

# From Blockade to Demonetisation: India–Nepal Relations

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India–Nepal relations go beyond a conventional neighbouring state relationship. Both countries share linguistic, ethnic, and religious beliefs. The border movements between these countries are less regulated and people have free access to both sides of the market. Despite free and open borders, and cultural, linguistic, and religious similarities, relations between India and Nepal have generally been strained. Since 2015, the relationship between India and Nepal has reached a new low. First, there was a blockade initiated by the Madhesi population of Nepal at the site of the border between the two countries, and then the Indian government's demonetisation policy came, which has severely affected Nepal's economy. After 2015, relations between these two countries have changed dramatically. Nepal has altered its long-standing trade relations with India and has gone about exploring options with China instead.

This article discusses in detail India's view on its neighbouring countries and the South Asian border relations. It also explores how Indian academic and diplomatic circles view the India–Nepal relationship in the light of China's aggressive policy push in the South Asian region.

*Keywords:* India–Nepal, demonetisation, blockade, China, India, South Asia.

## Introduction – the background

Frankly, we do not like and shall not brook any foreign interference in Nepal. We recognise Nepal as an independent country and wish her well, but even a child knows that one cannot go to Nepal without passing through India. Therefore, no other country can have as intimate a relationship with Nepal as ours is.

[Parliament Debates 1950 – Jawaharlal Nehru]<sup>1</sup>

These are the words of the first Prime Minister of India, Jawaharlal Nehru, on Nepal, as he described the relationship between the two countries. However, India and

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<sup>1</sup> Quoted in S.D. Muni, "India's Nepal Policy," in *The Oxford Handbook of Indian Foreign Policy*, eds. David M. Malone, C. Raja Mohan, and Srinath Raghavan (Oxford: Oxford University Press, 2015), 484.

Nepal's relationship has most of the time been troubling and crises-laden. India and Nepal share more than 1850km of land borders. Bihar, Uttar Pradesh, West Bengal, Sikkim, and Uttarakhand are the five Indian states that share borders with Nepal. The border between India and Nepal is an open border with very few restrictions. Around 6 million Nepali citizens live and work in India, while around 150 Indian companies currently operate in Nepal, including some of the big Indian government ventures such as the MTNL, the SBI, and the LIC.<sup>2</sup>

Despite the open border and their cultural and linguistic proximity, India–Nepal relations have always been crisis-ridden and puzzling. In the last seven decades, the relations between these countries have seen many ups and downs and have been filled with mutual distrust and diplomatic failures. From India's perspective, this relationship is a matter of not only security and trade, but also of regional supremacy. Indeed, this explains that merely open borders do not constitute a guarantee of peace and stability between the two sides.

In the second decade of the 2000s, India–Nepal relations hit rock bottom, especially in 2015 and 2016. In 2015, the Indian media were heavily criticised for insensitive coverage of the Nepal earthquake. In the same year, there was a blockade of the border by the Madhesi. The Madhesi are ancestral Nepali citizens of Indian origin, who reside mostly in the India–Nepal border areas. Many of them share customs, culture, and language. The Madhesi population comprises 5,600,000 people, according to the 2011 census.<sup>3</sup> Nepal accused India of supporting dissent by being behind this undeclared economic blockade, severely affecting the country and perpetrating a humanitarian crisis in Nepal. Further, in 2016, the Indian government decided to demonetise the 500 and 1000 Indian Rupee currency notes. This had a long and severe economic impact on Nepal, especially on its trade in the bordering districts, as well as caused tremendous trouble for Nepali citizens working in India.

### **Viewing South Asia from the perspective of border studies**

Sevastianov, Laine and Kireev argue that closed borders are a rather new phenomenon in human history, since borders had been created by rulers and subsequent governments to control the mobility of people during the Renaissance period so as to induce residence among artists, the wealthy, and workforce within kingdoms.<sup>4</sup> In the past, borders had been, most of the time, associated with the Nation/State and viewed through security lens. Most recently, border studies have come to elucidate how globalisation

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<sup>2</sup> Ministry of External Affairs India MEA. 2017. [https://www.mea.gov.in/Portal/ForeignRelation/Nepal\\_November\\_2017\\_new.pdf](https://www.mea.gov.in/Portal/ForeignRelation/Nepal_November_2017_new.pdf).

<sup>3</sup> National Planning Commission, Nepal 2011, <https://unstats.un.org/unsd/demographic-social/census/documents/Nepal/Nepal-Census-2011-Vol1.pdf> 2013.

<sup>4</sup> S. V. Sevastianov, J. Laine, and A. Kireev, *Introduction to Border Studies* (Russia, Vladivostok, Dalnauka, 2015).

has contributed to shifts in the dominant tendency of equating borders to ethnocentrism, diluting overt concern with nationality within state frontiers. Contemporary border studies intersect with other areas of social sciences and the humanities, such as history, sociology, economy, art, culture, and politics.<sup>5</sup> Thomas Nail summarises what border studies mean in his theory-of-border-related book, where he says that:

What remains problematic about border theory is that it is not a strictly territorial, political, juridical or economic phenomenon but is equally an aterritorial, apolitical, nonlegal and non-economic phenomenon at the same time.<sup>6</sup>

The South Asian borders reflect Nail's statements, as borders in the region go beyond the conventional understanding of border security and open borders. Scholars such as Dhananjay Tripathi or Jason Cons and Romola Sanyal describe South Asian borders in terms of a creation of colonialism and not people's choice.<sup>7</sup> The creation of borders and partitions in the Indian subcontinent has created a lasting impact on the millions of people and their lives it has cut through. The creation of borders based on religion continues to harm the subcontinent's integration and cooperation.<sup>8</sup> Tripathi argues that colonial border politics in South Asia have had deep implications for the politics of the region's states. India's and Pakistan's obsession with their border has led to more restrictions, even regarding getting a visa, reflecting heavily on their ever-crumbling bilateral ties.<sup>9</sup> On the other hand, Amit Ranjan has argued that shared identity does not always play an important role in diplomacy, which has been clearly reflected in India's relations with its neighbours.<sup>10</sup>

## India and South Asia

There have been many approaches to India's South Asian foreign policy, from the 'Gujral Doctrine' to Narendra Modi's 'Neighbourhood First' policy. All of them have stressed the importance of the South Asian neighbouring countries to India and its prosperity. Scholars such as Amit Ranjan,<sup>11</sup> Shazia Farooq,<sup>12</sup> or Pratip

<sup>5</sup> Vladimir Kolossov and James Scott, *Selected conceptual issues in border studies*, 2015, <http://belgeo.revues.org/10532>.

