



## Policy Brief

# India's Economic Leverage on Nepal: A Case Study of Modern Neo-colonialism?

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# **India's economic leverage on Nepal: A case study of modern neo-colonialism?**

## **EXECUTIVE SUMMARY**

### **Overview**

Since 1947, India has been Nepal's principal trading partner, influencing significantly the dynamics of its foreign economic relations. Due to Nepal's landlocked status and restricted access to the international market, India became the natural hub for the former's commercial ecosystem. Nepal relies heavily on India for its trade routes, with key elements of its economic landscape i.e. trade routes, fuel, and corporate sector, dominated by India. Their bilateral relationship reflects strong elements of monopoly, domination, hegemony, and dependency in both economic and political domains. India is cautious of Nepal opening up to other regional states because Nepal's growth does not serve India's economic as well as strategic interests. Exercising its economic leverage, India imposed multiple blockades on Nepal, undermining its economic security and sovereignty. The 2015 blockade was a watershed moment, convincing policy-makers in Kathmandu of the risks of dependence on India. The six-month long blockade was imposed as a result of promulgation of Nepalese constitution, leading to severe shortage of essentials like fuel, medicine, and food supplies. The prices of goods sky-rocketed because of shortage of supply in the markets, exacerbated by 2015 earthquake. In this backdrop, Pakistan's dealing with its landlocked neighbour-Afghanistan- in terms of trade is a testament to Pakistan's rational, pragmatic, and peaceful approach that makes it a reliable partner, rather than an aggressive hegemon. Taking lessons from the engagement between Pakistan and Afghanistan, Nepal can enhance its bilateral engagement with Islamabad. Where on the one hand, it will help Nepal plummet its dependency on India, on the other hand, it will help enhance regional connectivity, inviting states like China to bring in infrastructure development and connectivity routes.

## **Policy Recommendations**

- By portraying India's blockades as a neo-colonial act of coercion, Pakistan can diplomatically bring into the limelight New Delhi as an untrustworthy ally. This could be advanced in multi-lateral forums like SAARC and SCO. Pointing out India's tendencies will strengthen Nepal's case for finding balanced, non-hegemonistic alliances.
- The trade deficit between India and Nepal is also because of the fact that Nepalese goods do not find a market in India due to various reasons. Unless a sizable export of manufactured products finds market, trade deficit cannot be reduced. Pakistan can serve as a receptive market for Nepalese goods such as carpets, herbal goods, and handicrafts.
- Pakistan, along with China, can encourage a trilateral forum, like it has formed with Bangladesh and Afghanistan, to address multiple issues. The forum can focus on infrastructure, energy, and trade, providing Nepal with options to reduce its dependency on India.
- Since Nepal actively pursues trade through Tibet region, Pakistan and Nepal can be facilitated to enhance trade through China's Tibet region. These new developments will not only take the Sino-Nepalese ties to new heights, but will also open new directions for Pakistan-Nepal trade in the foreseeable future.
- Considering the optimism in Pakistan-Bangladesh relations post Hasina, Pakistan and Nepal are offered with fresh opportunity. Bangladesh can serve as a trade route for Pakistan goods to Nepal, bypassing Indian choke points.
- Pakistan can utilize its past record of non-coercive interaction with Afghanistan in promoting peace despite recent tension. By offering stable trade arrangements and exploring trilateral efforts with China and Nepal, Islamabad can project itself as a friendly neighbour. These actions would improve Pakistan's regional image while eroding India's perceived need to Nepal.

# **India's economic leverage on Nepal: A case study of modern neo-colonialism?**

## **Overview**

Being a land-locked developing state, Nepal relies heavily on India for its trade routes, with key elements of its economic landscape i.e. trade routes, fuel, and corporate sector, dominated by India. However, India's blockades raise concerns about Nepal's dependency on India which allows the latter to exercise economic leverage on the former. This policy brief demonstrates how India's neo-colonial tendencies undermine its neighbour's interests and highlight New Delhi as an unreliable state trying to assert its regional hegemony. In addition, the brief also examines how Pakistan can use this space to project itself as a peaceful neighbour that is reliable and advocates for equitable regional norms for all states in the region.

## **Issue**

To analyse India's economic leverage on Nepal in the backdrop of Indian neo-colonial proclivities.

