



Navigating Nepal-India Economic Ties During Uncertain Era

Madhu Kumar Marasini
Prajol Joshi

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AUTHORS:

Madhu Kumar Marasini
Prajol Joshi

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Kumaripati, Lalitpur
info@cesifnepal.org
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1. Introduction

Nepal and India share deep-rooted cultural, political, and economic ties that span centuries. While informal connections have existed since ancient times, formal diplomatic relations began in 1950 with the signing of India-Nepal Treaty of Peace and Friendship and the Treaty of Trade and Commerce. These treaties institutionalized the free movement of people and goods across borders and laid the groundwork for structured bilateral cooperation. Though the Treaty of Peace and Friendship remains unchanged, the Treaty of Trade and Commerce has been revised and updated time to time. The current one has been in operation since 2009. Those revisions and supplementary agreements further reinforce trade and economic collaborations between the two countries. Although the relationship has faced occasional political strains, India has consistently remained Nepal's most important economic partner in terms of both trade and investment.

As of 2025, India stands as the world's fifth-largest economy, with a GDP of US\$4.19 trillion, and the most populous nation, home to over 1.4 billion people. Despite sharing geographical proximity and historical affinity, Nepal has yet to fully tap into the vast economic potential that India offers.

This challenge is compounded by growing global trade uncertainties and the resurgence of nationalist and transactional foreign policies, which are eroding the foundations of a rules-based, open, and liberal international trade system. The Russia–Ukraine war disrupted global supply chains and contributed to the fragmentation of geopolitical alliances into competing economic blocs. Concurrently, a shift toward protectionist policies—particularly under the Trump administration in the United States—has further eroded the multilateral trading framework. The imposition of sweeping baseline and reciprocal tariffs by President Trump signaled a decisive move toward unilateralism, shaking the foundations of global trade cooperation.

In this context of rising protectionism, geopolitical fragmentation, and weakening regionalism, the need for a stronger and more resilient Nepal–India economic partnership has become more urgent than ever. This article examines the evolution of Nepal–India economic ties, with particular focus on bilateral trade and investment, and explores how Nepal

can navigate today's uncertainties in international trade by deepening its engagement with—India—and laying the foundation for long-term economic resilience.

2. Evolution of Nepal-India bilateral trade agreements

Nepal formalized its economic relationship with independent India by signing a treaty of peace and friendship and the treaty of trade and commerce, replacing an earlier agreement with British India. This marked the beginning of a structured bilateral partnership between two historically close neighbors—a relationship that, despite occasional tensions, has endured to this day. The 1950 treaty of trade and commerce vowed to facilitate and promote trade and commerce between two countries¹.

¹ Ministry of External Affairs, Government of India. 1950. "Treaty of Trade and Commerce, July 31 1950" Accessed on 5 June 2025. <https://www.meaindia.gov.in/bilateral-documents.htm?dtl/6291/Treaty>.

A cornerstone of the treaty was the provision of unrestricted transit rights for Nepali goods through Indian territory, with access to key border points such as Raxaul, Joghani, Nautanwa, Jayanagar, and Nepalganj.

Over the subsequent decades, the bilateral trade treaty between Nepal and India was renewed multiple times. The ethos of the treaties has been to further enhancing trade and commerce between the two countries and propelling to their economic prosperity. The Treaty of Trade and Transit, 1960, intended to build a Common Market between the two countries. The Treaty of Trade and Transit of 1971² offered Nepali primary products, on non-reciprocal basis, access to the Indian market and exemption from customs duty and quantitative restrictions and this provision was extended by the treaty of trade of 1978³ but, on a reciprocal basis. Upon Nepal's persistent request, two separate treaties of trade and transit were concluded for the first time in 1978. Despite periodic fluctuations in bilateral relations during this period, Nepal's economic dependence on India steadily deepened. However, the ensuing political development led to the suspension of both trade and transit treaties in March 1989.

The Nepal-India relationship was revived in 1990 following the formation of new governments in both countries. A treaty of trade, signed in 1991 and later amended in 1996, is considered the most liberal treaty so far, which was also propelled by the Gujral Doctrine in India that emphasized building trust and cooperation with neighboring countries without anticipating reciprocity. India granted duty-free access to all Nepali products, based on a certificate of origin issued by Nepali authorities. This development marked a significant turning point in bilateral trade relations. Aligned with broader shift toward economic liberalization in both of the countries, Nepal's trade volume with India grew considerably from that of NRs. 8.9 billion in 1990/91 to NRs. 209 billion in 2008/09, supported by growing export to India, which increased by 28 times from NRs. 1.6 billion to Rs.43.6 billion annually. Import from India increased by 22.5 times during the same period and reached to NRs. 165 billion in 2008/09⁴.

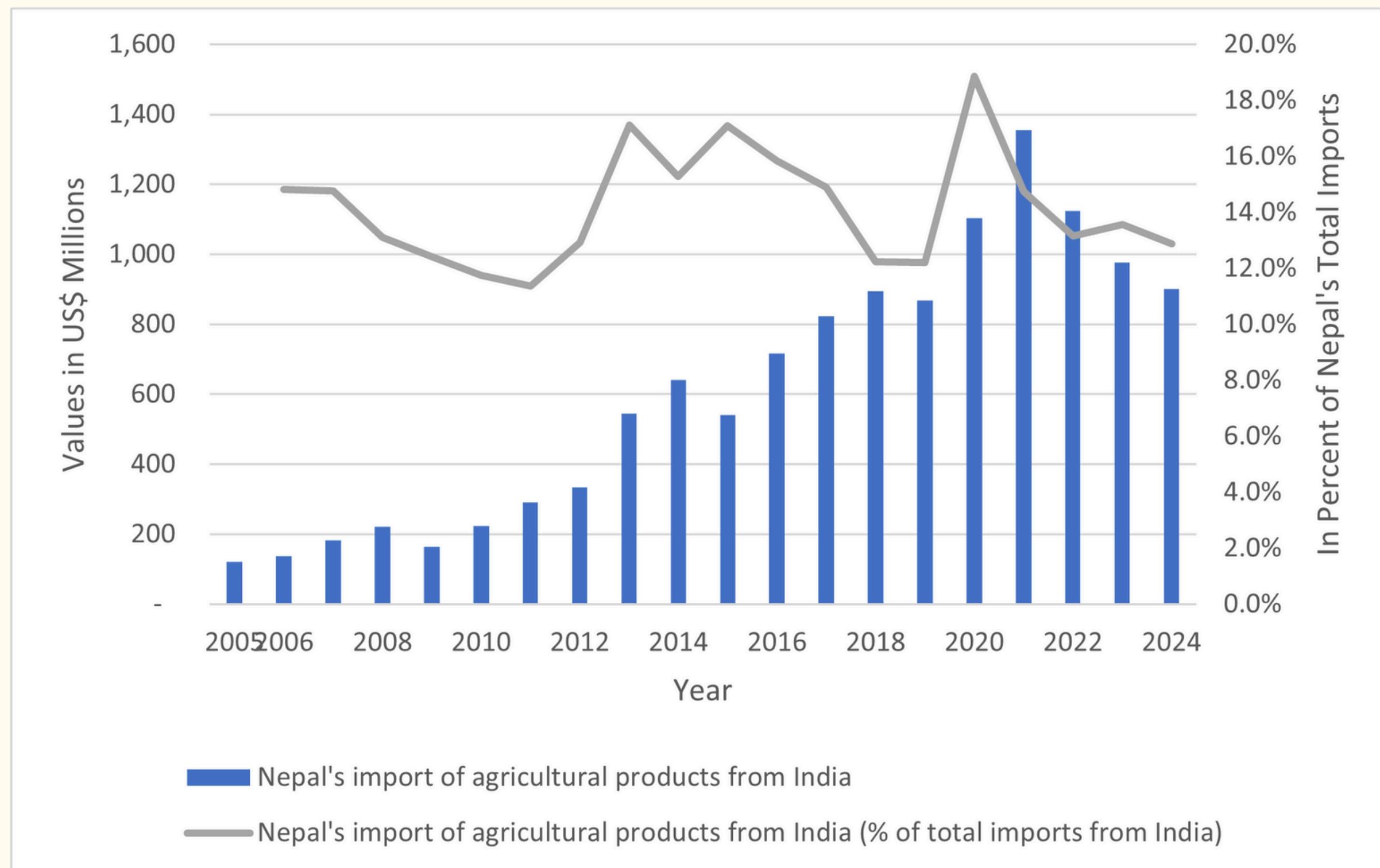
The revised protocol to the treaty in 2002 introduced new restrictive rules of origin criteria which made Nepali exports to fulfill twin criteria for their preferential access to the Indian market: i) domestic value addition of 30 percent; ii) change in tariff heading at four-digit level of the harmonized system code.