<sup>6</sup> Thomas Nail, *Theory of the Border* (New York, NY: Oxford University Press, 2018), 23.

<sup>7</sup> Dhananjay Tripathi, "Influence of Borders on Bilateral Ties in South Asia: A Study of Contemporary India–Nepal Relations." *International Studies* 56, no. 2–3 (2019): 186–200, <https://journals.sagepub.com/doi/10.1177/0020881719851420>.

<sup>8</sup> Jason Cons and Romola Sanyal, "Geographies at the margins: Borders in South Asian introduction", *Political Geography* 35, no. 5–13 (2013), 5–13, [http://www.jasoncons.net/uploads/1/4/9/7/14977250/cons\\_and\\_sanyal\\_geographies\\_at\\_the\\_margins.pdf](http://www.jasoncons.net/uploads/1/4/9/7/14977250/cons_and_sanyal_geographies_at_the_margins.pdf).

<sup>9</sup> Tripathi, "Influence of Borders on Bilateral Ties in South Asia", 191.

<sup>10</sup> Amit Ranjan (ed.), *India in South Asia Challenges and Management* (Singapore Springer, 2019).

<sup>11</sup> Ranjan, *India in South Asia Challenges*.

<sup>12</sup> Shazia Farooq, "Indian Foreign policy: Changing Trends", 2020, <http://southasiajournal.net/indian-foreign-policy-changing-trends/>.

Chattopadhyay<sup>13</sup> have divided the 70-year-old Indian foreign policy into three phases. The first phase is the Nehruvian period, marked by nation-building and projecting India into the world stage. The Non-Alignment Movement (NAM) was the second phase, under Indira Gandhi's premiership, where India focused on establishing regional dominance through intervening in neighbouring countries, be it in the 1971 Bangladesh liberation movement or the 1975 annexation of Sikkim by India. Throughout this period, India established its regional dominance through various means. The third phase has been a multi-faceted one, whereby India has tried to accommodate the pursuits of its neighbouring countries under the auspices of the Gujral Doctrine.<sup>14</sup>

India's unique geographical positioning within small neighbouring countries, along with its size and resources, made it a force to reckon with in the region.<sup>15</sup> Explaining India's approach to the region, David Malone states that "India's tactics have varied, but the trend has been towards a more conciliatory approach, as India reaches beyond its own immediate neighbourhood to establish itself as a global actor."<sup>16</sup> On the other hand, foreign policy expert C. Raja Mohan has argued that India's foreign policy has been constrained by its domestic politics, which manifested through India boycotting the 2013 Colombo Commonwealth Summit, the proceedings of the Teesta Waters agreement with Bangladesh, and the consistent use of Pakistan in the propaganda of Indian elections.<sup>17</sup> India's neighbouring countries perceive India's approach towards them as that of a 'big brother' – always hovering as a giant; protective, but limiting to the terms of its interest. In his seminar, India's former External Affairs Minister Sushma Swaraj clarified that "India is elder brother, not big brother."<sup>18</sup>

As part of the South Asian region, and courtesy of being India's closest neighbour, Nepal has had a very complicated relation with it. Foreign policy scholars from India have viewed Nepal's association with India as dominated by fear psychosis.<sup>19</sup> Upreti has

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<sup>13</sup> Pratip Chattopadhyay, "The Politics of India's Neighbourhood Policy in South Asia," *South Asian Survey* 18, No. 1 (2011): 93–108.

<sup>14</sup> Ranjan, *India in South Asia*. Farooq, *Indian Foreign Policy*. Chattopadhyay, *The Politics of India's Neighbourhood Policy in South Asia*.

<sup>15</sup> Chattopadhyay, *The Politics of India's Neighbourhood Policy in South Asia*.

<sup>16</sup> David M. Malone, *Does the Elephant Dance?: Contemporary Indian Foreign Policy* (New York: Oxford University Press, 2011), 102.

<sup>17</sup> C. Raja Mohan, "There is no happy end-state in India's relations with its neighbours," *The Indian Express*, September 29, 2020, <https://indianexpress.com/article/opinion/columns/tending-to-the-neighbourhood-south-asia-india-6621078/>.

<sup>18</sup> Ranjan, "India in South Asia".

<sup>19</sup> B.C. Upreti, "India–Nepal Relations: Dynamics, Issues and Problems," *South Asian Survey* 10, no. 2 (2003): 257. <https://doi.org/10.1177/097152310301000207>. Sangeeta Thapliyal, "India and Nepal Relations: Politics and Perceptions," in *India in South Asia Challenges and Management*, ed. Amit Ranjan (Singapore: Springer, 2019), 75–91. Karishma Angela Vincent, "India–Nepal Relations & the China Factor," 2020, <https://www.c3sindia.org/geopolitics-strategy/c3s-issue-brief-vii-india-nepal-relations-by-karishma-angela-vincent/>.

argued that “the Indo-centric politics in the South Asian region created the inferiority complex among Nepali political establishment.”<sup>20</sup>

### The research method

This article is descriptive in nature and has used quantitative methods to analyse the India–Nepal relationship. Mostly secondary sources have been used, namely newspaper articles, online Web portals, journal articles, or edited books. Some primary sources have also been of use, such as official government documents and state leaders’ statements.

### The India–Nepal relations

One of the foundations of India–Nepal relations has been shared cultural, linguistic, and religious beliefs. There are around 22 designated transit points between the two countries, where goods movements are allowed through the border.<sup>21</sup> The informal agriculture imports from India to Nepal amounted to 55 billion Rs in 2012.<sup>22</sup> The informal trade between India and Nepal outbalances the formal trade. In the border area, nearly 55% of the trade takes place for private use and only 23% is for business purposes.<sup>23</sup>

There are around 361 million people living in the India–Nepal border areas, covering five Indian states.<sup>24</sup> The border states in India provide an excellent opportunity to develop the basic infrastructure and transportation between the two countries. In 2016, the former Indian ambassador to Nepal Shyam Saran underlined the importance of the border states to the Indian foreign policy: “Let me begin by sharing my conviction that India’s Border States have a critical role to play in India’s foreign policy. They should be looked upon as a major asset in India’s efforts to create a peaceful, stable and prosperous neighbourhood.”<sup>25</sup> Against this backdrop, it is very important to see the significance of India–Nepal border relations transcending conventional bilateral ties. Also, one must note how closely Nepal’s and India’s economies are connected so as to understand that any major economic decision by one country impacts the other one, especially people living in the border areas.

