

INTELLECTUAL INCEPTION: A Multidisciplinary Research

Journal of Bhojpur Campus

(Peer Reviewed)

ISSN: 2990-7934, Volume 4, Issue 1, July 2026, pp 12-32

Published by Research Management Cell (RMC), Bhojpur Multiple Campus, Bhojpur

E-mail: rmcbhojpur@gmail.com

Navigating the Himalayan Waters: Nepal's Foreign Policy Between India and China

Chakra Bahadur Karki

PhD Scholar, Sociology, Tribhuvan University

ORCID: <https://orcid.org/0009-0000-5167-0184>

Article History: Submitted 24 April 2026; Reviewed 20 June 2026; Revised 21 July 2026

Corresponding Author: Chakra Bahadur Karki, Email: chakrakarki333@gmail.com

DOI: <https://doi.org/10.3126/iimrjbc.v4i1.97835>

Abstract

Situated between India and China, Nepal occupies one of the world's most strategically significant geopolitical spaces, where its foreign policy is shaped by asymmetric dependence and intensifying great-power rivalry. This study examines how Nepal has navigated these dynamics from the 1950 Treaty of Peace and Friendship to the contemporary Indo-Pacific era, with particular emphasis on the post 2015 period. It explores how critical junctures including the 1950 Treaty, the 2015 border blockade, and China's Belt and Road Initiative (BRI) have reshaped Nepal's foreign policy and investigates the diplomatic, economic, and infrastructural strategies employed to maintain strategic autonomy while balancing relations with both neighbors. The study adopts a qualitative single-case research design using process tracing and thematic content analysis. Data are drawn from bilateral treaties, diplomatic communiques, government policy documents, parliamentary debates, economic statistics, and peer-reviewed literature covering 1950 to the present. The analysis is guided by the concepts of strategic hedging, issue-based alignment, and critical junctures. The findings show that Nepal is neither a passive buffer state nor an equidistant actor but a pragmatically adaptive small state that strategically hedges between India and China. While India remains Nepal's dominant economic and transit partner, Nepal has increasingly engaged China through transit diversification, infrastructure connectivity, and BRI cooperation to broaden its strategic options. However, domestic political instability, economic dependence, and regional security competition continue to constrain its policy autonomy. The study concludes that Nepal's foreign policy resilience depends on institutionalizing balanced engagement, strengthening domestic capacity, and converting geopolitical competition into opportunities for sustainable development. It contributes to small-state foreign policy scholarship by

demonstrating that strategic hedging represents an adaptive strategy for managing asymmetric geopolitical relationships.

Keywords: Nepal foreign policy; India-China rivalry; Small-state diplomacy; Strategic Hedging; buffer state; Himalayan geopolitics; Belt and Road Initiative.

Introduction

The contemporary international system is increasingly characterized by intensifying great-power competition, shifting regional orders, and the growing strategic significance of geographically vulnerable states. The diffusion of global power, particularly the rise of China alongside the continued influence of the United States and regional powers such as India, has transformed many peripheral regions into arenas of geopolitical contestation. In this evolving strategic landscape, small states are no longer viewed merely as passive objects of international politics but as actors capable of exercising varying degrees of agency despite structural constraints. Their foreign policy choices are shaped by the constant challenge of safeguarding sovereignty, promoting economic development, and maintaining security while navigating relationships with more powerful neighbors. Consequently, the foreign policy behaviour of small states has become an increasingly important area of inquiry in International Relations (IR), particularly in regions marked by asymmetric power distributions.

Classical realist and neorealist theories portray small states as materially constrained actors whose foreign policy options are largely determined by the distribution of power in the international system (Waltz, 1979; Walt, 1987). From this perspective, weaker states generally respond to external threats by balancing against dominant powers or band wagoning with them to ensure survival. However, subsequent scholarship has questioned these deterministic assumptions by demonstrating that small states possess greater strategic flexibility than traditionally acknowledged. Keohane (1969). argued that even states with limited material capabilities can exercise influence through international institutions and diplomatic engagement, while Fox (1959), Katzenstein (1985), and Hey (2003). emphasized that domestic institutions, economic openness, and diplomatic specialization often enhance the international leverage of small states. More recent contributions by Thorhallsson (2012, 2018) and Long (2017). further demonstrate that small states frequently exploit international norms, multilateral organizations, and strategic partnerships to maximize autonomy within structurally unequal environments.

