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EDITORIAL ANALYSIS

Repairing Ties With Nepal: A Strategy of Two Hands

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Repairing Ties With Nepal: A Strategy of Two Hands

The Indian Express 26 August 2026 GS2

INTERVIEW ANGLE

"Nepal is graduating out of Least Developed Country status, which is formally a development success and economically a shock. Should India help it delay graduation, or help it survive graduation?"

Source: Original editorial ↗ The Indian Express

Every fact web-verified against primary sources

THE LIFT LINE

Nepal is being congratulated for developing and charged for it in the same month. Graduation removes the support before it removes the need.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

India's neighbourhood policy is examined every year, and Nepal is among the most frequently set. The LDC graduation angle supplies a concrete economic mechanism, which most answers on India-Nepal relations lack entirely.

GS Paper 2: India and its neighbourhood relations; bilateral, regional and global groupings; effect of policies of developed and developing countries on India's interests.

CONCEPT	MEANING	WHY IT IS TESTABLE
LDC graduation	Exit from the UN Least Developed Country category on meeting threshold criteria	The mechanism creating Nepal's export shock
Committee for Development Policy (CDP)	The ECOSOC subsidiary body that reviews and recommends graduation	The institution most candidates cannot name
Preference erosion	Loss of competitive advantage when preferential tariff access is withdrawn	The precise harm graduation causes

BACKGROUND AND CONTEXT

How LDC Status Works

ELEMENT	DETAIL
Determining body	Committee for Development Policy (CDP), a subsidiary of ECOSOC
Review cycle	Triennial
Criteria	Per capita income; Human Assets Index; Economic and Environmental Vulnerability Index
Benefits withdrawn on graduation	Preferential and duty-free market access; concessional development finance; certain WTO flexibilities

The paradox is structural: **a country loses support at the moment it is judged to have succeeded**, and the withdrawal is simultaneous rather than phased, which is why deferral requests are common.

Nepal's Position

INDICATOR	FIGURE
Graduation date	24 November 2026
Deferral sought	Three years
Exposed sectors	Garments, textiles, carpets
Tariff increase	Roughly 9 percentage points on apparel where duty-free access lapses; the trade-weighted average rise across all exports is far smaller
Export loss	About 4.3 per cent
Remittances	About USD 15 billion
Foreign exchange reserves	Covering about 18.2 months of imports

The Bilateral Frame

India-Nepal relations rest on the **Treaty of Peace and Friendship of 1950**, which provides for an open border and national treatment for citizens in several respects. The **Eminent Persons Group**, constituted to review the relationship, completed its report but it has **not been formally submitted or accepted**. Nepal is landlocked and dependent on Indian transit, with the **1989 trade and transit impasse** and the **2015 border obstruction** the two episodes that most shape Nepali perception.

THE ANALYSIS

1. Graduation is a success measured as a shock. Nepal is being told it has developed enough to lose the concessions that supported its development, while the industries built under those concessions remain dependent on them. This is a general defect in the LDC category's design, not a Nepali failure.

2. The diagnosis of low investment is the column's sharpest point. Remittances of USD 15 billion and reserves covering 18 months describe an economy that is **liquid but not productive**. Money is arriving and not being converted into capacity. That means a financial package would not address the binding constraint, and market access plus investable projects would.

3. India's comparative advantage is demand, not aid. No distant partner can supply what India can: an adjacent market large enough to make Nepali **hydropower** investable through assured offtake. Power evacuation to India converts Nepal's principal natural endowment into revenue, which is a structural offer rather than a transactional one.

4. The "two hands" framing is strategically literate. Small states adjacent to large ones consistently pursue multiple partnerships to preserve room for manoeuvre. An Indian posture treating Nepali engagement with China as disloyalty **generates** the hedging it seeks to prevent, because it confirms the concern that drives hedging in the first place. Widening Nepal's options is therefore more effective than narrowing them.

5. The counter-argument locates the problem correctly elsewhere. India-Nepal friction has been driven by boundary questions, Madhesi constitutional grievances and the memory of 2015 rather than by insufficient economic engagement. An economic offer that leaves these untouched purchases cooperation on specific transactions without altering the underlying disposition.

DATA AND INSTITUTIONS VAULT

PRELIMS-GRADE FACTS:

LDC graduation is determined by the Committee for Development Policy (CDP), a subsidiary body of ECOSOC, through a triennial review.

The three criteria: per capita income, the Human Assets Index, and the Economic and Environmental Vulnerability Index.

Nepal's graduation date: 24 November 2026; a deferral to 2029 is sought.

Exposure: garments, textiles, carpets and pashmina. The roughly 9 percentage point rise applies to apparel where duty-free access lapses; the trade-weighted average increase across all exports is much smaller. Overall export loss about 4.3 per cent.

Nepal's remittances about USD 15 billion; reserves covering about 18.2 months of imports.

India-Nepal Treaty of Peace and Friendship, 1950; the Eminent Persons Group report remains unsubmitted.

Nepal is landlocked and dependent on Indian transit.