<sup>20</sup> Upreti, “India–Nepal Relations: Dynamics, Issues and Problems.”

<sup>21</sup> Pushpita Das, “Towards a Regulated Indo-Nepal Border,” *Strategic Analysis* 32, no. 5 (2008). <https://doi.org/10.1080/09700160802309233>.

<sup>22</sup> Hari Bansh Jha, “Nepal’s Border Relations with India and China,” *Eurasia Border Review* 4, no. 1 (2013): 879–900.

<sup>23</sup> Jha, “Nepal’s Border Relations with India and China,” 70.

<sup>24</sup> Jha, “Nepal’s Border Relations with India and China.”

<sup>25</sup> Shyam Saran, “Role of Border States in India’s Foreign Policy,” 2016, <http://ris.org.in/pdf/Speech-Role%20of%20Border%20States%20in%20India’s%20Foreign%20Policy-29.3.16-Final.pdf>.

India has always closely observed Nepal's politics, be it changes in the regimes or the country's movement towards democracy. There are four major political changes that took place in Nepal in the last 70 years: 1) the Anti-Rana revolution (1950); 2) King Mahendra dissolved the representative government of the country, replacing it with the Panchayat System in 1962; 3) the Massive *Jan Andolan* ('People's Movement') against the monarchy in 1989; and 4) the 2005–2006 *Jan Andolan* against the monarchy, which finally overthrew and abolished it in 2008.<sup>26</sup> In all these political changes, India was actively involved in favour of the democratic forces in Nepal, which, in turn, created problems for Nepal's political establishment, especially the monarchy.<sup>27</sup>

India and Nepal first signed the Treaty of Peace and Friendship (TPF) in 1950, which became the basis for future India–Nepal relations.<sup>28</sup> Within a decade, relations between India and Nepal became strained again. The new king of Nepal, Mahendra, not only dissolved the treaty, but also signed the Peace and Friendship Treaty with China in 1960 as well as importing arms from China, creating anxiety and tension between India and Nepal, while India charged Nepal with violating the 1950 Peace and Friendship Treaty. This created ire between both countries.<sup>29</sup> However, after 1962, the Sino-Indian war changed the political scenario, making Nepal sign a secret agreement with India once again, in 1965. The agreement gave India a complete monopoly to import arms from Nepal. In 1969, the Nepal government wanted the Indian government to withdraw its army personnel from its soil, also expressing its displeasure with the TPF. By 1969, the crisis had reached the stage in which the Indian government withdrew its army from Nepal. However, the TPF was not abandoned by both sides.<sup>30</sup> During the Indira Gandhi period, India made many political interventions in the South Asian region. India's intervention in the 1971 Bangladesh liberation war, India's 1974 nuclear test, and the 1975 annexation of Sikkim to India all caused concern for the Nepal monarchy.<sup>31</sup>

By the end of the 1980s, the relationship between India and Nepal faced a major crisis. In 1978, the two countries signed separate treaties for trade and transit, but when it came to a renewal, India wanted to renegotiate the treaty as a single treaty, which was against the 1978 model. Nepal refused to sign a single treaty. Then, Foreign Minister Shailendra Kumar Upadhyaya stated in an interview for *The New York Times* that "Kathmandu wanted to end its special relationship with India, which had become one of economic dependence," as well as that "it is in our interest to let interdependence

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<sup>26</sup> S.D. Muni, "India's Nepal Policy." Malone, *Does the Elephant Dance?* "History of India-Nepal Relations," South Asia Program at Hudson Institute, <http://www.southasiaathudson.org/history/> (accessed: 07.02.2019).

<sup>27</sup> Muni, "India's Nepal Policy," 488.

<sup>28</sup> Muni, "India's Nepal Policy." Malone, *Does the Elephant Dance?* Sneha Patel, "A New Journey in the New Context: Nepal–India Relations," *IOSR Journal of Humanities and Social Science* 22, no. 9 (September 2017): 73–79.

<sup>29</sup> Patel, "A New Journey in the New Context," 76.

<sup>30</sup> Patel, "A New Journey in the New Context," 76.

<sup>31</sup> Upreti, "India-Nepal Relations".

grow” and “it is in our interest to see that our dependence on one country does not grow.”<sup>32</sup> India, however, used the trade-and-transit treaty to get back at Nepal for violating Article 5 of the 1950 TPF when Nepal brought weapons from China. Also, Nepal increased by 55% the levy on tariffs on Indian goods entering into Nepal as well as introducing a new law which required a work permit for all non-Nepali citizens, including Indians. This was implemented in 1987 and stepped up in 1989, aggravating India, especially against the backdrop of Nepali citizens not requiring a work permit in India.<sup>33</sup> The 1989 blockade and the 55%-increase of levy on Indian goods also raised the basic-food prices, and industrial production dropped. This economic impasse led to public outrage and the famous *Jan Andolan* which brought about political changes.<sup>34</sup>

India mediated the peace talks with the Communist Party of Nepal (CPN (Maoist)) and other political parties, which led to elections for the Constitutional Assembly in 2005. When King Gyanendra seized back power and dissolved the parliament, the Indian government stopped supplying arms to Nepal and supported the second *Jan Andolan*. However, India’s stance on Nepal has often been perceived as interference, e.g. in 2008, when Nepal’s Maoist leaders demanded the stepping down of the army officers who served under the monarch. The latter were backed by the Indian government. The Maoists viewed this as India’s obstruction of Nepal’s democratic transition.<sup>35</sup>

These three incidents affected not only Nepal’s economy, but also relations between the two countries as a whole. In the context of the growing influence of China in the South Asian region, these events proved to be costly for India. Many diplomats and scholars – such as Biswas Barwal,<sup>36</sup> Kamal Dev Bhattarai,<sup>37</sup> Eleanor Albert,<sup>38</sup> Sangeeta Thapliyal,<sup>39</sup> Amit Ranjan,<sup>40</sup> Karishma Angela Vincent,<sup>41</sup> and Gayathri Iyer<sup>42</sup> – believe that the recent incidents between India and Nepal have contributed to pushing Nepal

<sup>32</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>.

<sup>33</sup> Niranjana Koirala, “Nepal in 1989: A Very Difficult Year.” *Asian Survey* 30, no. 2 (1990), 136–143. Subodh C. Bharti, “Indo-Nepal Relations: 1947–2015.” Academia.edu – Share research, 2015. [https://www.academia.edu/21282756/Indo\\_Nepal\\_Relations\\_1947\\_2015](https://www.academia.edu/21282756/Indo_Nepal_Relations_1947_2015). Moni D, “India’s Nepal Policy.”