One of the most influential concepts emerging from contemporary small-state scholarship is **strategic hedging**. Rather than choosing between balancing and band wagoning, hedging enables states to cultivate cooperative relationships with competing

powers simultaneously while avoiding exclusive alignment with either side (Goh, 2005; Kuik, 2016). Hedging reduces strategic risks by diversifying political partnerships, trade relationships, infrastructure investments, and security cooperation. It has become particularly relevant in Asia, where many states seek to benefit economically from China's rise while preserving long-standing political and security relationships with other regional powers. Related concepts such as strategic autonomy, issue-based alignment, omni-enmeshment, and multi-vector diplomacy similarly emphasize that small states increasingly pursue pragmatic and flexible foreign policies instead of rigid alliance commitments (He & Feng, 2012; Emmers, 2018). These approaches challenge the conventional assumption that asymmetry necessarily eliminates the foreign policy agency of weaker states.

The Himalayan region represents one of the most important geopolitical theatres in which these theoretical debates unfold. Historically regarded as a natural buffer separating South and East Asia, the Himalayas have evolved into a strategically contested space shaped by expanding connectivity, economic integration, border disputes, and infrastructure competition. Since the 1962 Sino-Indian War, relations between India and China have combined economic cooperation with persistent strategic rivalry, particularly along their disputed Himalayan frontier (Garver, 2001; Ganguly & Scobell, 2005). More recently, China's Belt and Road Initiative (BRI), India's Neighbourhood First policy, and competing Indo-Pacific strategic visions have intensified geopolitical competition across South Asia (Mohan, 2018; Small, 2020). Consequently, Himalayan states increasingly occupy positions of considerable strategic importance as both Beijing and New Delhi seek to strengthen their political, economic, and infrastructural influence throughout the region.

Within this broader geopolitical setting, Nepal provides a particularly compelling case for examining the foreign policy behaviour of small states under conditions of asymmetric great-power rivalry. Landlocked between India and China, Nepal has historically pursued an independent foreign policy while simultaneously confronting significant structural constraints arising from geography, trade dependence, transit vulnerability, and economic interdependence. For much of the twentieth century, Nepal's external relations were predominantly influenced by India through the 1950 Treaty of Peace and Friendship, extensive cross-border economic integration, open borders, labour migration, and deep cultural ties (Rose, 1971; Muni, 2003). Although these connections have provided substantial economic opportunities, they have also generated recurring debates concerning sovereignty, policy autonomy, and unequal interdependence (Khadka, 1997; Baral, 2018)

The regional strategic environment changed significantly during the twenty-first century as China's economic and diplomatic engagement with Nepal expanded rapidly. Investments in cross-border infrastructure, energy cooperation, transport connectivity, and

the signing of the 2016 Transit Transport Agreement and the 2017 Belt and Road Initiative Memorandum of Understanding offered Nepal opportunities to diversify its external partnerships and reduce excessive dependence on India (Murton, 2019; Sharma, 2019). The unofficial border blockade following Nepal's 2015 Constitution further accelerated this policy reorientation by exposing the vulnerabilities associated with reliance on a single transit partner (Adhikari, 2016). Since then, Nepal has increasingly pursued a pragmatic strategy of engaging India and China simultaneously while attempting to preserve strategic autonomy and avoid becoming aligned exclusively with either power.

Existing scholarship has generated important insights into Nepal's evolving foreign policy. Early studies largely interpreted Nepal as a classical buffer state constrained by Indian strategic interests (Rose, 1971), whereas subsequent analyses examined the asymmetric nature of Nepal-India relations (Muni, 2003; Baral, 2018). More recent research has focused on China's growing presence, infrastructure diplomacy, and the implications of the Belt and Road Initiative (Murton, 2019; Sharma, 2019). Other scholars have emphasized Nepal's transition from a buffer state to a potential bridge state (Bhattarai, 2020), while Jha (2021) argues that Nepal increasingly practices issue-based alignment by cooperating with India on security and labour mobility while engaging China on infrastructure and connectivity. Constructivist perspectives further suggest that Nepal's emphasis on non-alignment, sovereignty, and national independence reflects an actively constructed foreign policy identity rather than merely a structural necessity (Acharya, 2014; Pande, 2017)

Despite these valuable contributions, three important gaps remain. First, relatively few studies systematically integrate contemporary theories of small-state foreign policy particularly strategic hedging with Nepal's long-term foreign policy evolution. Second, existing research often examines major diplomatic episodes, including the 1950 Treaty, the 2015 blockade, and the Belt and Road Initiative, as isolated events rather than tracing the causal processes linking these critical junctures over time. Third, limited attention has been devoted to explaining how structural constraints and domestic political agency interact to shape Nepal's foreign policy across diplomatic, economic, and infrastructural dimensions.

Addressing these gaps, this article examines how Nepal has navigated the strategic competition between India and China from 1950 to the present, with particular emphasis on the post-2015 period. Drawing upon process tracing and qualitative analysis of treaties, official documents, economic data, and diplomatic engagements, the study investigates how critical junctures have reshaped Nepal's foreign policy calculus and evaluates the effectiveness of strategic hedging and issue-based alignment as instruments of small-state diplomacy. In doing so, the article contributes to the literature on small-state foreign policy by demonstrating that Nepal is neither a passive buffer nor a fully autonomous balancer, but

a pragmatically adaptive state that continually negotiates opportunities and constraints within an increasingly competitive Himalayan geopolitical order.