2 Legal Information Institute of India, "Indian treaty series," Assessed on June 5, 2025, <http://www.liofindia.org/in/other/treaties/INTSer/1971/11.html>
3 Legal Information Institute of India, "Indian treaty series," Assessed on June 5, 2025, <http://www.liofindia.org/in/other/treaties/INTSer/1978/15.html>

4 Nepal-India Trade and Transport Project, Ministry of Commerce, 2016.

Additionally, it continued to offer primary goods of either country, on a reciprocal basis, access to each other's market and exemption from customs duty and quantitative restriction. Thus, Nepali agricultural goods were compelled to compete with heavily subsidized Indian agricultural production putting Nepali farmers at a competitive disadvantage⁵. Import of agricultural products from India continued to grow (See Figure 1).

Figure 1: Nepal's import of agricultural products⁶ from India



Source: Authors, using data retrieved from ITC Trade Map

The Treaty of Trade, signed in 2009, remains the functional trade treaty to this day, which aims to fortify the traditional connection between the two countries and expand collaboration in economic development. The treaty aimed at facilitating for the expansion of bilateral trade by providing maximum facilities and undertaking all necessary measures for the free and unhampered flow of goods needed by one country from the other.

5 Acharya, B, N.,2008. Indian Trade Policies and Performance of Nepalese Agriculture. GMSARN International Journal 2. 109–16.

6 Agricultural products refer to those classified under HS Chapters 1 to 24, as defined in Annex 1 of the WTO Agreement on Agriculture. For details, see: WTO Agreement on Agriculture – Annex 1.

However, the gap of import from and export to India consistently widened except a few exceptions. The figure 2 below presents the intensity of such a gap. The widening trade deficit with India has been a growing concern for Nepal.

Therefore, Nepal was interested to amend some provisions of the treaty. Major revisions that Nepal was seeking have been the provisions of reciprocity in primary products, quantitative restrictions (QR), rules of origin, equal treatment to third country trade agreement, and various

NTMs, all of which were limiting Nepal's competitiveness and export potentials. The Prime Minister of Nepal and the Prime Minister of India, during their visits to India and Nepal in 2018, had instructed the concerned agencies to initiate works to review the Treaty of Trade. Works in this regard have been carried out by the Inter-Governmental Committee (IGC) meetings of the Commerce secretaries of both of the countries. As agreed in the IGC, Nepal has already forwarded a draft amendment to the Indian side in 2019. Nepal is still waiting for a response from Indian side.

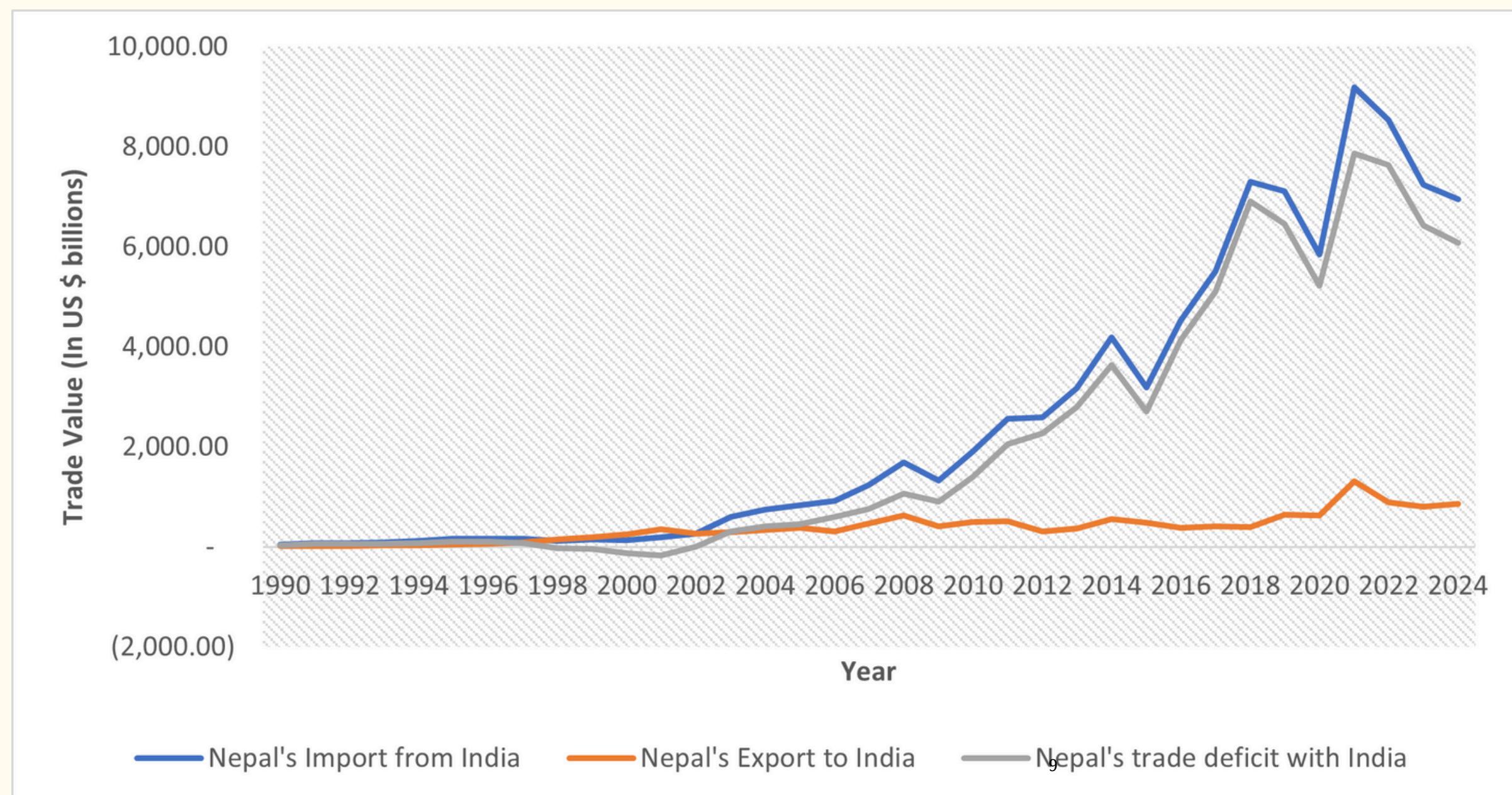
3. Nepal India economic ties: its evolution and current status

3.1 Nepal India bilateral trade

Nepal India bilateral trade has been rapidly growing since the 1990s. (See Figure 2). India has consistently remained Nepal's largest trading partner for both imports and exports. In 2024, about 63 percent of total trade of Nepal is concentrated with India⁷. Between 2010 and 2022, Nepal's imports from India accounted for 60 to 70 percent of its total imports, with only minor fluctuations within this range. Although exports to India also confirmed India's position as Nepal's between 50 and 70 percent of Nepal's total exports (see Figure 6). Apart from the geographical proximity, historical and cultural ties, and open border, this growth is also propelled by infrastructure and connectivity improvements, India's development assistance to Nepal, growing FDI from India to Nepal, Indian multilateral companies' operation in Nepal and emerging opportunity in energy trade.