## **Analysis**

### **• Introduction**

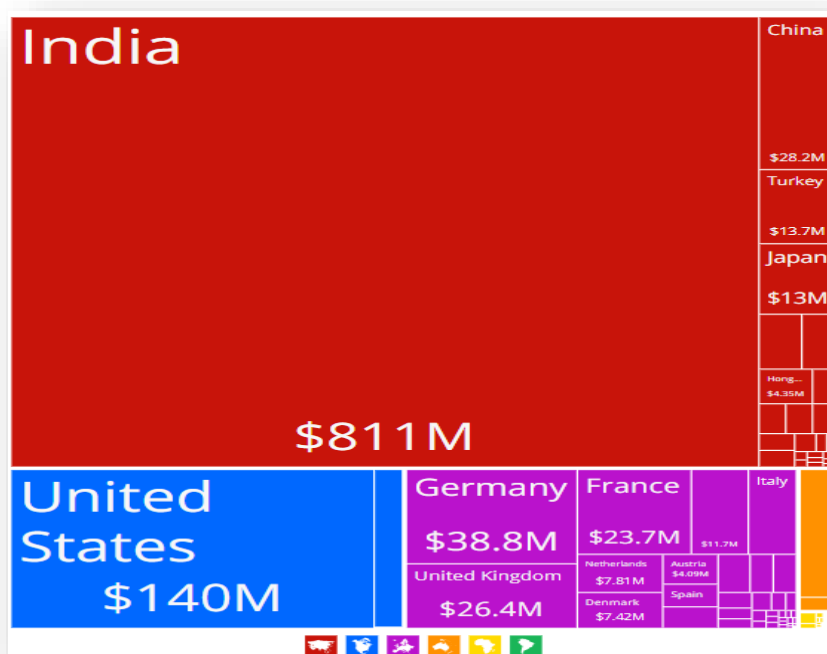
Nepal and India share economic, linguistic, cultural, historical, and religious ties, making them close partners having open and free borders. However, since 2015, their bilateral relationship has experienced fissures. Being a land-locked developing state, Nepal relies heavily on India for its trade routes, with key elements of its economic landscape i.e. trade routes, fuel, and corporate sector, dominated by India. However, India's structural dominance allowed it to impose multiple blockades on Nepal in different years including 1970, 1989, and 2015. Even though previous blockades did not have a significant economic impact on Nepal, the 2015 blockade exacerbated Nepal's economic security by initiating a national fuel crisis. This raises concerns about Nepal's dependency on India which allows the latter to exercise excessive economic leverage on the former.

The brief examines the trade relations between India and Nepal, highlighting significant asymmetry. Because of asymmetric economic ties, the brief argues that India has been able to exercise excessive political interference on Nepal, limiting its ability to engage and open up to other reliable regional partners like Pakistan and China. The brief aims to highlight the impact of

India's blockades on Nepal and also compares Pakistan's dealing with its land-locked neighbour- Afghanistan- with that of India's dealing with Nepal.

- **India-Nepal Trade Relations**

Since 1947, India has been Nepal's principal trading partner, influencing significantly the dynamics of its foreign economic relations. Due to Nepal's landlocked status and restricted access to the international market, India became the natural hub for the former's commercial ecosystem. Initial agreements signed between both the states further institutionalized this reliance, with India providing Nepal with transit rights and access to its ports. Yet, this also generated structural asymmetries, resulting in mass dependence of Nepal on India for vital imports like fuel, manufactured goods, and machinery.<sup>1</sup>



*Figure 1.0: Nepal's Export Destinations <sup>2</sup>*

<sup>1</sup>Gyanu Raja Shrestha. "Nepal-India bilateral trade relations problems and prospects." *Ministry of Finance, Nepal* 27 (2003). [https://www.ris.org.in/sites/default/files/Publication/dp54\\_pap.pdf](https://www.ris.org.in/sites/default/files/Publication/dp54_pap.pdf)

<sup>2</sup> *The Observatory of Economic Complexity (OEC)*, "Nepal (NPL) Exports, Imports, and Trade Partners," accessed August 15, 2025, <https://oec.world/en/profile/country/npl>

Even in contemporary times, India is a major trading partner of Nepal, with more than 64% of Kathmandu's total trade. Over the past 5 years, trade has grown at the rate of 7.76% annually.<sup>3</sup> The bilateral trade stood at Rs. 1.13 trillion, in the FY 2022–23. In June 2025, a decline in Indian exports to Nepal was observed, and the exports mainly comprised of electric machinery and equipment, fertilizers, and Petroleum products.<sup>4</sup> Meanwhile, in the same month, the rise in India's imports from Nepal was mainly attributed to imports of Vegetable Oils, Ayush and Herbal Products, and Jute Hessian.<sup>5</sup> Nepal's dependence on India is starkly evident in its import of petroleum products, motor vehicles, heavy machinery, drugs, and staple food grains. The structural dependence has resulted in a gigantic trade deficit, with Nepal's deficit running alarming.<sup>6</sup>