This article seeks to analyze the key historical junctures and strategic tools shaping Nepal's foreign policy toward India and China, assess the structural constraints and enabling factors that determine Nepal's policy space, and to contribute to small-state foreign policy theory by evaluating Nepal's hedging and issue-based alignment strategies in the context of Sino-Indian rivalry. It attempts to explore the following research questions: - How does Nepal navigate its foreign policy between India and China, and what strategies does it employ to preserve sovereignty and promote national interests amidst great power competition?

These primary questions leads to other questions such as: - how have critical junctures such as the 1950 treaty, the 2015 blockade, and the Belt and Road Initiative reshaped Nepal's foreign policy calculus? (2) What diplomatic, economic, and infrastructural tools does Nepal use to hedge against over-dependence on either neighbor, and how effective are these tools? (3) To what extent do existing International Relations theories explain Nepal's foreign policy behavior, and what refinements are needed to account for small-state agency in asymmetric dyads?

Materials and Methods

This study employs a qualitative, single-case research design with process tracing as its primary analytical technique. Nepal represents a "crucial case" for testing theories of small-state foreign policy under great power rivalry (Eckstein, 1975; George & Bennett, 2005). Qualitative methods are suited to uncover causal mechanisms and strategic sequencing over time (Bennett & Checkel, 2015). The study covers 1950 to the present, with intensified focus on the post-2015 era as a critical juncture (Capoccia & Kelemen, 2007; Adhikari, 2016)

Data are drawn from three categories. First, bilateral treaties and agreements between Nepal and India (including the 1950 Treaty of Peace and Friendship), and between Nepal and China (including the 2016 Transit Transport Agreement and 2017 Belt and Road Initiative. Memorandum of Understanding), along with diplomatic communiqués, Ministry of Foreign Affairs white papers, and Constituent Assembly debates (Hachhethu, 2018). Second, economic data from the World Bank, IMF, Nepal Rastra Bank, and Indian and Chinese commerce ministries to calculate trade dependency ratios (Keohane & Nye, 2012). Third, peer-reviewed literature and news sources including The Kathmandu Post and The Diplomat for tracking post 2015 events.

The theoretical framework operationalizes three concepts. *Hedging* is a strategy where a small state pursues risk reducing arrangements with multiple great powers without fully committing to either (Kuik, 2016; Goh, 2005) *Issue-based alignment* captures context-dependent cooperation with India on some issues and China on others (Jha, 2021). Critical

juncture refers to moments of significant change with lasting effects, with the 2015 blockade treated as such (Capoccia & Kelemen, 2007)

Process tracing establishes causal links between events and outcomes (Beach & Pedersen, 2019), applying smoking-gun, hoofprint, and straw-in-the-wind tests to episodes including the 2015 blockade and the 2016 Transit Transport Agreement. Thematic content analysis follows Braun and Clarke (2006), using codes such as "hedging," "sovereignty discourse," and "dependency acknowledgment" applied manually to textual materials. Economic data are analyzed using descriptive statistics including the Herfindahl-Hirschman Index for trade concentration, with no inferential statistics used as the study aims for analytical generalization to theory (Yin, 2018)

Limitations include restricted access to classified correspondence, absence of elite interviews due to resource constraints, and focus on policy outputs rather than implementation outcomes. As only publicly available documents are used and no human subjects are involved, formal ethical approval was not required.

Result

Process tracing identified the **2015 border blockade** as the principal critical juncture in Nepal's contemporary foreign policy. Before 2015, Nepal's trade, transit, and energy security were overwhelmingly dependent on India under the framework of the **1950 Treaty of Peace and Friendship**. Government policy documents and parliamentary debates during this period emphasized maintaining close bilateral relations with India while limiting engagement with China. Following the blockade, Nepal adopted a more diversified foreign policy by signing the **Transit Transport Agreement (2016)** and the **Belt and Road Initiative (BRI) Memorandum of Understanding (2017)** with China. These agreements prioritized transport connectivity, infrastructure development, energy cooperation, and trade facilitation, reflecting a shift toward expanding Nepal's external partnerships.

Analysis of Ministry of Foreign Affairs statements, bilateral communiqués, and official agreements indicates that references to connectivity, diversification, strategic partnership, and economic cooperation increased significantly after 2015. Chinese-supported initiatives, including the proposed Kerung–Kathmandu railway, road upgrading, hydropower development, airport modernization, and cross-border transport connectivity, became increasingly prominent in Nepal's development agenda. However, implementation remained uneven. While several feasibility studies, technical agreements, and financing negotiations were completed, many flagship BRI projects remained at the planning stage, indicating that policy commitments exceeded implementation outcomes.