⁷ Author's calculation using data from direction of foreign trade database of Nepal Rastra Bank.

Figure 2: Trend of Nepal-India trade (1988 - 2024) (All values in US\$ millions)

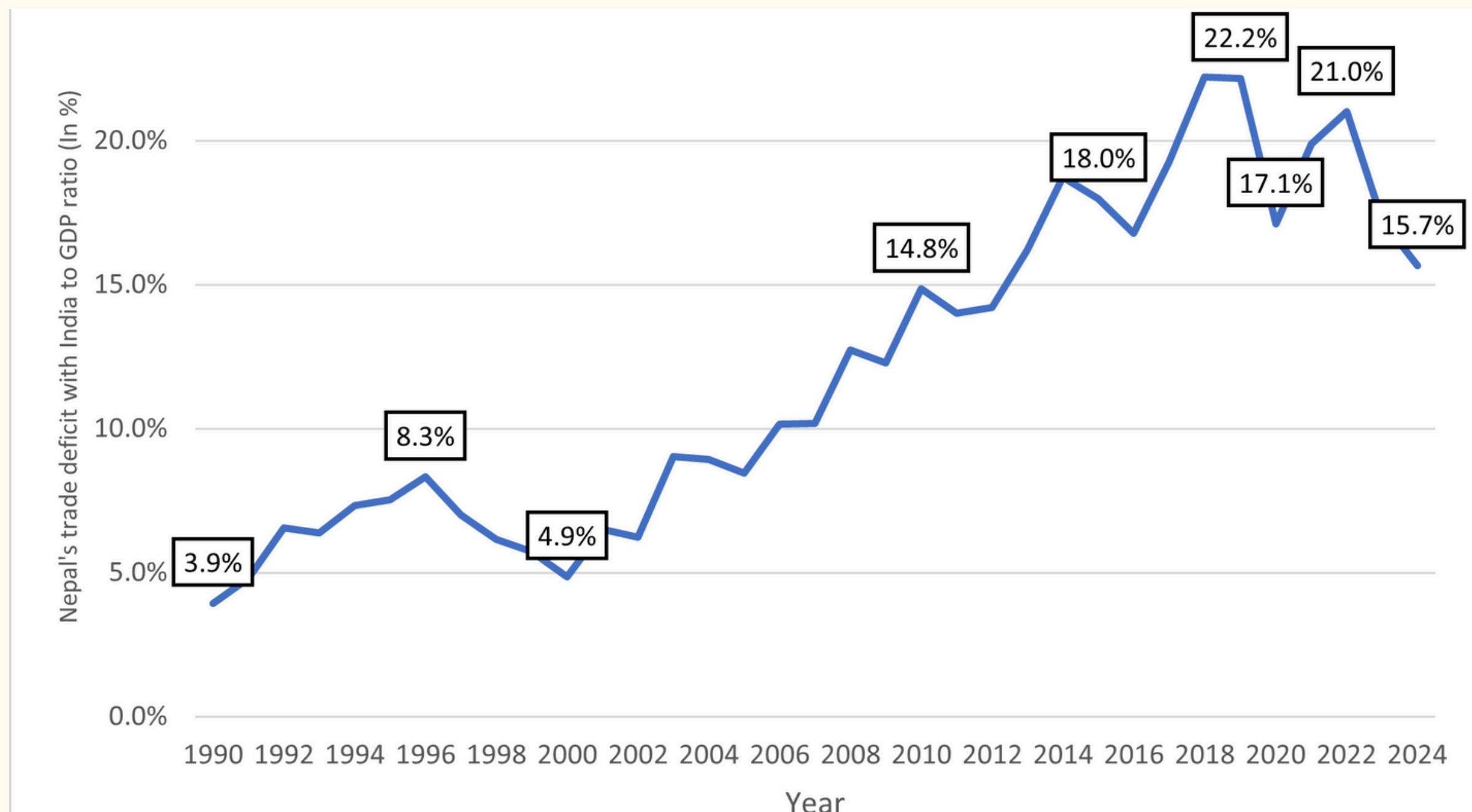


Source: Authors, using bilateral trade data retrieved from UN Comtrade⁸

While imports from India have grown rapidly, Nepal's export growth has remained relatively modest, resulting in a persistent and expanding trade deficit (see Figure 2). Currently, Import to Export ratio between Nepal and India stands at 8.01 to 1. Nepal's trade deficit with India to GDP ratio has gone up rapidly from just 4.9 percent in 2000 to the high of 22.2 percent and 15.7 percent in 2024 (See Figure 3). This upward trajectory in imports has continued nearly every year, with only temporary dips observed in 2015/16—likely due to the devastating earthquake and blockade—and again in 2019/20, during the COVID-19 lockdowns. This indicates that while Nepal's reliance on Indian imports has remained relatively stable, its export dependence on India has experienced more pronounced fluctuations over the years.

⁸ Trade data, reported by Nepal, prior to 2007, was largely unavailable so, trade data, reported by India, has been used. Thus, Nepal's import from India is represented by India's export to Nepal, and Nepal's export to India is represented by India's import from Nepal.

