepal to India include carpets, textiles, tea, and medicinal herbs, while imports from India comprise petroleum products, vehicles, machinery, and food items (Timalsina, 2023). However, a significant trade imbalance persists, with Nepal's imports from India vastly exceeding its exports. In 2023, Nepal's trade deficit with India was reported to be around NPR 1,000 billion (USD 8.3 billion) (Nepal Rastra Bank, 2023). This reliance on imports poses challenges for Nepal's economic stability and development, as it leads to a drain on foreign exchange reserves and increases vulnerability to external economic shocks. Addressing this imbalance requires strategic measures to boost Nepal's export capacity and diversify its trade portfolio.

Investment flows from India have played a crucial role in bolstering Nepal's infrastructure and economic sectors. Nepal Investment Board presents the fact that India is the largest source of foreign direct investment (FDI) in Nepal, accounting for approximately 33% of total FDI inflows as of 2023. Indian investments are prominent in sectors such as hydropower, telecommunications, and manufacturing, contributing significantly to economic growth and job creation (Nepal Investment Board, 2023). However, these investments also raise concerns about economic dependency and the influence of Indian capital in Nepal. The dominance of Indian investments can lead to a situation where Nepal's economic policies and development strategies are overly influenced by Indian interests. This dependency issue is further exacerbated by the role of foreign aid. India has been a major provider of aid to Nepal, particularly during crises

such as the 2015 earthquake and the COVID-19 pandemic. While this aid has been crucial in addressing immediate needs and rebuilding efforts, it also reflects the asymmetry in economic power and influence between the two countries (Taneja et al., 2020).

Strategic Dimension of Nepal-India Relationship

Nepal and India have a long history of military cooperation, which includes joint exercises and training programs aimed at enhancing border security and fostering mutual trust. The "Surya Kiran" joint military exercises, conducted annually, focus on counter-insurgency operations and disaster response, reflecting the strategic partnership between the two nations (Limbu, 2022). Additionally, the Indian Army provides training to Nepalese officers, which further strengthens military ties. However, despite these collaborative efforts, strategic mistrust persists, largely due to the influence of external powers such as China. China's growing involvement in Nepal through the Belt and Road Initiative (BRI) has raised concerns in India, complicating the security landscape and contributing to strategic competition in the region (Dahal, 2018). The influence of geopolitical alliances on Nepal-India relations is profound. India's strategic interests in maintaining a sphere of influence in Nepal often clash with Nepal's desire to balance its relations with China. This balancing act is particularly evident in Nepal's participation in both the BRI and the India-led Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) (Bhattarai, 2021). Nepal's strategic position between two major powers makes it a focal point in South Asian geopolitics, with implications for regional stability. India's efforts to counter China's influence in Nepal by increasing economic aid and infrastructure investments underscore the complex interplay of alliances and rivalries that shape regional dynamics (Tripathi, 2019).

Political disputes between Nepal and India, such as the ongoing Kalapani border issue, increase economic disparities and disrupt bilateral trade. These disputes often lead to diplomatic standoffs, which in turn affect economic activities and development efforts. The 2015 trade blockade by India, perceived as a response to Nepal's new constitution, resulted in severe economic disruptions and highlighted the fragility of Nepal's trade dependency on India (Aryal & Pulami, 2024). Addressing these challenges requires sustained diplomatic dialogue and policy adjustments to ensure that political disagreements do not undermine economic cooperation and development. Strategic maneuvers by both Nepal and India, influenced by broader regional

dynamics, present both challenges and opportunities. India's strategic maneuvers, aimed at countering China's influence, include increasing developmental assistance and engaging in strategic dialogues with Nepal. Conversely, Nepal's efforts to diversify its foreign relations and reduce dependency on India present opportunities for a more balanced and stable regional environment (Timalsina, 2023). Collaborative development projects, such as the proposed rail links between Nepal and India, can enhance regional connectivity and economic integration, promoting stability and prosperity. Continuous strategic dialogues and confidence-building measures are essential to mitigate conflicts and foster a cooperative regional framework.