Thematic analysis identified three principal instruments through which Nepal sought to reduce dependence on either neighbour: **diplomatic diversification, economic diversification, and infrastructure diplomacy**. Diplomatic records show that Nepal maintained regular high-level engagement with both India and China throughout the study period. Official foreign policy consistently reaffirmed the **One China Policy**, while simultaneously recognizing Nepal's unique historical, cultural, economic, and security relationship with India. Policy documents further demonstrate Nepal's continued commitment to non-alignment, sovereign equality, and peaceful coexistence without entering formal military alliances.

Economic evidence reveals persistent asymmetry in Nepal's external relations. India remained Nepal's largest trading partner, accounting for the majority of merchandise trade, petroleum imports, and third-country transit. Open-border labour mobility and remittance-related linkages further reinforced Nepal's economic integration with India. Although trade with China expanded steadily after 2015, particularly through increased imports, investment commitments, and infrastructure financing, Nepal's exports to China remained comparatively limited. Trade concentration analysis therefore indicates modest diversification but no fundamental reduction in Nepal's structural dependence on Indian markets and transit facilities.

Infrastructure emerged as the most visible component of Nepal's diversification strategy. India continued implementing cross-border railway projects, integrated check posts, electricity transmission lines, petroleum pipelines, and road connectivity, while China prioritized transport corridors, airports, hydropower projects, highways, dry ports, and the proposed trans-Himalayan railway. Government planning documents consistently presented these initiatives as complementary mechanisms for enhancing connectivity and reducing vulnerability to supply disruptions.

Content analysis further identified clear variation across policy sectors. Security cooperation including border management, military collaboration, intelligence sharing, disaster response, and Gurkha recruitment remained predominantly oriented toward India. Conversely, infrastructure development, transport connectivity, and investment increasingly involved China through the BRI and related agreements. Trade policy reflected a mixed pattern, as Nepal actively pursued diversification while India continued to dominate actual trade flows because of geographic proximity, established transport networks, and lower transaction costs.

Despite expanding diplomatic engagement, several structural constraints persisted. Nepal remained heavily dependent on Indian transit routes for third-country trade, while

petroleum imports continued to originate almost entirely from India. In addition, labour migration and cross-border social interactions remained concentrated toward India. Document analysis also identified domestic political instability, bureaucratic delays, financing constraints, land acquisition disputes, and limited institutional capacity as major factors slowing implementation of infrastructure projects financed by both neighbours.

Overall, the findings demonstrate that Nepal expanded engagement with China after 2015 without abandoning its long-standing relationship with India. Foreign policy behaviour varied across issue areas, with India remaining dominant in security, labour, and transit, and China becoming increasingly important in infrastructure and connectivity. Although Nepal diversified selected diplomatic and economic partnerships, implementation progressed more slowly than policy commitments, and significant structural dependence on India persisted throughout the study period.

Discussion

This study sought to explain how Nepal has navigated the strategic competition between India and China and how critical junctures have shaped its foreign policy behaviour over time. The findings demonstrate that Nepal's foreign policy has evolved through a series of incremental adjustments rather than abrupt strategic realignments. Among the historical events examined, the **1950 Treaty of Peace and Friendship**, the **2015 border blockade**, and the subsequent **Belt and Road Initiative (BRI)** engagement emerged as the most influential milestones in reshaping Nepal's foreign policy calculus. These findings reinforce the importance of historical path dependency while illustrating how external shocks can create opportunities for strategic adaptation by small states.

The findings strongly support the argument that the 2015 blockade constituted a **critical juncture**, confirming the observations of Adhikari (2016). that the disruption fundamentally altered Nepal's perceptions of external vulnerability. Prior to 2015, Nepal's relationship with India was characterised by what Khadka (1997). described as **embedded hegemony**, in which India's dominant political, economic, and security position was largely accepted as an unavoidable consequence of geography. Although periodic disagreements occurred over border management, trade, and constitutional politics, Nepal's external policy remained firmly anchored within an India-centric framework. The blockade, however, exposed the risks associated with excessive dependence on a single transit partner and demonstrated that economic interdependence could become a source of political vulnerability. Rather than merely disrupting trade and fuel supplies, the blockade reshaped Nepal's strategic thinking by encouraging policymakers to actively seek alternative diplomatic and economic partnerships.

The study further demonstrates that Nepal's engagement with China after 2015 should not be interpreted as a strategic shift away from India but rather as a deliberate effort to diversify external options. The signing of the Transit Transport Agreement in 2016 and Nepal's accession to the Belt and Road Initiative in 2017 represented important policy responses to the vulnerabilities revealed during the blockade. These findings are consistent with Murton's (2019). argument that infrastructure diplomacy has become an increasingly important instrument of Nepal's foreign policy. However, the present study extends this interpretation by showing that the significance of these agreements lies not only in their developmental potential but also in their diplomatic function. Participation in Chinese connectivity initiatives enhanced Nepal's bargaining position by signalling that India no longer represented the country's only viable external partner.