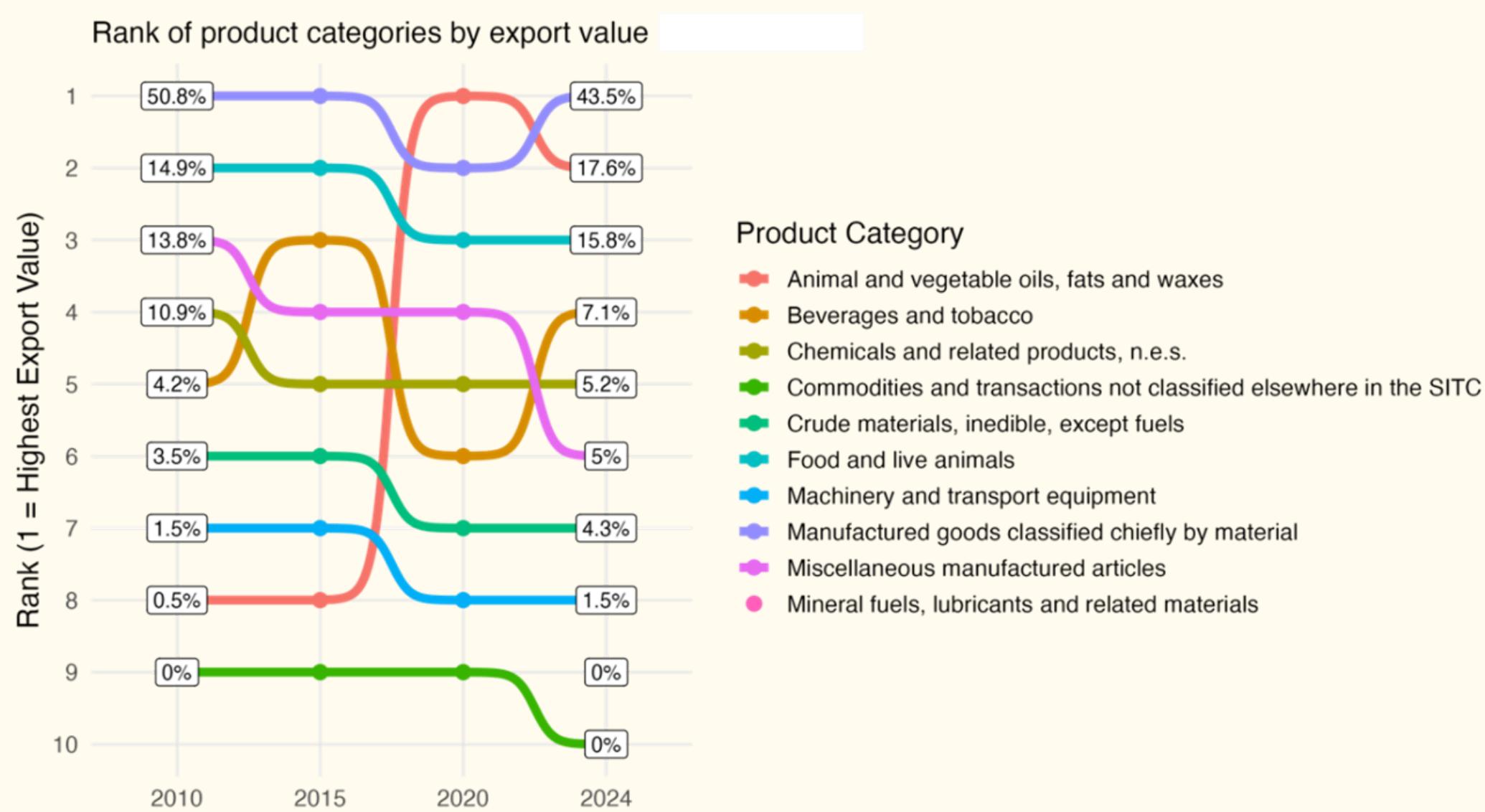
Figure 3: Trend of Nepal's trade deficit with India to GDP ratio (In Percent)



Source: Authors, using bilateral trade data retrieved from UN Comtrade

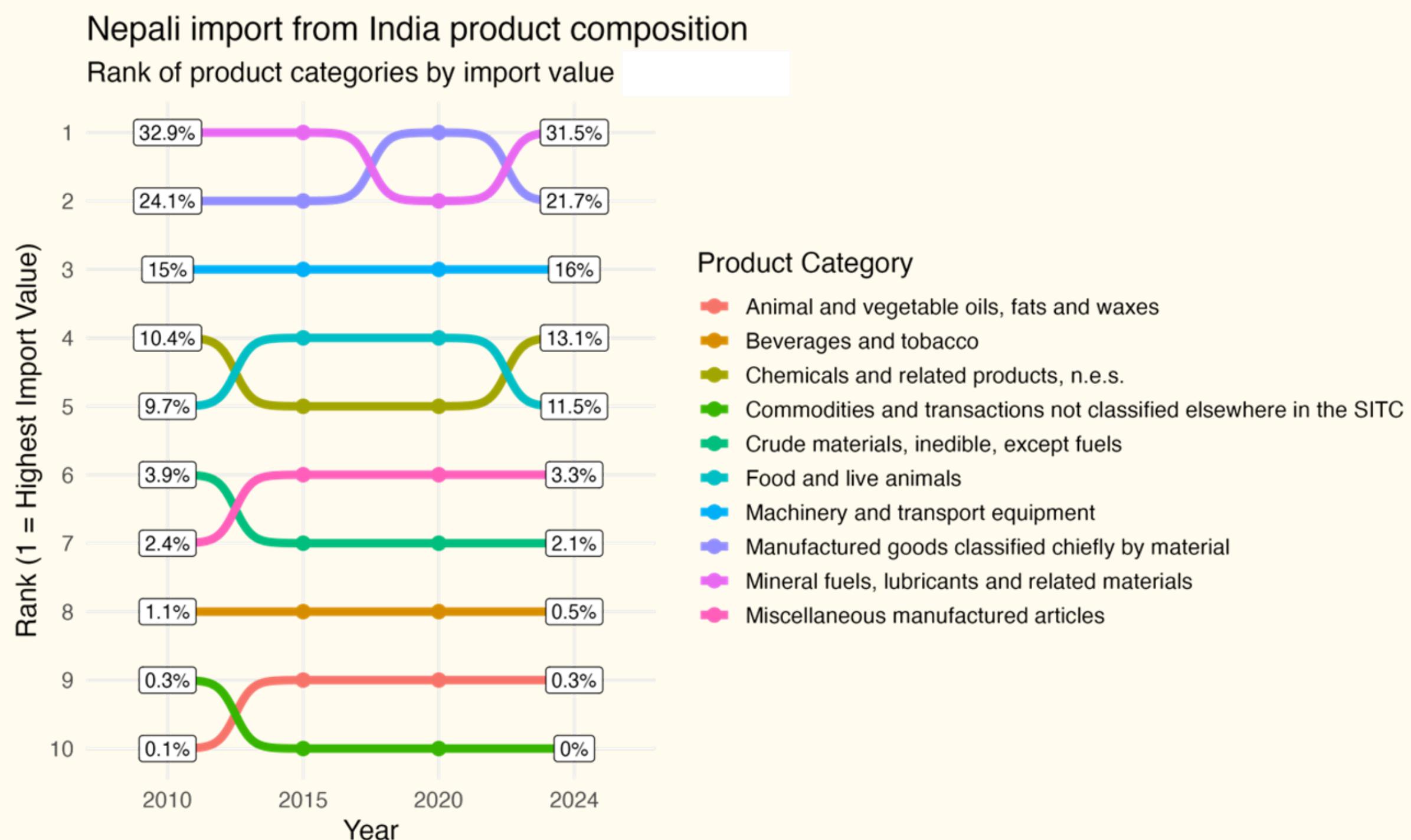
Supply side limitations in Nepal coupled with lacked production capacity and product diversification have been also constraining Nepal's export to India. Nepal's export product basket to India has remained relatively stable over the years, with one notable exception: the category of animal and vegetable oils. In 2010, this category accounted for just 0.5 percent of total exports and ranked eighth, but it has since surged to 17.6 percent, making it Nepal's second-largest export to India (see Figure 4). Manufactured goods continue to be the top export category, maintaining their lead position. Meanwhile, the beverages and tobacco category have experienced fluctuations in ranking—moving from fifth to third, then to sixth, and currently standing at fourth with a 7.1 percent share of total exports. On the other hand, Nepal's import basket from India has shown relative consistency, with only minor shifts in rankings and proportional shares. Mineral fuels, lubricants, and related products remain Nepal's largest import category from India, accounting for 31.5 percent of total imports—a position unchanged since 2010 (see Figure 5).