<sup>34</sup> Koirala, “Nepal in 1989: A Very Difficult Year.”

<sup>35</sup> Malone, *Does the Elephant Dance?*

<sup>36</sup> Biswas Barwal, “India’s ‘Blockade’ Has Opened the Door for China in Nepal,” *The Wire*, 2016, <https://thewire.in/diplomacy/indias-blockade-has-opened-the-door-for-china-in-nepal>. Biswas Barwal, “After the ‘Blockade’: China’s Push into Nepal,” *The Diplomat*, 1 February, 2017, <https://thediplomat.com/2017/02/after-the-blockade-chinas-push-into-nepal/>.

<sup>37</sup> Bhattarai, Kamal Dev. “The Limits of Nepal’s China Outreach,” *The Diplomat*, 31 January 2020. <https://thediplomat.com/2018/09/the-limits-of-nepals-china-outreach/>.

<sup>38</sup> Eleanor Albert, “From ‘Land-Locked’ to ‘Land-Linked’: China’s Xi Goes to Nepal,” *The Diplomat*, 15 October 2015. <https://thediplomat.com/2019/10/from-land-locked-to-land-linked-chinas-xi-goes-to-nepal/>.

<sup>39</sup> Thapliyal, “India and Nepal Relations.”

<sup>40</sup> Ranjan, “India in South Asia.”

<sup>41</sup> Vincent, “India–Nepal Relations & the China Factor.”

<sup>42</sup> Gayathri Iyer, “As China woos Nepal, some lessons for India,” January 16, 2019, Observer Research Foundation, <https://www.orfonline.org/research/as-china-woos-nepal-some-lessons-for-india-47397/>.

closer to China, which, in turn, is eager to accommodate Nepal in its plan towards the expansion of its influence in South Asia. In this context, this article will look into the more recent issue of the blockade of the border between India and Nepal, and its subsequent impact on current relations between the two countries. It must be noted that rather than going into the historical details of the Madheshi issue, the author attempts to discuss the two countries' response to the blockade fiasco, and how the border politics went on to affect the relationship between Nepal and India.

### **The blockade of the border**

Historically, relations between India and Nepal had been full of mutual respect and political assistance and understanding. During the Indian independence movement, several freedom fighters hid from the British and escaped to Nepal; some of the prominent names among those freedom fighters include Jayaprakash Narayan and Ram Manohar Lohiya. Later, many of Nepal's freedom fighters took shelter in India during King Mahendra's rule.<sup>43</sup> India also played a crucial role in ending the monarchy in Nepal in 2004 by mediating and preparing a twelve-point agreement between the Maoist and other political forces in the country with the aim of ending a long political impasse.<sup>44</sup> More recently, relations turned sour in the light of the Madheshi agitations and the subsequent five-month-long roadblock from September 2015 to February 2016. In the past, namely in 1969 and in 1989, there had been an initiation of blockades at the border, albeit by India. Even though India was not directly responsible for the 2015 blockade, several Nepali politicians and some media alleged that India was indirectly backing the blockade in order to influence the constitution-making process in Nepal. *The Nepali Times* called the blockade India's "proxy war" on Nepal.<sup>45</sup> In April 2015, Nepal faced a devastating earthquake claiming around 9,000 lives, injuring more than 20,000 people, and making millions of people homeless. Against this backdrop, the 2015 blockade of the India–Nepal border created a humanitarian crisis, generating the shortage of essential medication and other basic resources.

India has always been wary of any political development in Nepal, which is not only because Nepal is a neighbouring country, but also because people from both sides of the border have long-standing cultural, economic, and matrimonial relations. China has also been another major threat to the Indian borders, vis-a-vis the country's recent policy of economic expansion in the South Asian region. The geographical proximity of Nepal between India and China has been one of several reasons for keeping the country in the loop for India so as to deter China's area

<sup>43</sup> Jha, "Nepal's Border Relations with India and China," 68.

<sup>44</sup> Hemant Ojha, "The India-Nepal Crisis," November 27, 2015, <https://thediplomat.com/2015/11/the-india-nepal-crisis/>.

<sup>45</sup> Krishna Sinjali, "Proxy war," *Nepali Times*, 9–15 October 2015, [nepalitimes.com/article/editorial/editorial-proxy-war-blockade-is-not-about-the-constitution-anymore,2637](http://nepalitimes.com/article/editorial/editorial-proxy-war-blockade-is-not-about-the-constitution-anymore,2637).

of influence in the region. On September 20, 2015, the Nepali parliament declared its new Constitution, with the majority of the constitutional assembly members approving of it. Out of the 598 Constitutional Assembly (CA) members, 537 supported the new Constitution, while 61 members opposed and boycotted it, including 58 members from the Madhesi parties.<sup>46</sup> Even before the official voting in the CA, opposition to the proposed draft constitution had been mounting since July 2015, when the United Democratic Madhesi Front (UDMF) burnt the draft copy of the proposed constitution to express their disagreement with the constitutional provisions and the lack of representation.<sup>47</sup>

Indian Foreign Secretary S. Jaishankar visited Nepal and had a meeting with senior political leaders of Nepal, where he proposed to them a delay to the promulgation of the new Constitution because of India's sense of the lack of adequate representation of the interests of many communities in the new Constitution.<sup>48</sup>

Within days after the promulgation of Nepal's new Constitution, India proposed that Nepal make seven important amendments in order to ensure the accommodation and satisfaction of concerned communities through Ranjit Rae, the then India's ambassador to Nepal.<sup>49</sup> This irked the Nepali leaders, who viewed this as a direct interference in their domestic matters and a clear violation of sovereignty. This created sparks among the political establishment of Nepal, and in 2015 the former Prime Minister Prachanda (Pushpa Kamal Dahal) expressed his annoyance over India's suggestion to change the Constitution. He went a step further, criticising India's intervention by saying that:

Any act from anywhere that amounts to undermining our sovereignty is not acceptable to the Nepalese... By promulgating our own Constitution, we have only asserted our sovereign rights, something that is not directed towards any country. ... We cannot bow down before anyone's pressure or persuasion. It is a matter of our conscience and self-respect. This time, Nepalese people have realised their 70-year-old dream of writing their own Constitution by themselves...<sup>50</sup>

This statement clearly underlines the outrage within the Nepali political establishment. Nepal took this issue further and protested in the UN in October 2015,

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<sup>46</sup> Keshav Bashyal, "Nepal–India Relations: At a Critical Juncture," in *India in South Asia Challenges and Management*, ed. Amit Ranjan (Singapore: Springer, 2019), 173–185.