Nevertheless, the findings challenge interpretations that portray Nepal's post-2015 foreign policy as a fundamental geopolitical realignment towards China. Scholars such as Bhattarai (2020). have argued that Nepal is evolving from a traditional **buffer state** into a **bridge state**, capable of connecting South and East Asia through expanded infrastructure and economic cooperation. While the empirical evidence supports the emergence of broader diplomatic engagement with China, it does not indicate a corresponding transformation in Nepal's structural dependence. Trade, transit, petroleum supply, labour mobility, and deep socio-cultural linkages continue to bind Nepal overwhelmingly to India. Consequently, the findings suggest that Nepal has diversified its diplomatic relationships without fundamentally altering the structural foundations of its foreign policy.

This conclusion also contributes to the growing literature on India - China competition in South Asia. Pant and Joshi (2016) argue that strategic rivalry between New Delhi and Beijing creates opportunities for smaller states by generating a competitive "bidding dynamic," in which both powers seek to expand their influence through economic cooperation, infrastructure investment, and diplomatic engagement. The evidence presented in this study largely supports this proposition. Chinese investment commitments, infrastructure proposals, and expanded diplomatic engagement have provided Nepal with greater negotiating leverage in its relations with India. At the same time, India has intensified connectivity projects, cross-border energy cooperation, and transport initiatives, partly in response to China's expanding regional presence. Nepal has therefore benefited from increased external attention and investment opportunities arising from regional geopolitical competition.

However, the findings also demonstrate that the benefits of this competitive environment remain constrained by implementation challenges. Many high-profile infrastructure initiatives announced after 2015 including the trans-Himalayan railway and

several major BRI projects have progressed slowly because of financial, technical, administrative, and political obstacles. This finding supports Acharya's (2014) broader argument that small-state agency should not be evaluated solely through diplomatic rhetoric or foreign policy declarations. While Nepal has successfully expanded its diplomatic choices, translating these choices into tangible economic and infrastructural outcomes remains considerably more difficult. The persistent gap between policy commitments and implementation therefore represents one of the defining characteristics of Nepal's contemporary foreign policy.

The findings further suggest that Nepal's strategic behaviour is better understood as **adaptive continuity** rather than strategic transformation. Existing scholarship often presents Nepal's foreign policy as oscillating between India and China, implying periodic shifts in geopolitical orientation. The evidence generated by this study indicates a more nuanced pattern. Nepal has neither abandoned its long-standing relationship with India nor embraced China as a replacement strategic partner. Instead, it has sought to expand its diplomatic space while carefully avoiding exclusive alignment with either neighbour. This gradual adjustment reflects a pragmatic response to changing regional circumstances rather than a wholesale reorientation of national foreign policy.

Overall, the findings indicate that the evolution of Nepal's foreign policy since 2015 reflects the interaction of historical continuity and strategic adaptation. The 1950 Treaty continues to shape the structural context of Nepal–India relations, while the 2015 blockade and subsequent engagement with the Belt and Road Initiative expanded Nepal's diplomatic options without eliminating its underlying dependence on India. Rather than representing a departure from Nepal's traditional foreign policy, these developments illustrate how a small state can exploit critical junctures to widen its strategic choices while remaining constrained by enduring geopolitical realities. This interpretation provides an important foundation for understanding the diplomatic instruments and strategic hedging mechanisms discussed in the following section.

The second objective of this study was to examine the diplomatic, economic, and infrastructural instruments Nepal employs to hedge against excessive dependence on either India or China and to assess the effectiveness of these strategies. The findings indicate that Nepal has adopted a multidimensional hedging strategy centred on diplomatic diversification, infrastructure diplomacy, economic engagement, and selective issue-based cooperation. However, the effectiveness of these instruments varies considerably across sectors. While Nepal has expanded its diplomatic options and increased its bargaining leverage, the evidence suggests that these strategies have only partially reduced the country's structural dependence on India.

The findings provide strong support for contemporary scholarship that views **hedging** as an increasingly preferred strategy for small states operating in regions characterized by great-power competition. Goh (2005). argues that hedging enables states to avoid choosing between competing powers by simultaneously pursuing cooperation with multiple actors. Similarly, Kuik (2016) conceptualizes hedging as a policy of cultivating alternative partnerships while deliberately avoiding exclusive alignment. Nepal's post-2015 foreign policy closely reflects these characteristics. Rather than balancing against India or band wagoning with China, Nepal has expanded economic and diplomatic engagement with Beijing while maintaining close security, economic, and socio-cultural relations with New Delhi. This dual engagement demonstrates that Nepal's foreign policy is neither neutral nor equidistant but strategically diversified according to national interests.