Figure 4: Nepali export to India product composition⁹



Source: Authors, using bilateral product-level trade data retrieved from UN Comtrade

Figure 5: Nepali import from India product composition

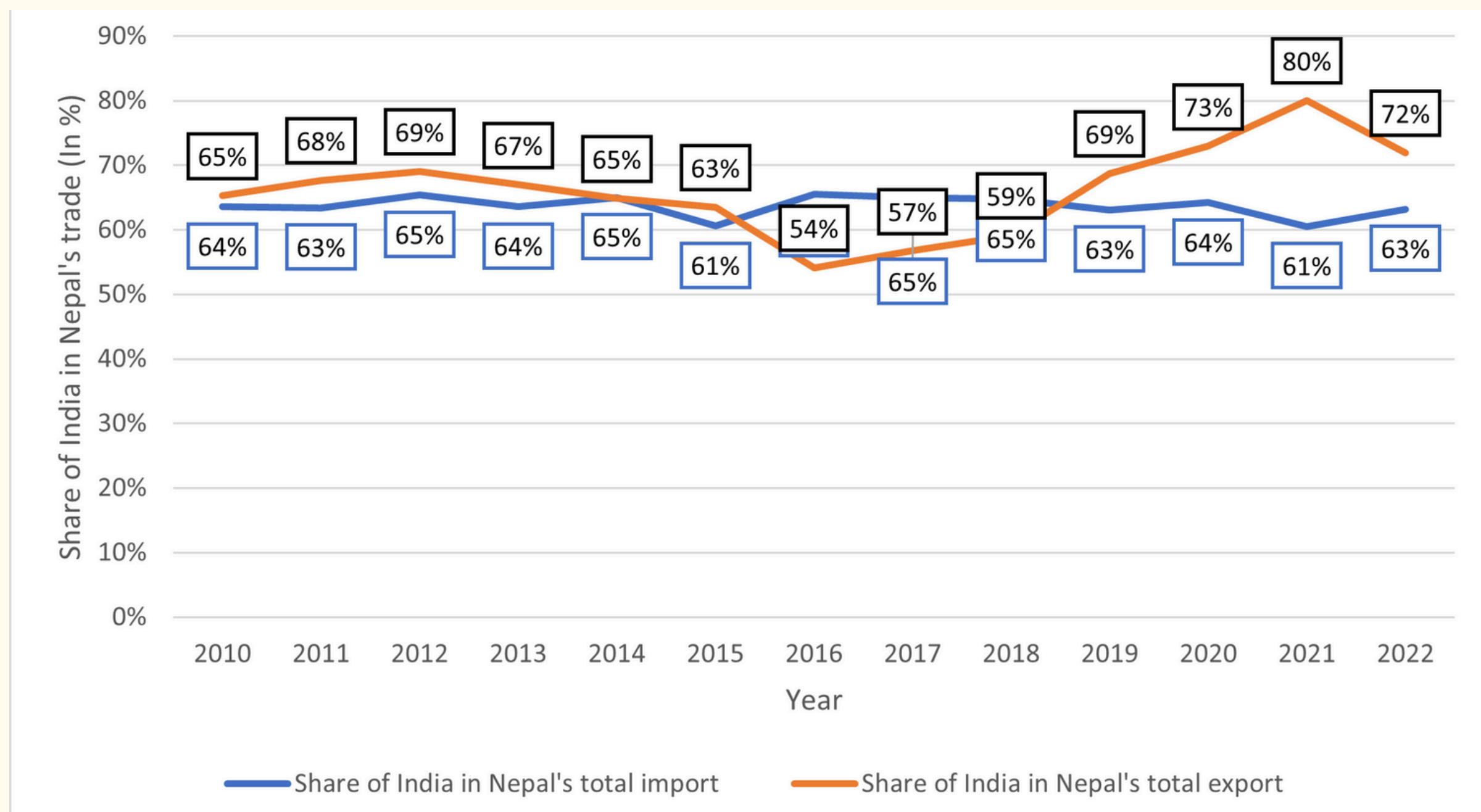


Source: Authors, using bilateral product-level trade data retrieved from UN Comtrade

⁹ Product composition is based on SITC revision 4

Navigating Nepal-India Economic Ties During Uncertain Era

Source: Authors, using bilateral product-level trade data retrieved from UN Comtrade



Source: Authors, using bilateral trade data retrieved from UN Comtrade

Non Tariff Measure

Despite enjoying duty-free access for almost all products under bilateral and regional arrangements, Nepal has not been able to fully capitalize on its export potential to India. Nepal's merchandise exports to India remain below 30 percent of their potential¹⁰. One key constraint is the imposition of non-tariff measures (NTMs) by India. While tariffs have been significantly reduced through regional and bilateral trade agreements, NTMs have emerged as a major barrier—particularly for least developed countries (LDCs)¹¹ like Nepal. Although many of these measures serve legitimate policy objectives, they often increase the complexity and cost of compliance, posing substantial challenges for Nepali exporters.

India applies, in total 3179 NTMs, on imports from Nepal, either bilaterally or multilaterally, covering specific products or, in some cases, all exported goods. These NTMs fall into two broad categories: technical measures, and non-technical measures, which further comprise eleven

¹⁰ Kathuriya, S., and Mathur, P. 2018. South Asia: A Work in Progress, in *A Glass Half Full: The Promise of Regional Trade in South Asia*, ed. Sanjay Kathuriya. Washington, D.C.: The World Bank, 27-85.

¹¹ Kharel, P., Dahal, K., and Nyingtob P. N. 2024. NTMs in Nepal: Existing and new issues in the wake of LDC graduation. CSS Working Paper No. 24-4. Bangkok: ESCAP.

specific types (see Table 1). Among these, sanitary and phytosanitary (SPS) measures account for 46.05 percent, technical barriers to trade (TBT) for 45.08 percent, and non-automatic import licensing, quotas, prohibitions, and other quality-control restrictions for 5.88 percent. For example, India has imposed quantitative restrictions on four key products of export interest to Nepal (see Table 2).

Table 1: Non-tariff Measures, by Type, Imposed to Nepali exports by India

Non-tariff Measures Type	No. of NTMs	NTMs (% of Total)
A) Sanitary and phytosanitary measures	1,464	46.05%
B) Technical barriers to trade	1,433	45.08%
C) Pre-shipment inspection and other formalities	32	1.01%
D) Contingent trade protective measures	1	0.03%
E) Non-automatic import licensing, quotas, prohibitions, quantity-control measures and other restrictions other than SPS or TBT measures	187	5.88%
F) Price control measures including additional taxes and charges	39	1.23%
G) Finance measures	3	0.09%
H) Measures affecting competition	18	0.57%
I) Trade-related investment measures	1	0.03%
N) Intellectual property	1	0.03%
	3,179	100.00%

Source: Authors, based on United Nations Conference on Trade and Development, Trade Analysis Information System. <https://trainsonline.unctad.org/home>.

Table 2: Quotas imposed by India on Nepali products

S. No.	Nepali Product	Quantity in MT per year
1.	Vegetable's fats (Vanaspati)	100,000 (One hundred thousand)
2.	Acrylic Yarn	10,000 (Ten thousand)
3.	Copper products under chapters 74.00 & Heading 85.44 of the HS code	10,000 (Ten thousand)
4.	Zinc Oxide	2,500 (Two thousand five hundred)

Source: Nepal-India Treaty of Trade, 2009, renewed on 2023.

3.2 Nepal India Bilateral Investment

India, in addition to being Nepal's largest trading partner, is also the top source of foreign direct investment (FDI). Indian investment in Nepal started since early 1990s driven by economic liberalization and favorable trade policies, i.e., the Treaty of Trade, 1991 (Amended 1996). The multinational Indian companies such as Dabur Nepal, and Unilever Nepal have a strong foothold in FMCG sector, and contribute significantly on Nepal's export. Currently, there are about 150 India ventures spreading across manufacturing, services, power sector, and tourism sector, which have contributed to industrialization and employment generation . The hydropower sector has emerged as one of the most potential sectors for Indian investment.