<sup>47</sup> *South Asian for Human Rights* 2016, 37, <http://www.southasianrights.org/wp-content/uploads/2016/01/Nepal-Calls-for-UN-Special-Rapporteur-on-Unilateral-Coercive-Measures-to-act-on-Nepal-to-prevent-the-humanitarian-crisis-imposed-by-the-blockade.pdf>. Thapliyal, "India and Nepal Relations: Politics and Perceptions."

<sup>48</sup> Shubhajit Roy, "Make Seven Changes to Your Constitution: India Tells Nepal," *The Indian Express*, 24 September 2015, <https://indianexpress.com/article/world/neighbours/make-seven-changes-to-your-constitution-address-madhesi-concerns-india-to-nepal/>.

<sup>49</sup> Roy, "Make Seven Changes to Your Constitution: India Tells Nepal."

<sup>50</sup> Yubaraj Ghimire, "Any act that amounts to undermining Nepal's sovereignty is not acceptable: Prachanda," *The Indian Express*, 23 September, 2015, <https://indianexpress.com/article/world/neighbours/any-act-that-amounts-to-undermining-nepals-sovereignty-is-not-acceptable-prachanda/>.

whereby Deputy Prime Minister of Nepal, Prakash Man Singh, met the UN Secretary-General, Ban Ki-moon. During that meeting, he elaborated on the hardships that the citizens of Nepal were facing every day due to India's blockade of the trade routes. He addressed the UN General Assembly and, without naming India, he tried to draw attention to the difficulties faced by the Landlocked Developing Countries (LLDCs).<sup>51</sup> India strongly denied the allegation, arguing that the blockade was from the Nepali side of the border, while the Indian side of the border still allowed the movement of vehicles.<sup>52</sup> While the previous tense relations between the two countries could have been attributed to India being unhappy with trade agreements between them and to the flexing of the economic advantage, the recent Madhesi uprising did not see any direct involvement from India. One can argue that there might have been tacit support of the Madhesi uprising from the Indian front, since a large part of the community maintains marital and familial ties with India. It cannot be denied that the blockade was from the Nepali side of the border; this can be tangibly viewed and reported. As a culmination of the incident, the tactic of blockade from the Nepali side of the border by the Madhesis backfired for India as well. The people suffering after the earthquake saw the agitation as India-sponsored because of the public perception of the Madhesis as being of Indian origin, with their loyalty always questioned.<sup>53</sup> Despite the allegations and denials, it is the common Nepali citizens who have been severely affected by the blockade.

### **India's demonetisation and Nepal**

Not only are the transit routes in Nepal dependent on India, but the Indian currency is also used in Nepal for exchange in the market. This also explains the robustness of the two bordering states. While this closeness between India and Nepal is indicative of a positive side of such a relationship, it also means the monetary life of Nepal is dependent on the economic decisions in India to a large extent. In other words, decisions across borders will have an impact on both economies, more so in the case of Nepal. As India is a strong economic pillar in South Asia, it is less likely to be affected by the Nepalese economy.

On November 8, 2016, Indian Prime Minister Narendra Modi made an announcement about the demonetisation of the 500 and 1000 Indian currency notes with immediate effect. This statement shocked not only Indian citizens, but also those of neighbouring countries, such as Nepal and Bhutan. Both Nepal and Bhutan share open borders and allow economic transactions in the Indian currency. In Bhutan, this

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<sup>51</sup> "Nepal turns to UN over 'obstruction' of trade point with India," *The Indian Express*, 4 October, 2015, <https://indianexpress.com/article/world/world-news/nepal-turns-to-united-nations-over-obstruction-of-trade-point-with-india/>.

<sup>52</sup> "Nepal turns to UN over 'obstruction' of trade point with India."

<sup>53</sup> Thapliyal, "India and Nepal Relations: Politics and Perceptions."

is mainly tourism-driven. In the case of Nepal, however, the Indian currency is almost the second currency of the country, albeit unofficially. Since Nepal is a landlocked country, the majority of its trade is dependent on India. Recently, the trade between the two countries has multiplied. In 2006–2007, the trade between India and Nepal was 558.5 billion Indian National Rupee (INR). Within ten years, the trade amount increased fivefold to 3,956.4 billion INR (5.89 billion USD) for the years 2016–2017.<sup>54</sup> Moreover, there are around 32,000 Gurkha soldiers serving in the Indian army, as well as 1,25,000 Gurkha soldiers who had served in the Central and State services and have retired, now residing in Nepal.<sup>55</sup> Taking these official figures into account, the borders between Nepal and India are open and soft, making unofficial trade between the two countries – and everyday exchange in the border areas – easier, with several hundreds of millions worth in transactions taking place every day.

The Nepali economy is dependent on India in many respects, i.e. not only in terms of trade, but also in terms of many other factors, such as tourism, transfer of pensions, border area transition, and the FDI. Nepali citizens working in India send around 384 billion INR back to Nepal and there are around 90,000 Indian army pensioners in Nepal who receive pensions from the Indian government.<sup>56</sup> The Terai region uses the Indian currency more extensively than it uses the Nepali currency. In the Mahakali zone, 95% of the transactions proceed in the Indian currency.<sup>57</sup> Apart from the border transactions, Indian industrialists have invested in Nepal heavily; around 40% of the FDI in Nepal is from India.<sup>58</sup>

In similar vein, one must acknowledge the World Bank’s report warning against India’s demonetisation affecting its neighbouring countries. As it reads, “Spill overs from India to Nepal and Bhutan, through trade and remittances channels, could also negatively impact growth in these neighbouring smaller economies.”<sup>59</sup>

Nepal–India relations not only became bitter due to demonetisation, but – coupled with the long blockade and the earthquake – they also devastated Nepal’s economy.

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<sup>54</sup> Ministry of External Affairs India (MEA), “India–Nepal Relations,” Ministry of External Affairs India, 2018, [https://www.mea.gov.in/Portal/ForeignRelation/Nepal\\_November\\_2017\\_new.pdf](https://www.mea.gov.in/Portal/ForeignRelation/Nepal_November_2017_new.pdf).

<sup>55</sup> Ministry of External Affairs India (MEA), “India–Nepal Relations.”

<sup>56</sup> Iftikhar Gilani, “Nepal Still Grappling to Ease up Pangs of Demonetization,” *DNA India*, 14 September, 2017, <https://www.dnaindia.com/india/report-nepal-still-grappling-to-ease-up-pangs-of-demonetization-2545431>.