At the diplomatic level, the findings reveal that Nepal has consistently maintained high-level political engagement with both neighbouring countries. Official visits, bilateral consultations, and ministerial dialogues demonstrate deliberate efforts to reassure both India and China of Nepal's commitment to friendly relations. Nepal has also continued to uphold the One China Policy while simultaneously reaffirming the special relationship with India based on open borders, historical ties, and extensive people-to-people connections. These findings support Jha's (2021). argument that Nepal increasingly practices **issue-based alignment**, whereby cooperation varies across policy domains rather than reflecting a comprehensive strategic orientation toward one power. Instead of attempting strict equidistance, Nepal selectively aligns its foreign policy according to the nature of individual issues.

The evidence also suggests that diplomatic diversification has increased Nepal's bargaining capacity. China's growing political and economic engagement has provided Kathmandu with greater leverage during negotiations with India, particularly regarding transit, connectivity, and infrastructure development. This finding is consistent with Pant and Joshi's (2016). proposition that competition between major powers creates opportunities for smaller states to negotiate more favourable outcomes. Nepal's ability to engage both India and China has expanded its diplomatic room for manoeuvre, allowing it to pursue development partnerships without formally abandoning its long-standing relationship with either neighbour. Nevertheless, this bargaining advantage should not be overstated. The study found that Nepal's diplomatic flexibility remains constrained by geography, economic interdependence, and the practical realities of transit dependence.

Infrastructure diplomacy represents the second major component of Nepal's hedging strategy. Consistent with Murton's (2019) concept of **infrastructural hedging**, Nepal has pursued simultaneous connectivity projects with both India and China. Chinese-supported

initiatives, including the proposed Kerung-Kathmandu railway, cross-border highways, airports, and hydropower projects, have complemented Indian investments in integrated check posts, petroleum pipelines, electricity transmission lines, rail connectivity, and road networks. Rather than viewing these projects as mutually exclusive, successive Nepali governments have presented them as complementary components of national development. This finding illustrates that infrastructure has become both an economic resource and a diplomatic instrument through which Nepal seeks to diversify external partnerships while enhancing long-term strategic autonomy.

However, the findings also reveal important limitations to infrastructure hedging. Although numerous agreements have been signed, implementation has progressed slowly because of financing constraints, bureaucratic delays, technical challenges, environmental clearances, and domestic political instability. Consequently, there remains a significant gap between diplomatic commitments and actual infrastructure outcomes. This finding extends Murton's argument by demonstrating that the effectiveness of infrastructure diplomacy depends not only on international partnerships but also on domestic institutional capacity. Without stronger implementation mechanisms, infrastructure agreements are unlikely to produce the level of diversification anticipated by policymakers.

Economic diversification has similarly produced mixed outcomes. Trade with China has expanded steadily since 2015, accompanied by increased Chinese investment commitments in infrastructure, energy, and tourism. Nevertheless, India continues to dominate Nepal's trade, transit, and energy supply. The study found that merchandise trade remains heavily concentrated with India, petroleum imports continue to originate almost entirely from Indian suppliers, and labour mobility across the open border remains central to Nepal's economy. These findings reinforce Keohane and Nye's (2012). concept of **asymmetric interdependence**, whereby economic relationships create unequal patterns of vulnerability. Although Nepal has diversified selected economic partnerships, India retains substantially greater capacity to influence Nepal's economic stability than China.

The persistence of these structural asymmetries suggests that Nepal's hedging strategy has been more successful diplomatically than economically. Diplomatic diversification has expanded Nepal's strategic options and reduced perceptions of exclusive dependence on India. In contrast, economic diversification has progressed at a much slower pace because geography, existing infrastructure, market integration, and transaction costs continue to favour India. This finding partly challenges optimistic assessments that portray Nepal as rapidly reducing its dependence through Chinese connectivity initiatives. Instead, the evidence suggests that diversification has occurred incrementally rather than transformationally.

Another important finding concerns the role of domestic politics in shaping the effectiveness of hedging. Existing studies often emphasize external geopolitical competition while giving less attention to internal institutional constraints. The findings of this study demonstrate that bureaucratic inefficiency, frequent government changes, policy discontinuity, land acquisition disputes, and administrative capacity significantly influence the implementation of foreign policy commitments. Consequently, Nepal's strategic autonomy depends not only on successfully balancing external relationships but also on strengthening domestic governance institutions capable of translating diplomatic agreements into tangible outcomes.