Foreign investments in Nepal are entitled to national treatment. Legal protection is guaranteed by the laws such as The Foreign Investment and Technology Transfer Act, FITTA, 2019, Industrial Enterprises Act, 2020, and Public Private Partnership and Investment Act 2075, The Nepal India Double Taxation Avoidance Agreement, 2011, ensures that Indian investors are not subject to a double taxation on income earned in Nepal. A bilateral investment promotion and protection agreement (BIPPA), which was also concluded in 2011, unfortunately, came into controversy in Nepal and revoked . Meanwhile, the Government of Nepal has approved a template for Bilateral Investment Agreement (BIA) ,which ensures legal protection for foreign investments In Nepal. Now both sides should take ¹²urgent initiatives to conduct a BIA between the two countries, which will further assure the protection of investment and encourage the Indian investors to invest in Nepal. The Government of Nepal, through the Budget statement of Fiscal Year 2025/26 has announced a policy change in capital account regime. Which now allows certain Nepali companies to invest abroad. This is an opportune moment that can further leverage investment between the two countries.

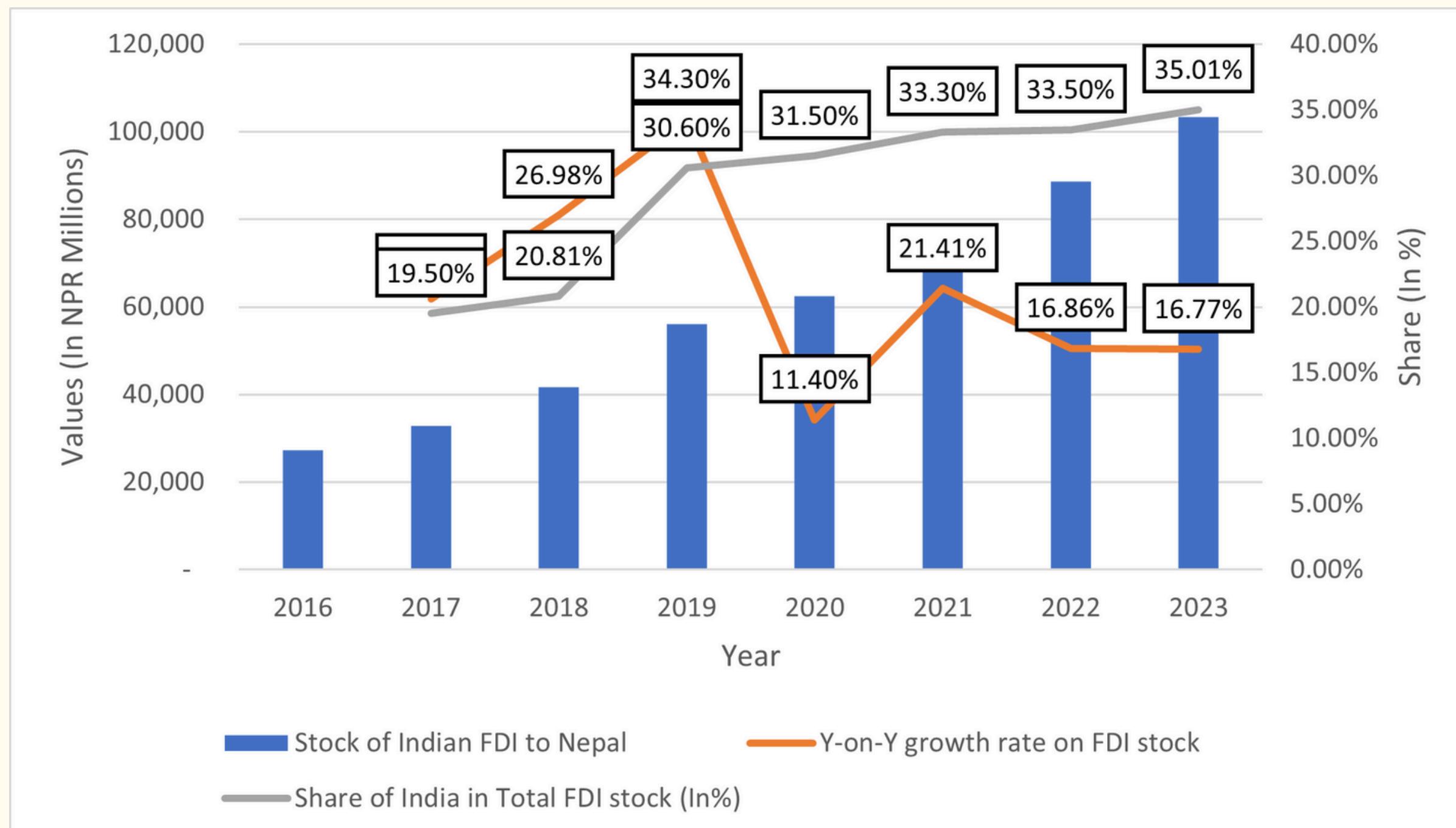
India has consistently been the largest FDI source in Nepal. Its share in Nepal's total FDI stock has risen significantly in recent years—from around 20 percent in 2017 to nearly 35 percent by 2023 (see Figure 7).

¹² Nepal Rastra Bank. 2023. Survey Report on Foreign Direct Investment in Nepal, 2022/23.

¹³ See: UNCTAD Investment Policy Hub, International investment agreements navigator, <https://investmentpolicy.unctad.org/international-investment-agreements/countries/147/nepal>

¹⁴ See for the sample, <https://moics.gov.np/content/11845/11845-bilateral-investment-agreement/>

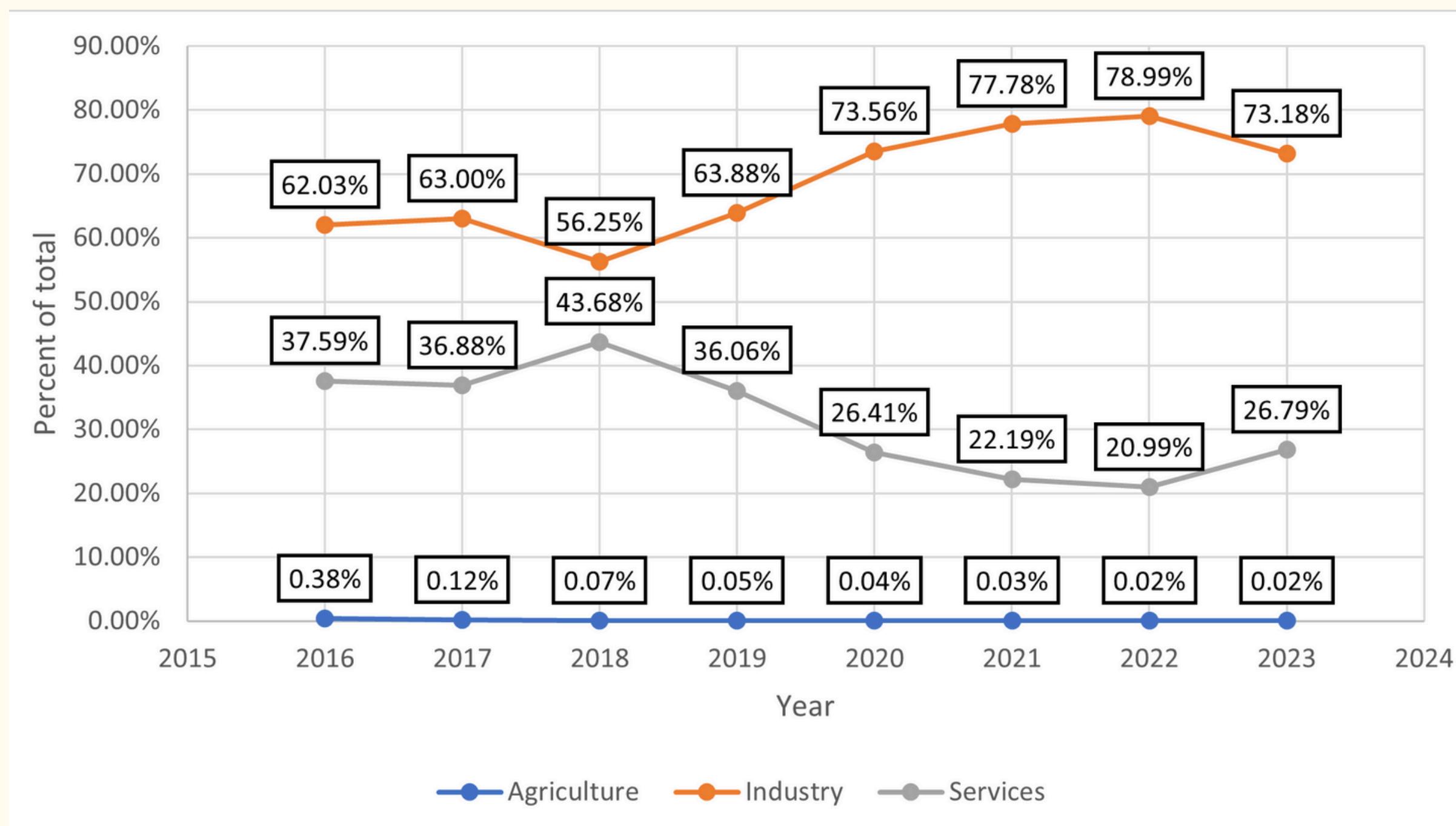
Figure 7: Stock, growth rate, and share of Indian FDI to Nepal