<sup>57</sup> Hari Bansh Jha, “Demonetisation of Indian Currency and Nepal,” ORF, 8 August, 2017, <https://www.orfonline.org/expert-speak/demonetisation-of-indian-currency-and-nepal/>.

<sup>58</sup> Jaspal Kaur and Bawa Singh, “Indian Demonetization as a Geopolitical Conundrum: Demonetize the Indo-Nepal Relations – Analysis,” *Eurasia Review*, 24 December 2018, <https://www.eurasiareview.com/24122018-indian-demonetization-as-a-geopolitical-conundrum-demonetize-the-indo-nepal-relations-analysis/>.

<sup>59</sup> Perry Haan and Malavika Desai, “Hope in Their Hands: Seeing Hands Nepal,” in *Business and Management Practices in South Asia* (Singapore: Palgrave Macmillan, 2019), 285–305.

## How Nepal was affected by India's demonetisation

Before May 2014, the high-denomination Indian currencies of 500 and 1000 had not been officially allowed in Nepal, but unofficially they were in use in the border areas which are porous, with an easy circulation of larger Indian currency and relaxed supervision over fluid transactions. In August 2014, the then newly elected Indian Prime Minister Narendra Modi visited Nepal in order to demonstrate his new neighbourhood policy. The Reserve Bank of India (RBI) issued the Foreign Exchange Management Act (FEMA) notification, through which Nepal increased the amount for exchange up to 25,000 Indian rupees in Nepal.<sup>60</sup> Within two days after the announcement of the demonetisation, the Nepal Rashtra Bank (NRB) proclaimed that it possessed around 33.6 million INR by a very low estimation,<sup>61</sup> because there was an enormous amount of Indian currency in circulation through border transactions and unofficial sources, such as workers, small traders, local markets, and petrol pumps in the bordering areas. Apart from the initial amount, there are around 9.5 billion (15.2 million USD) Indian rupees in circulation in Nepal, which is a huge amount in the context of Nepal's economy and the size of its population.<sup>62</sup> Tourism is one of the major revenue-generating resources for Nepal, whereby every year around 800,000 Indian tourists visit Nepal, contributing around 2–2.2% to the overall GDP of Nepal.<sup>63</sup> For Nepali workers, India is a desirable place for migration, making 40% of them migrate to India.<sup>64</sup> Nepali workers sending money from India is one of the major economic resources for Nepal's economy. In 2016, Nepali migrant workers sent 3.84 billion INR to Nepal, accounting for 3% of Nepal's GDP, which is 20% of all transfers of foreign funds.<sup>65</sup> In this light, it must be noted that the Nepal Rashtra Bank's 2018 report recorded a fall in Nepal's GDP by more than 2%. In 2015, while Nepal registered the GDP growth of 3.3%, in 2016 the country registered a growth of 0.4%.<sup>66</sup> The BMI Research, which is an international research organisation for financial market analyses, reported that the demonetisation policy of India had affected the ongoing post-earthquake construction projects in Nepal, leading to the economic crisis in the country.<sup>67</sup>

<sup>60</sup> N. Manandhar, "Impact of Demonetisation," *The Kathmandu Post*, 2018, <http://kathmandupost.com/news/2018-04-22/impact-of-demonetisation.html>.

<sup>61</sup> Devirupa Mitra, "Where Do Nepal and Bhutan Stand One Year After Demonetisation?" *The Wire*, 9 November, 2017, <https://thewire.in/economy/where-do-nepal-and-bhutan-stand-one-year-after-demonetisation>

<sup>62</sup> Manandhar, "Impact of Demonetisation."

<sup>63</sup> Kaur and Singh, "Indian Demonetization as a Geopolitical Conundrum."

<sup>64</sup> C. Sapkota, "Demonetisation Nightmares," *The Kathmandu Post*, 2016, <https://kathmandupost.com/opinion/2016/12/20/demonetisation-nightmares>.

<sup>65</sup> Sapkota, "Demonetisation Nightmares." Gilani, "Nepal Still Grappling to Ease up Pangs of Demonetization."

<sup>66</sup> Economic Survey 2018/19, Nepal Rashtra Bank, [https://www.mof.gov.np/uploads/document/file/compiled%20economic%20Survey%20english%207-25\\_2019111101758.pdf](https://www.mof.gov.np/uploads/document/file/compiled%20economic%20Survey%20english%207-25_2019111101758.pdf).

<sup>67</sup> "India's demonetization could bring down Nepal's growth to 2.2%: BMI Research," *DNA*, 14 December, 2016, <https://www.dnaindia.com/world/report-india-s-demonetization-could-bring-down-nepal-s-growth-to-22-bmi-research-2282816>.

## Nepal's response to demonetisation

Nepal responded to the crisis immediately. Within days after the demonetisation, the country banned the high-denomination 500 and 1000 notes. The NRB requested the RBI to take back the demonetised 500 and 1000 bills several times, but the RBI did not commit. Other than a few press conferences, there was no clear signal from India to Nepal about taking back the notes. In 2017, the deputy governor of the NRB visited India and requested that the Indian government should allow the exchange of up to 25,000 INR per person, but the Indian government and the RBI were willing to allow the exchange of 4,500 INR only. This was verbally communicated to Nepal and no commitment or assurance was issued in the form of a written document or notification.<sup>68</sup> In 2018, India's External Affairs Minister Sushma Swaraj visited Nepal and held several rounds of talks with Nepali officials, but apart from some verbal assurances, nothing was given in writing to Nepal. This came as a disappointment for the Nepali government. Nepal's Prime Minister KP Sharma Oli visited India with the agenda of achieving concrete solutions to demonetisation for Nepal. Before arriving, he had addressed Nepal's Parliament and assured them that he would bring a solution to the demonetised notes, which constitute an economic burden to Nepal's citizens. As he said, "The Indian demonetisation has hurt Nepali nationals... I will raise this in my meetings with Indian leaders."<sup>69</sup> However, by the end of the visit, no solution was reached, further fuelling anti-India sentiment in Nepal.