Overall, the findings indicate that Nepal's hedging strategy has expanded diplomatic flexibility without fundamentally transforming the country's structural position within the regional political economy. Diplomatic diversification, infrastructure cooperation, and issue-based alignment have increased Nepal's room for manoeuvre and enhanced its bargaining capacity, yet they have not eliminated deep economic, transit, and security linkages with India. These findings suggest that the effectiveness of hedging should be evaluated not by whether dependence disappears but by whether small states succeed in increasing policy choices and reducing strategic vulnerability. The following section builds upon this discussion by examining how these empirical findings contribute to broader International Relations theories and what they reveal about the nature of small-state agency under conditions of asymmetric interdependence.

The third objective of this study was to assess the extent to which existing International Relations (IR) theories explain Nepal's foreign policy behaviour and to identify theoretical refinements necessary for understanding small-state agency under conditions of asymmetric interdependence. The findings indicate that no single theoretical perspective adequately captures the complexity of Nepal's foreign policy. Instead, Nepal's experience demonstrates that structural constraints, strategic agency, and identity-based diplomacy operate simultaneously. Accordingly, the study argues that Nepal's foreign policy is best understood through a synthesis of structural realism, liberal institutionalism, constructivism, and contemporary hedging theory rather than through any single explanatory framework.

From a neorealist perspective, the findings strongly confirm that structural factors continue to shape Nepal's foreign policy choices. Waltz (1979). argues that the distribution of material capabilities largely determines the behaviour of states, particularly those with limited power. Nepal's geographical position, landlocked status, dependence on Indian transit routes, and relatively weak economic capacity provide compelling evidence for this argument. Despite increasing engagement with China, the findings demonstrate that India remains Nepal's dominant economic and security partner because of geographic proximity,

open-border arrangements, extensive labour mobility, and deeply institutionalized patterns of economic interdependence. These enduring asymmetries indicate that material realities continue to constrain Nepal's strategic options. In this respect, the study supports realist assumptions that geography and power remain fundamental determinants of foreign policy.

However, the findings also reveal important limitations of structural realism. A purely realist explanation would predict that Nepal would either bandwagon with the dominant regional power or balance against it through formal strategic alignment with a rival. The empirical evidence demonstrates neither outcome. Nepal has not entered a military alliance with China to counterbalance India, nor has it accepted Indian dominance without seeking alternative partnerships. Instead, successive governments have deliberately diversified diplomatic, economic, and infrastructural relationships while preserving cooperative relations with both neighbours. This pattern suggests that structural constraints influence but do not fully determine the foreign policy behaviour of small states. Consequently, Nepal's experience challenges the deterministic assumptions often associated with classical realist interpretations of small-state behaviour.

The findings provide stronger support for contemporary theories of strategic hedging. According to Goh (2005) and Kuik (2016), hedging enables states to minimize risks by engaging multiple competing powers without making exclusive strategic commitments. The evidence generated by this study closely corresponds to this conceptualization. Nepal has simultaneously deepened infrastructure cooperation with China, maintained security and economic cooperation with India, expanded engagement with multilateral development partners, and avoided participation in competing geopolitical blocs. Rather than seeking strict neutrality, Nepal has pursued diversified external relationships that preserve flexibility and reduce the risks associated with excessive dependence on a single partner.

Nevertheless, the study also identifies important limitations in the existing hedging literature. Much of the theoretical development of hedging has been based on the experiences of Southeast Asian states such as Singapore, Malaysia, Indonesia, and Vietnam, whose geopolitical and economic circumstances differ significantly from those of Nepal. Unlike many maritime Southeast Asian countries, Nepal is landlocked and geographically dependent on a dominant neighbouring state for transit access, energy supplies, and labour mobility. Consequently, its strategic choices are constrained by physical geography to a far greater extent than those of many other hedging states. The findings therefore suggest that existing hedging theory requires refinement when applied to highly asymmetric, landlocked states.

To address this limitation, this study advances the concept of **asymmetric hedging**. Unlike conventional hedging, which assumes relatively balanced strategic options among

competing partners, asymmetric hedging describes a situation in which a small state actively diversifies diplomatic and economic relationships while remaining structurally dependent on one dominant neighbour. Under such conditions, diversification increases bargaining power and policy flexibility but does not fundamentally eliminate asymmetrical dependence. Nepal's foreign policy illustrates this pattern clearly. Chinese engagement has expanded Nepal's strategic alternatives and enhanced diplomatic leverage, yet India's central role in trade, transit, energy, labour migration, and security cooperation continues to shape the boundaries within which Nepal exercises foreign policy autonomy. This conceptual refinement extends existing hedging scholarship by highlighting that diversification and dependence can coexist rather than represent mutually exclusive outcomes.

The findings also contribute to constructivist and postcolonial scholarship on small-state foreign policy. Acharya (2014). argues that small states actively construct their foreign policy identities through norms, sovereignty discourse, and regional diplomacy rather than merely responding to material pressures. Nepal's repeated emphasis on sovereign equality, non-alignment, peaceful coexistence, and an independent foreign policy provides strong evidence supporting this perspective. Successive governments have consistently portrayed Nepal as an autonomous actor capable of maintaining friendly relations with all major powers while avoiding formal alignment with any geopolitical bloc. These diplomatic narratives have reinforced Nepal's international identity and strengthened its legitimacy as an independent actor within South Asia.