Source: Authors, using data retrieved from survey report on *FDI in Nepal, 2015/16 - 2022/23*, Nepal Rastra Bank, and share of Indian FDI to Nepal

The industrial (manufacturing) and services sectors (tourism, financial, IT) are the primary recipients of Indian FDI, with industry receiving the largest share. In 2016, manufacturing industries accounted for about 60 percent of total FDI inflows from India, while services made up the remaining 40 percent. Since 2019, this trend has become more pronounced, with an increasing share of investment flowing into the industrial sector. By 2023, industry attracted nearly 70 percent of Indian FDI, while the services sector accounted for roughly 30 percent (see Figure 8).

Figure 8: Sectoral composition of stocks of Indian FDI to Nepal



Source: Authors, using data retrieved from survey report on FDI in Nepal, 2015/16 - 2022/23, Nepal Rastra Bank

Nepal has made significant strides in developing its hydropower potential, yet its progress remains modest compared to the vast estimated capacity of approximately 83,000 MW. Indian investments in Nepal's hydropower sector, notably with over a \$1.00 billion investment in Arun III, 900 MW project, coupled with expanding bilateral energy trade, present a strategic opportunity to bolster domestic energy security for both nations.¹⁵ The Governments of Nepal and India have signed a long-term power trade agreement on January, 2024 which aims to export 10,000 megawatts of electricity to India in next 10 years ¹⁶ highlights the deepening energy cooperation and underlying huge opportunity. Complementing this momentum, the Government of Nepal has approved the "Energy Development Roadmap, 2081 ,"¹⁷ targeting the generation of 28,500 MW of electricity by 2035 through investments totaling US\$46.5 billion, signaling a robust commitment to harnessing Nepal's renewable energy potential and fostering regional energy integration.

¹⁵ South Asia Subregional Economic Cooperation (SASEC). 2024. India, Nepal Sign Long-term Power Trade Deal. January 4, 2024. <https://www.sasec.asia/index.php?page=news&nid=1565&url=ind-nep-sign-long-term-energy-deal#text=The%20Governments%20of%20India%20and,in%20energy%20trading%20for%20Nepal>.

¹⁶ Government of Nepal. Energy development roadmap, 2081. <https://moewri.gov.np/storage/listies/January2025/urja-bikash-margachitra-2081.pdf>

areas for collaboration between India and Nepal. The emerging IT ecosystem in Nepal and proximity to Indian global IT hub provide low hanging fruits for investment and economic collaboration. Because of the deep rooted cultural ties, tourism sector also has a huge potential for Indian investment. Adding Nepali industries in Indian manufacturing value chains is equally a promising area for Indian investment in Nepal. A mix of service and manufacturing led job creation is of paramount importance for both of the countries.

4. Recalibrating Nepal-India Economic ties: Opportunities and Challenges

Nepal-India economic relations offer a broad spectrum of opportunities that, if strategically harnessed, can significantly boost Nepal's trade potential, investment climate, and industrial development. As immediate neighbors with long-standing historical, cultural, and economic connections, Nepal and India enjoy an open-border arrangement that facilitates the free movement of goods, services, capital, and people. This unique setup offers Nepal a comparative advantage in accessing one of the world's largest and fastest-growing markets.

India's expanding middle class, rising consumer demand, accelerating infrastructure development, and priority towards green energy present major export opportunities for Nepal —particularly in agricultural products, renewable energy, herbal and ayurvedic goods, handicrafts, and nascent manufactured items. The existing bilateral trade treaty provides duty-free and quota-free access to all Nepali products, except those contained in the negative list and quantities beyond the tariff rate quota. This has enabled some Nepali producers to integrate into Indian value chains, an area with room for significant expansion.

Moreover, India plays a pivotal role in Nepal's connectivity to global markets. As a landlocked country, Nepal depends heavily on Indian transit routes and access to seaports like Kolkata, Visakhapatnam, and Haldia. India's advanced road and rail infrastructure, along with recent investments in cross-border electricity transmission lines, oil pipelines, and digital connectivity, are laying the groundwork for deeper economic integration. Infrastructure developments such as Integrated Check Posts (ICPs), inland container depots, and cross-border railway links are helping to reduce logistical costs and enhance trade competitiveness.

However, these opportunities are tempered by a set of persistent and complex challenges including the quantitative restrictions, reciprocity in primary products, anti-dumping in jute, rules of origin, delays in timely revision of trade treaty, and irregular IGC meetings to resolve the outstanding issues. Non-tariff barriers (NTBs) also hinder Nepal's export performance. For instance, mandatory Bureau of Indian standards (BIS) certification mark requirement has been recently introduced which is a time-consuming procedure and caused temporary halt in exports from Nepal for months ¹⁷. Additionally, Nepali exporters face numerous procedural challenges, including extensive documentation and delays at customs checkpoints. Informal trade and smuggling through open borders further undermine formal trade channels and erode government revenues.

Uncertainties in the rules and occasional border disruptions have exposed Nepal's vulnerability to over-dependence on a single transit route. While India has been a key partner in infrastructure and development projects in Nepal, many initiatives face delays due to bureaucratic inefficiencies, lack of coordination, and administrative hurdles on both sides. Additionally, the dominant presence of Indian goods in the Nepali market has raised concerns about the viability of Nepal's small and medium-sized enterprises (SMEs), which struggle to compete with Indian imports on price, quality, and scale.

Apart from enhancing productive capacity and improving the supply side constraints, Nepal has to negotiate for creating favorable conditions for her export to growing and bigger market of India. Nepal, though relatively a small economy than India, in 2024, was the 15th destination market for India's export goods ¹⁸. India's neighborhood first policy could be effective tool to provide Nepal a flexible access into Indian market. Evolving geopolitics and the US's excessive tariff policy have reminded us the value of neighboring markets and to engage more with neighboring countries and at regional levels. In this context, leveraging Nepal's existing participation in regional frameworks such as the BBIN (Bangladesh, Bhutan, India, and Nepal) - sub-regional initiative, and the Bay of Bengal initiative for multi-sectoral technical and economic cooperation (BIMSTEC) becomes increasingly vital, particularly given the passive status of the South Asia association for regional cooperation (SAARC).