The Nepal Rashtira Bank banned the high-denomination new Gandhi-series Indian currencies from January 2019 onwards, fearing the domination of Indian currencies in the Nepalese market.<sup>70</sup> Until very recently, i.e. 2020, the Nepalese government had not been willing to accept India's new 200, 500, and 2,000 INR currencies. The former executive director of the NRB, Trilochan Pangani, welcomed the NRB's decision by saying that the circulation of the Indian currency in Nepal reflects India's dominance over the country, also noting that such a large amount should not be allowed in any country.<sup>71</sup>

Thus, Nepal has had a rather bitter experience with India's demonetisation policy. The Indian government's response to the crisis was very limited and was not sufficient to control the damage. The Indian government has gone on to accept the old Indian currencies from Bhutan, leaving out Nepal and giving the impression that the probably biased perspective stems from India's requirement for Nepal to resolve the Madhesi issue before it can consider any steps to counter the detriments that demonetisation caused

<sup>68</sup> Rohej Khatiwada, "Nepal Bans Indian Currency Notes of Rs 200, Rs 500 and Rs 2000," *The Caravan*, 25 January, 2019, <https://caravanmagazine.in/government/nepal-bans-indian-currency-notes>.

<sup>69</sup> Khatiwada, "Nepal Bans Indian Currency Notes of Rs 200, Rs 500 and Rs 2000."

<sup>70</sup> Nayanima Basu, "India-Nepal currency deadlock has its roots in face-off over Madhesi," *The Print*, 4 February, 2019, <https://theprint.in/diplomacy/india-nepal-currency-deadlock-has-its-roots-in-face-off-over-madhesi/187336/>.

<sup>71</sup> Khatiwada, "Nepal Bans Indian Currency Notes of Rs 200, Rs 500 and Rs 2000."

in the country.<sup>72</sup> Indian foreign policy analyst Sumesh Shiwakoty explains that this kind of decision on behalf of India stemmed from the country's domestic politics rather than foreign policy. At the domestic level, the Indian government was under immense pressure to prove the success of the demonetisation campaign through assertions that it had eliminated black money through the process, as it had intended. However, the 2017–2018 Reserve Bank of India (RBI) report stated that 99.3% of demonetised currency notes had been returned to the RBI. This meant that either there was not much black money in the demonetised currency notes to begin with, or the campaign itself was a complete failure. In that scenario, if India had accepted Nepal's demand to take the Indian currencies back, there would have been the chance of the returned demonetised currencies exceeding the existing amount.<sup>73</sup>

Former Indian Ambassador to Nepal Rakesh Sood criticised the Indian government's response to Nepal, saying that "not resolving the matter related to exchange of such a small amount reflects lack of focus on an important bilateral relationship like (with) Nepal, because then it allows irritants to fester."<sup>74</sup> On top of that, the Indian government not accepting the Nepali side of India's currencies but accepting the same from Bhutan further fuelled the anti-India sentiments among Nepal's common people.<sup>75</sup>

### **China–Nepal relations against the backdrop of the blockade and demonetisation**

After the 2015 border blockade between India and Nepal, China–Nepal relations have tightened owing to India's incorrect political decisions leading to a growing anti-India sentiment among many Nepali citizens. China gave Nepal 1 billion Yuan for the reconstruction and rebuilding of roads in the border area after the 2015 earthquakes.<sup>76</sup> This was a significant amount. It came at a time when the Indian media faced harsh criticism from Nepali citizens and several human rights activists due to their insensitive coverage of the earthquake.

The 2015 'unofficial' blockade in the Nepal–India border was a miscalculation by India, dropping Nepal right at the centre of China's expansionist policies to build better ties. India had been the sole supplier of oil to Nepal. During the 2015 blockade, the Indian Oil Corporation (IOC) agreed not to limit the supply of oils to the Nepal Oil

<sup>72</sup> Basu, "India-Nepal currency deadlock has its roots in face-off over Madhesis."

<sup>73</sup> Sumesh Shiwakoty, "Nearly 3 Years Later, Nepal Contends With the Consequences of Indian Demonetization," *The Diplomat*, 28 August, 2019, <https://thediplomat.com/2019/08/nearly-3-years-later-nepal-contends-with-the-consequences-of-indian-demonetization/>.

<sup>74</sup> Basu, "India-Nepal currency deadlock has its roots in face-off over Madhesis."

<sup>75</sup> Mahua Venkatesh, "India set to patch up with Nepal over currency crisis, make high-value notes legal tender," *The Print*, 12 February, 2019, <https://theprint.in/economy/india-set-to-patch-up-with-nepal-over-currency-crisis-make-high-value-notes-legal-tender/191354/>.

<sup>76</sup> J. Luedi, "India's Demonetization Shock Drives Nepal into China's Arms: GRI," *Global Risk Insights*, 29 January, 2017, <https://globalriskinsights.com/2017/01/india-demonetization-pushes-nepal-closer-china/>.

Corporation (NOC). Despite the assurance, only 10% of 103 oil tankers were filled and sent.<sup>77</sup> Nepal’s ambassador to India Deep Kumar Upadhyay expressed his anger in public, saying that “...if pushed to the wall, or, as you say, ‘*marta kya naa karta*’ [if you are desperate, what won’t you do], we will be forced to approach other countries.”<sup>78</sup> This was a clear sign for India to understand the gravity and changing political situation in Nepal. In October 2015, China agreed to provide Nepal with 1 million litres of petrol for free in order to ease the ongoing fuel crisis.<sup>79</sup> Also, Nepal and China signed their first ever oil agreement, whereby Nepal was promised 30–40% of the overall oil fulfilment. In the context of Nepal being completely dependent on oil imports from India, the energy-diversification tactic by Nepal in the face of the crisis definitely took away a chunk of a discernible point of influence from India.<sup>80</sup> In 2017, the China Banknote Printing and Minting Corporation (CBPM) printed 1000-Nepali-rupee notes worth 28.4 billion, and did so within five months.<sup>81</sup> Even though the printing order had been given to Chinese companies long before India’s demonetisation campaign, the speedy delivery of the Nepali currency notes by the Chinese company against the background of India’s refusal to accept the demonetised currency pushed Nepal closer to China.<sup>82</sup>

In May 2017, Nepal and China signed an agreement on China’s ambitious ‘One Belt One Road Initiative’ (OBORI). This was a very significant step towards the solidification of the Nepali-Chinese relationship and an attempt to eliminate India’s influence over Nepal, taking into account that India is not part of the OBORI. In the light of these incidents, Nepal’s Prime Minister K. P. Sharma Oli visited China in June 2018 and both leaders went on to sign around 14 bilateral MoUs, covering many significant areas, including energy, economic cooperation, and connectivity.<sup>83</sup> PM Oli’s visit to China came to be widely covered in the Indian media and many Indian foreign policy experts have expressed their concern over Nepali communist parties’ close ties with China. It provoked ambiguous reactions, especially in the context of China’s aggressive posturing in Doklam in the recent past, making India concerned over border security. In 2016,

<sup>77</sup> R. Khanal, “IOC Refuses to Provide Fuel despite Assurances,” *The Kathmandu Post*, 5 October 2015, <http://kathmandupost.ekantipur.com/news/2015-10-05/ioc-refuses-to-provide-fuel-despite-assurances.html>.