However, the findings simultaneously demonstrate the limitations of purely constructivist explanations. Although sovereignty discourse has remained remarkably consistent across successive governments, implementation has frequently lagged behind official rhetoric. Major infrastructure projects, economic diversification initiatives, and connectivity agreements have progressed much more slowly than policy declarations initially suggested. This persistent gap between discourse and implementation indicates that identity and diplomatic narratives alone cannot overcome material constraints arising from geography, economic dependence, domestic political instability, and limited institutional capacity. Consequently, Nepal's foreign policy is shaped by the interaction of ideational and structural factors rather than by either dimension independently.

More broadly, the findings contribute to the literature on small-state agency by challenging the traditional characterization of small states as either passive buffers or powerless actors. Earlier scholarship frequently portrayed Nepal as a buffer state caught between India and China, with little capacity to influence regional dynamics. The evidence presented in this study paints a more nuanced picture. Nepal has demonstrated considerable diplomatic agency by exploiting geopolitical competition to diversify infrastructure

partnerships, negotiate alternative transit arrangements, and expand its international engagement. At the same time, this agency remains bounded by enduring structural realities. Nepal cannot fundamentally escape its geographic location or the economic interdependence that has developed over decades with India. Rather than eliminating constraints, Nepal's diplomacy has enabled it to negotiate more effectively within them.

Taken together, these findings suggest that future research on small-state foreign policy should move beyond the traditional dichotomy between structure and agency. Nepal's experience demonstrates that these dimensions are mutually reinforcing rather than mutually exclusive. Structural conditions define the limits of policy choice, while strategic agency determines how effectively small states exploit opportunities within those limits. The concept of **asymmetric hedging** developed in this study offers a framework for understanding this interaction and may be applicable to other landlocked or highly asymmetric states located between competing regional powers.

Overall, this study contributes to International Relations scholarship by demonstrating that Nepal's foreign policy cannot be adequately explained by realism, liberal institutionalism, constructivism, or hedging theory in isolation. Instead, Nepal represents a case of constrained strategic agency, where structural dependence coexists with pragmatic diplomatic innovation. The country's experience illustrates that small states can expand policy autonomy, enhance bargaining leverage, and diversify external partnerships without fundamentally escaping the geopolitical realities imposed by geography and asymmetric interdependence. In doing so, the study refines contemporary understandings of hedging and provides a theoretically grounded explanation of how small states navigate great-power competition in an increasingly contested regional order.

Conclusion

This study examined how Nepal has navigated the strategic competition between India and China by addressing three research questions concerning the impact of critical junctures, the effectiveness of hedging strategies, and the explanatory power of International Relations (IR) theories. The findings demonstrate that Nepal's foreign policy is characterized by pragmatic adaptation rather than strategic realignment, reflecting the complex interaction between structural constraints and diplomatic agency.

The first research question explored how critical junctures, particularly the 2015 border blockade and the Belt and Road Initiative (BRI), reshaped Nepal's foreign policy. The study finds that the 2015 blockade marked a significant turning point by exposing Nepal's vulnerability to excessive dependence on India and encouraging diversification of external partnerships. The subsequent Transit Transport Agreement and BRI cooperation expanded

Nepal's diplomatic and economic options, although they did not fundamentally alter its structural dependence on India.

The second research question examined Nepal's hedging strategies. The findings show that Nepal has employed diplomatic diversification, infrastructure diplomacy, and issue-based alignment to balance relations with its two neighbours. While these strategies have enhanced Nepal's bargaining position and broadened development opportunities, their effectiveness has been constrained by geography, transit dependence, domestic political instability, and limited institutional capacity. Consequently, India continues to dominate Nepal's trade, transit, energy supply, and labour mobility despite growing engagement with China.

The third research question assessed the relevance of existing IR theories. The findings suggest that realism explains Nepal's structural constraints, constructivism captures its emphasis on sovereignty and non-alignment, and hedging theory best explains its pragmatic foreign policy behaviour. However, none of these perspectives independently accounts for Nepal's experience. This study therefore proposes the concept of **asymmetric hedging**, whereby a small state actively diversifies external partnerships while remaining structurally dependent on a dominant neighbour.

Overall, Nepal's foreign policy demonstrates that small states can expand diplomatic space and bargaining leverage without escaping structural asymmetries. The study contributes to the literature on small-state foreign policy by refining hedging theory and highlighting the interaction between strategic agency and enduring geopolitical constraints. Future research should examine how domestic political change and the implementation of connectivity projects influence Nepal's long-term strategic autonomy.

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