Analysis

The findings of the study reveal a multifaceted relationship between Nepal and India, characterized by historical ties, political disputes, and economic interdependence. Politically, the relationship has been shaped by extensive diplomatic engagements and key treaties such as the 1950 Treaty of Peace and Friendship. While these agreements have fostered cooperation, they have also led to significant contention over issues of sovereignty and autonomy. Border disputes, particularly the ongoing conflict over the Kalapani region, highlight the persistent challenges in maintaining a harmonious bilateral relationship. These disputes often escalate into diplomatic standoffs, affecting broader regional stability. The study figures out that resolving these issues through continuous diplomatic dialogue and conflict resolution mechanisms is essential. By fostering mutual respect and understanding, Nepal and India can navigate these political complexities, paving the way for a more stable and productive relationship that contributes to regional peace and stability.

Economically, the trade relationship between Nepal and India is marked by significant interdependence but also by imbalances that challenge Nepal's economic stability. Indian investments have played a crucial role in developing Nepal's infrastructure, telecommunications, and hydropower sectors, yet they have also created a dependency that makes Nepal vulnerable to changes in Indian economic policies. The substantial trade deficit, with Nepal importing far more than it exports to India, highlights this vulnerability. To address this imbalance, the research emphasizes the importance of Nepal diversifying its trade partners and enhancing its domestic production capacities. Additionally, while Indian aid has been crucial during crises, fostering economic resilience in Nepal requires a balanced approach to foreign aid that promotes

sustainable development rather than dependency. Strategic collaborations on infrastructure projects and joint ventures in sectors such as tourism and agriculture could provide mutually beneficial economic opportunities. These efforts, combined with reducing economic disparities and enhancing bilateral trade relations, could strengthen Nepal's economic stability and foster a more equitable and cooperative partnership with India.

Conclusion

The relationship between Nepal and India, deeply rooted in historical, cultural, and economic ties, represents a multifaceted dynamic that encompasses political, economic, and strategic dimensions. This study has examined these dimensions, highlighting both the enduring bonds and the persistent challenges that define their interactions. Politically, Nepal and India have a history of extensive diplomatic engagements and treaty agreements. These agreements have fostered cooperation but have also been sources of contention, particularly concerning issues of sovereignty and border disputes. The ongoing Kalapani border dispute exemplifies these challenges, often escalating into diplomatic standoffs that strain bilateral relations. Economically, the interdependence between Nepal and India is significant, with robust trade volumes and substantial Indian investments in Nepal's infrastructure, telecommunications, and hydropower sectors. However, this economic relationship is marked by imbalances, particularly a significant trade deficit where Nepal imports significantly more from India than it exports. This imbalance poses challenges for Nepal's economic stability, creating a dependency on Indian goods and economic policies. To mitigate these challenges, there is the need for Nepal to diversify its trade partners and enhance its domestic production capacities. Strategic collaborations on infrastructure projects and joint ventures in sectors like tourism and agriculture offer pathways to mutually beneficial economic opportunities and a more balanced economic partnership. Strategically, the relationship between Nepal and India involves significant military cooperation and joint exercises aimed at enhancing border security. India's strategic interests in maintaining a sphere of influence in Nepal often clash with Nepal's desire to balance its relations with both India and China, impacting regional stability. The study focuses on the need for a nuanced approach to strategic engagements, recognizing the importance of geopolitical alliances while fostering regional stability through cooperative security measures. Addressing the political disputes through sustained dialogue, respecting each other's sovereignty, and developing

equitable economic policies are essential steps towards a more stable and prosperous bilateral relationship. By reducing economic disparities and enhancing trade relations, both countries can achieve greater economic stability. Strategic collaborations and security measures should be designed to foster regional stability while accommodating the strategic interests of both nations. This approach will not only strengthen the Nepal-India partnership but also contribute to the stability and development of the broader South Asian region.

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