<sup>78</sup> Khanal, “IOC Refuses to Provide Fuel despite Assurances.”

<sup>79</sup> “China to provide Nepal oil to ease crisis,” *Gulf Times*, 24 October, 2015, <https://www.gulf-times.com/story/460162/China-to-provide-Nepal-oil-to-ease-crisis>.

<sup>80</sup> Vijith Samarasinghe, “Nepal turns to China for fuel to counter Indian blockade,” *World Socialist Web Site*, 2 November 2015, published by the International Committee of the Fourth International (ICFI), <https://www.wsws.org/en/articles/2015/11/02/npal-n02.html>.

<sup>81</sup> “First Nepalese currency printed by Chinese company successfully delivered,” *People’s Daily Online*, 18 January 2017, <http://en.people.cn/n3/2017/0118/c90000-9168685.html>.

<sup>82</sup> Luedi, “India’s Demonetization Shock Drives Nepal into China’s Arms: GRI.”

<sup>83</sup> “Press Release on the Official Visit of the Prime Minister of Nepal Rt. Hon. KP Sharma Oli to the People’s Republic of China,” *Ministry of Foreign Affairs Nepal*, 21 June, 2018, <https://mofa.gov.np/press-release-on-the-official-visit-of-the-prime-minister-of-nepal-rt-hon-kp-sharma-oli-to-the-peoples-republic-of-china/>.

China and Nepal signed a protocol to operationalise the Transit and Transport Agreement (TTA); this came into effect in February 2020. Through this new protocol, Nepal can now access Chinese seaports and three Chinese dry ports for the third-country trade.<sup>84</sup>

Nepal's proximity to China raised many questions and debates among Indian diplomats and academics. While Prof. B. C. Upreti<sup>85</sup> argues that Nepal is using China as a pressure tactic against India, India's former ambassador to Nepal Krishna V. Rajan has observed that this development is another display of Nepali political parties using anti-India rhetoric to gain political mileage.<sup>86</sup>

## Conclusions

Since 2015, relations between India and Nepal have deteriorated. This has been almost singularly self-inflicted by India, which has degraded its approach towards its neighbours in general. It can also be argued that the Indian government's policies which have strained the India–Nepal relationship are part of India's ruling party's domestic strategy to win elections, whereby the neighbouring countries have been mere sacrifices.<sup>87</sup>

Former diplomat and foreign policy expert S. D. Muni expressed his displeasure with India's approach toward Nepal by saying that "the bigger message from Nepal was that the Nepalese are asserting themselves and the old framework of special relations is gone completely."<sup>88</sup> In this context, there is a consensus among academics and diplomats alike that the Indian government should have handled the Nepali issue more sensibly. Also, one cannot ignore the fact that with about 65% of the Nepali population being young, the old cultural and traditional ties with the neighbours do not tower the aspirations of the youth.<sup>89</sup> One can also argue that the idea of sovereignty and dignity emerges above both familial and cultural ties. Nepal's PM K. P. Sharma Oli famously stated that "Any country can be big or small in size or population ... but nationality cannot be smaller or greater. All countries should get equal opportunity to exercise their sovereignty."<sup>90</sup>

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<sup>84</sup> Megha Gupta, "Should India be concerned about Nepal China transit protocol," *Observer Research Foundation (ORF)*, 29 January, 2020, <https://www.orfonline.org/expert-speak/should-india-be-concerned-about-nepal-china-transit-protocol-60863/>.

<sup>85</sup> B.C. Upreti, "India-Nepal Relations: Complexities, Misperceptions and Irritants," *Indian Foreign Affairs Journal* 11, No. 2 (April–June 2016): 108.

<sup>86</sup> Krishna V. Rajan, "Nepal Today: Bad Politics Trumps Good Economics," *Indian Foreign Affairs Journal* 11, No. 2 (April–June 2016): 95.

<sup>87</sup> Shiwakoty, "Nearly 3 Years Later, Nepal Contends With the Consequences of Indian Demonetization."

<sup>88</sup> Manash Pratim Bhuyan, "Nepalese domestic politics, India's complacency, backing by China drove Nepal to escalate border row: Experts," *Outlook*, 15 June, 2020, <https://www.outlookindia.com/newscroll/nepalese-domestic-politics-indias-complacency-backing-by-china-drove-nepal-to-escalate-border-row-experts/1866321>.

<sup>89</sup> Bhuyan, "Nepalese domestic politics, India's complacency." Thapliyal, "India and Nepal Relations."

<sup>90</sup> Birat Anupam, "5 Factors Driving Anti-India Sentiment in Nepal," *The Diplomat*, 18 June, 2020, <https://thediplomat.com/2020/06/5-factors-driving-anti-india-sentiment-in-nepal/>.

Many political analysts and economists have criticised the demonetisation, which was a failed experiment that not only cost people their lives and fortunes, but also affected the neighbouring countries: Nepal, Bhutan, and Bangladesh.<sup>91</sup> Despite many assurances, the Indian government has failed to provide a tangible solution to demonetisation. One of the major reasons for India's refusal to take back the demonetised notes is domestic political pressure rather than economic pressure.

Finally, while China has been steadfast in creating initiatives to enter the South Asian region – clearly manifested through the building of ports in Sri Lanka, politically intervening in Maldives, etc. – contemporary Indian foreign policy is yet to come up with any concrete plan for its neighbours, harming India's interest in the region. In this changing political and geopolitical situation, India's short-sighted policy of pushing its long-time political partners such as Nepal towards China must become a matter of concern for both India's security and its economic progress. Even though Nepal's political establishment has wanted to maintain a safe distance from both powers in terms of geography and cultural and linguistic affinity, Nepal's citizens still prefer India over China.

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<sup>91</sup> Dhanonjoy Kumar and Md Rahman, "Demonetization of Indian Currency and its Impact on Bangladesh," 2019, *ResearchGate*, [https://www.researchgate.net/publication/338609198\\_Demonetization\\_of\\_Indian\\_Currency\\_and\\_its\\_Impact\\_on\\_Bangladesh](https://www.researchgate.net/publication/338609198_Demonetization_of_Indian_Currency_and_its_Impact_on_Bangladesh). Khatiwada, "Nepal Bans Indian Currency Notes of Rs 200, Rs 500 and Rs 2000."