- **Nepal's Dependency and India's Leverage**

Neil R. Richardson & Charles W. Kegley Jr. opined that asymmetrical economic ties between two states end up in the reliance of smaller states on their dominant trading partner. This economic leverage then results in the dominating partner dictating the foreign policy of the dependent state.<sup>7</sup> Therefore, in order for the dependent state to get rid of this political and economic dependence, it is crucial to bring reforms in its economic structure and foreign policy choices.<sup>8</sup> This assertion resonates well with the India-Nepal bilateral ties. Their bilateral relationship reflects strong elements of monopoly, domination, hegemony, and dependency in both economic and political domains. There are various reasons of Nepal's dependency on India, as pointed out by Malik:<sup>9</sup>

- The imperial legacy, especially the era of Rana Oligarchy which failed to open up Nepal's economic system out of fear of a foreign intervention.

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<sup>3</sup> The Observatory of Economic Complexity (OEC), "India (IND) and Nepal (NPL) Trade," Accessed August 15, 2025, <https://oec.world/en/profile/bilateral-country/ind/partner/npl#bespoke-title-472>

<sup>4</sup> The Observatory of Economic Complexity (OEC), "India (IND) Exports, Imports, and Trade Partners," accessed August 12, 2025, <https://oec.world/en/profile/country/ind>.

<sup>5</sup> OEC, "India (IND) and Nepal (NPL) Trade."

<sup>6</sup> Jagathkrishna Yadav, "India-Nepal relations: Trade, energy and strategic cooperation on the rise", *The Annapurna Express*, Aug. 21, 2025, <https://theannapurnaexpress.com/story/57581/>

<sup>7</sup> Neil R. Richardson, and Charles W. Kegley Jr. "Trade dependence and foreign policy compliance: A longitudinal analysis." *International Studies Quarterly* 24, no. 2 (1980): 191-222. <https://academic.oup.com/isq/article-abstract/24/2/191/1826458>

<sup>8</sup> Theotonio Dos Santos. "The structure of dependence." In *The gap between rich and poor*, pp. 95-104. Routledge, 2019. <https://www.taylorfrancis.com/chapters/edit/10.4324/9780429311208-11/structure-dependence-theotonio-dos-santos>

<sup>9</sup> Ahmad Rashid Malik. "The emerging dimensions of Pakistan-Nepal Trade." *IPRI JOURNAL* 10, no. 1 (2010): 77-92. <https://ipripak.org/wp-content/uploads/2014/01/art4rasw10.pdf>

- Being a land-locked state, Nepal's geographical compulsions make it naturally dependent on India for its trade routes (see Figure 2.0 below). India therefore, has exploited this dependency and often regards Nepal as a sub-ordinate state.
- India considers Nepal to be a buffer zone between China and India and because of economic asymmetry, also exercises political leverage with regards to Nepal's foreign policy, not allowing Nepal to get closer to China and Pakistan.
- Pakistan's support to China during the 1962 war and on the other hand, Nepal's neutral stance, also blocked options for Nepal to turn to Beijing or Islamabad, deepening its dependency on New Delhi.



*Figure 2.0. India to Nepal Overland Routes Map*

Along with these factors, India's foreign policy is derived through its ambitions to become the regional hegemon, making India assert unnecessary economic, political, diplomatic, and even security domination over its smaller neighbours. Such tendencies limit Nepal's options to open up its routes to the outer world. As quoted by The New York Times in 1989, the then Foreign Minister of Nepal Shailendra Kumar Upadhyaya, also expressed that Katmandu wanted to end its special relationship with India, which had become one of economic dependence.<sup>10</sup>

<sup>10</sup> Barbara Crossette, "Nepal's Economy Is Gasping as India, a Huge Neighbor, Squeezes It Hard", *The New York Times*, April 11, 1989, <https://www.nytimes.com/1989/04/11/world/nepal-s-economy-is-gasping-as-india-a-huge-neighbor-squeezes-it-hard.html>

India is cautious of Nepal opening up to other regional states because Nepal's growth- either on the Western side, or on the Northern side- does not serve India's economic as well as strategic interests. A stark example of this fact was India's concerns with regards to the plan connecting Pakistan to China through Nepal's Golmud-Lhasa railway. India viewed it as a plan undermining its political and economic influence on Nepal.<sup>11</sup> However, over the years, Nepal has realized that its sovereignty has been under threat because of India's expediting intervention. The Nepalese perception of India as a regional hegemon resurfaced in 2010 when India's Directorate of Revenue Intelligence (DRI) detained a shipment of the Kantipur Publications newsprint imported from Canada and South Korea. The Nepalese interpreted this measure as intended to pressurise Nepalese media to bring out favourable reports on the India-backed Madhav Kumar Nepal government then in power.<sup>12</sup>