¹⁷ The Kathmandu Post. Export hurdles ease as BIS certifies 129 Nepali firms. <https://kathmandupost.com/money/2025/04/14/export-hurdles-ease-as-bis-certifies-129-nepali-firms>

¹⁸ Author's calculation, using data assessed from ITC Trade Map, on June 6, 2025.

5. Recommendation

Addressing these challenges requires a multi-pronged strategy that includes boosting Nepal's production capacity, simplifying regulatory frameworks, incentivising FDI, improving trade facilitation, and investing in export-ready, and emerging sectors. Central to this effort is the need of regular engagement, activation of existing bilateral mechanisms and prompt addressing of the impending issues. A timely revision of the current Nepal-India trade treaty is equally critical. The Article III of the treaty contains a reciprocal provision, requiring each country to extend to the other any trade preferences it grants to third countries through bilateral or regional agreements. While this may appear balanced on the surface, it disproportionately affects Nepal. India already grants duty-free access to all LDCs under the DFQF arrangement, a level of market access Nepal cannot reciprocate. As a result, if Nepal enters into a preferential or free trade agreement with another country, it would be compelled to offer India the same concessions. This provision severely restricts Nepal's policy space in negotiating trade deals, constraining its ability to diversify trade partnerships and fully leverage new economic opportunities.

Transparent and predictable trade procedures, improved harmonization of standards, and timely implementation of bilateral agreements are essential to build trust, enhance efficiency, and reduce uncertainty. In this context, a Mutual Recognition Agreement (MRA) plays a vital role in facilitating the smooth exchange of goods between countries. Sub-clause 6 of the Protocol relating to Article III of the 2009 Treaty of Trade explicitly states that both parties shall recognize sanitary and phytosanitary (SPS) certificates issued by the competent authority of the other country. This indicates that the issue of mutual recognition has been acknowledged and addressed—at least in principle—within the treaty framework. However, the primary challenge lies in effective implementation. Realizing the full benefits of this provision requires substantial capacity building within Nepali institutions in areas such as standards development, testing, and certification, to meet the technical requirements mandated by the Indian side. This, in turn, calls for sustained efforts and close cooperation between both countries to ensure mutual trust and alignment of regulatory systems. India has long provided Nepal with vital transit facilities that significantly support both imports and exports. Over time, Nepali traders have sought to diversify their trade and transit options, requesting access to additional gateways and transportation modes.

Specifically, Nepal has proposed including two additional ports—Dhamra and Mundra—and the operationalization of inland waterways¹⁹, which, although included in the 2023 transit treaty, have yet to be fully utilized. Activating these additional transit routes along with other transit facilitation steps will improve connectivity, diversify supply chains, reduce transportation costs²⁰, and strengthen Nepal's trade competitiveness.

Despite being Nepal's largest trading partner and the leading source of FDI stock, only 150 enterprises of Indian investment are in operation in Nepal. Given the growing and ever-expanding private sector, FDI from India can be significantly scaled up. This is further notable given India's liberalization of its outward FDI regime over last few decades, including the removal of blanket ceilings and delinking investments from investor net worth—reforms that have significantly boosted Indian FDI outflows, particularly to developing countries and into the services sector²¹. Yet, Nepal has attracted only a limited portion of this growing investment, with just one-fourth of Indian FDI into Nepal directed to services. To address this gap, Nepal should undertake a targeted, coordinated effort—led by the government in collaboration with the private sector²¹—to position the country as an attractive investment destination for Indian investors, particularly by improving investment facilitation, deepening bilateral engagement, and actively promoting promising sectors such as tourism, IT, hydropower, and manufacturing. The two neighbors have a huge scope to create a trade complementarity by enhancing cross border infrastructures, trade logistics, streamlining trade processes, and applying digital tools. Promoting transit facilitation in their greater scope, including by simplifying the processes, policy harmonization and application of digital tools in data sharing will help minimize the cost but maximize bilateral trade. Tourism sector can be expanded by allowing new routes such as the cross-city flights between the two countries from the airports such as Gautam Buddha airport Lumbini, Bhairahawa and Pokhara airport, and major Indian airports. Given the unique proximities, and improving investment environment, Nepal could be an immediate potential investment destination for Indian manufacturing value chains. The evolving geopolitical challenges is a wakeup call to explore and utilize the trade and investment potentials in the neighborhood. As the GoN has revised its foreign investment policy allowing Nepali investors to invest abroad; Nepali investors can equally explore investment opportunities in the fast-growing Indian market. Nepal and India both have to forge a partnership that leverage the strengths of both of the countries.

¹⁹ During the second round of discussions for the comprehensive review of the Nepal-India Treaty of Trade on February, 2019, it is agreed to include additional ports in the treaty hence, Nepal has requested to include these two new ports.

²⁰ As provisioned in the Transit treaty of 2023, Nepal can use multimodal transportation specifically inland waterways of India via Sahibgunj, Kalughat and Vanarasi but, these routes have not been operationalized yet.

²¹ Joseph, R, K. 2019. Outward FDI from India: Review of policy and emerging trends. Working paper 214. Institute for Studies in Industrial Development. New Delhi. Assessed on 17 July 2025 at <https://isid.org.in/wp-content/uploads/2022/07/WP214.pdf>

6. Conclusion

Nepal-India economic relations are anchored in a shared history and reinforced by institutional frameworks such as the Nepal-India Trade Treaty. These ties have supported significant trade, transit, and investment flows. Yet, despite India's continued role as Nepal's most important trade and investment partner, the relationship remains under-utilized, especially in light of rising global trade uncertainties and shifting geopolitical currents. A persistent and widening trade deficit now defines Nepal's economic engagement with India. Moreover, India's increasing share in Nepal's exports highlights the growing reliance on a single market, raising concerns over economic vulnerability and reduced bargaining space.

At the same time, the bilateral relationship offers untapped opportunities. India's rising energy demand, growing consumer base, and improved infrastructure align well with Nepal's comparative advantages in hydropower, agriculture, and niche manufacturing. Ongoing energy cooperation, such as electricity exports and cross-border infrastructure, provides a foundation for deeper integration. However, realizing these benefits will require addressing structural challenges, such as regulatory misalignments, high trade costs, and limited market access.

A forward-looking strategy is essential to make Nepal-India economic ties more balanced, resilient, and mutually beneficial. This includes intensive bilateral engagement both at the public and private sector levels, revisiting the trade treaty to enhance Nepal's policy autonomy, building export-ready industries, and investing in connectivity and trade facilitation. Establishing mutual recognition of standards, reducing non-tariff barriers, forging a BIA and maximizing FDI, exploring emerging areas of investment and value chain connections, and operationalizing new transit points like Dhamra and Mundra ports, and prospective air routes are key steps. Navigating this uncertain era successfully demands not just stronger trade links, but a deliberate shift toward economic diversification, competitiveness, and a strong bilateral collaboration that results in mutual gains and shared prosperity for both, Nepal and India.

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The Centre for Social Innovation and Foreign Policy (CESIF) is Nepal's foremost independent think tank, specializing in research and analysis on the critical issues shaping Nepal's foreign policy, domestic politics, geopolitical environment, and the broader South Asian region.

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- 📍 Kumaripati, Lalitpur
- ✉️ info@cesifnepal.org
- 📞 +977 01-5008814/05, 5537508
- 🌐 www.cesifnepal.org