- **Trade Blockades and their Impact on Nepal**

Being driven by neo-colonialism, India has exercised economic leverage on Nepal on various occasions. The frequent trade blockades are an indicator of its exploitation of Nepal's geography. In 1970, as a reaction to Nepal's opening of Tatopani and the building of Araniko Highway that linked China with Kathmandu, India imposed a blockade on Nepal.<sup>13</sup> Despite being in place for a shorter period of time, it exhibited India's rejection of Nepal's efforts to open its trade routes to other neighbours. New Delhi imposed another blockade because of similar reasons when in 1988 Nepal bought Chinese weapons. The bilateral ties were already experiencing some fissures because of Nepal's concerns to be recognized as a "Zone of peace", disagreements on the renewal of transit and trade treaties, and New-Delhi's move to expel Nepali-speaking people from Meghalaya.<sup>14</sup>

The 2015 blockade was a watershed moment, convincing policy-makers in Kathmandu of the risks of dependence on India. The six-month long blockade was imposed as a result of promulgation of

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<sup>11</sup> Pramod Jaiswal, "China in Nepal: Increasing Connectivity Via Railways", *Institute of Peace and Conflict Studies*, 6 October, 2014,

[https://www.ipcs.org/comm\\_select.php?articleNo=4684#:~:text=In%20response%20to%20the%20Chinese,his%20ambitious%20bullet%20train%20plan](https://www.ipcs.org/comm_select.php?articleNo=4684#:~:text=In%20response%20to%20the%20Chinese,his%20ambitious%20bullet%20train%20plan).

<sup>12</sup> 'India Holding Back Newsprint', *The Hindu*, 25 June 2010. <https://www.thehindu.com/news/international/India-holding-back-newsprint-Nepal-dailies/article16265651.ece>

<sup>13</sup> Dina Bohara, "Indian economic blockade on Nepal: A study of coercive diplomatic tactic." PhD diss., Department Of International Relation & Diplomacy, 2020. <https://elibrary.tucl.edu.np/JQ99OgQIzUxyjI9nB0on9OyLkqsGIf4/api/core/bitstreams/c8cb7a9e-0c54-4d54-afd4-eb170f5d3289/content>

<sup>14</sup> Bohara, 2020.



Nepalese constitution. While the constitution was widely accepted by Nepalese, Madesh region was frustrated because of inability of the government to address its demands in the constitution. This resulted in protests on the southern border with India; India took advantage of the situation and exploited it to serve its own interests by imposing a blockade. While New Delhi officially denied that it had imposed a blockade and accused Madheshi people of blocking the trade routes, the reality on ground was very different. The trucks were unable to cross the border for several months, leading to severe shortage of essentials like fuel, medicine, and food supplies.<sup>15</sup> The prices of goods sky-rocketed because of shortage of supply in the markets, and the 2015 earthquake exacerbated the impacts of this blockade.

- **Pakistan- a reliable alternative partner**

Pakistan's relations with its land-locked neighbour-Afghanistan- in terms of trade are a testament to Pakistan's rational, pragmatic, and peaceful approach that makes it a reliable partner, rather than an aggressive hegemon. Even though the relations between Pakistan and Afghanistan have been tense lately, Pakistan did not take any such measures that impacted Afghanistan's sovereignty. Furthermore, despite fully knowing that Afghanistan is dependent on Pakistan for its economic routes, Pakistan never imposed a blockade on Afghanistan to disrupt its trade routes or economic activities. Even though sometimes trade gets suspended because of security issues between both, but the suspension is mostly a reactive or contemporary measure rather than a long-term phenomenon.

In addition, unlike India which opposed trade routes passing through Nepal to connect regional states in order to keep Nepal dependent on India, Pakistan welcomed the inclusion of Afghanistan in CPEC, highlighting Islamabad's intentions of good will and peacefulness. There are other major differences as well, including Pakistan's respect for Afghanistan's sovereignty when it comes to the latter's engagement with India, Iran, and other regional actors. Taking lessons from the engagement between Pakistan and Afghanistan, Nepal can enhance its bilateral engagement. Where on the one hand, it will help Nepal plummet its dependency on India, on the other hand, it will help enhance regional connectivity, inviting states like China to bring in infrastructure development and connectivity routes.

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<sup>15</sup> Slightly Political, "Inside the 2015 India-Nepal Blockade -- Interview with Kathmandu Post Editor Mr. Biswas Baral". [Youtube Video]. October 4, 2024. [https://www.youtube.com/watch?v=EsPtUf\\_4Bfs&list=PPSV](https://www.youtube.com/watch?v=EsPtUf_4Bfs&list=PPSV)

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