LDC status is a **United Nations** *category determined by the CDP under ECOSOC, not a* **World Trade Organization** *classification, although WTO agreements grant LDCs specific flexibilities. Also, graduation is* **not** *the same as developed-country status; it moves a country into the general developing-country category.*

THE DEBATE

FOR (India should lead with economics): Nepal's constraint is investment and market access, not liquidity. India uniquely supplies adjacent demand that makes hydropower and manufacturing investable. Widening Nepal's options is more effective than demanding exclusivity, because exclusivity demands generate hedging.

AGAINST (the problem is political, not economic): Friction arises from boundary disputes, Madhesi grievances and the memory of 2015. Investment without movement on these buys transactions, not trust. Nepal will diversify regardless, because diversification is what small neighbours rationally do.

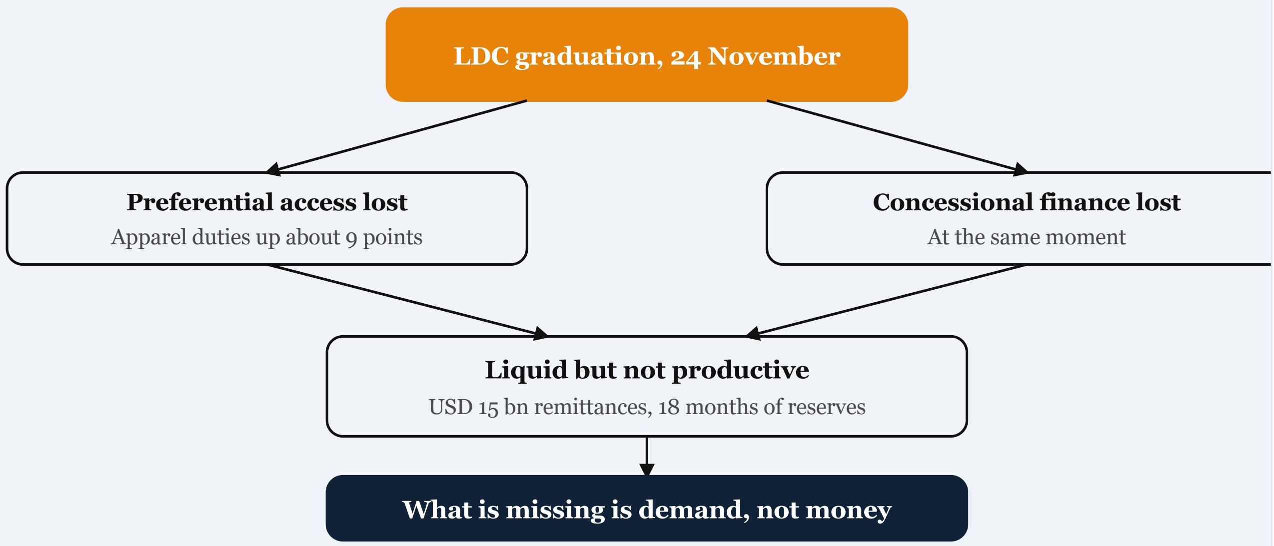
Balanced verdict: Both are describing necessary conditions rather than competing strategies. The economic offer is the instrument India actually possesses and can deploy unilaterally; the political irritants require reciprocal movement and longer time. The practical sequence is to **support Nepal's deferral request at the UN** while **preparing for graduation** through bilateral preferences that survive it, so that India is seen assisting on a problem Nepal did not create. That is a low-cost way to convert an externally imposed shock into evidence of Indian usefulness.

HOW TO THINK ABOUT THIS

When a country's macro indicators look comfortable but its economy performs poorly, distinguish **stock** from **flow** and **liquidity** from **capacity**. Reserves and remittances are stocks and inflows; they say nothing about whether an economy can convert money into productive assets.

Nepal has money and lacks absorption. The policy implication is precise: transfers and credit lines will not help, while anything that raises absorptive capacity, meaning market access, project pipelines, assured offtake and regulatory predictability, will. Making that distinction before recommending a response is what prevents the standard error of prescribing finance for a problem that is not financial.

DIAGRAM-IN-WORDS



Two supports are withdrawn at once from an economy whose problem was never a shortage of funds. That is why India's adjacency, not its aid, is the relevant asset.

TAKEAWAY BOX

Nepal is being congratulated for developing and charged for it in the same month. Graduation removes the support before it removes the need.

LDC graduation determined by the Committee for Development Policy under ECOSOC, triennial review, three criteria (per capita income, Human Assets Index, Economic and Environmental Vulnerability Index); Nepal graduates 24 November 2026 with a deferral to 2029 sought; apparel tariff rise about 9 percentage points where duty-free access lapses, overall export loss about 4.3 per cent; remittances about USD 15 billion; India-Nepal Treaty of Peace and Friendship, 1950; Eminent Persons Group report unsubmitted.

Is it defensible for the international system to withdraw preferential access on a fixed date regardless of whether the graduating economy can absorb the shock?

Connects to past UPSC Mains questions on India's neighbourhood-first policy, on India-Nepal relations, and on China's growing influence in South Asia.

"India's most valuable offer to Nepal is not assistance but adjacency." Critically examine in the context of Nepal's LDC graduation.

Source: Repairing Ties With Nepal: A Strategy of Two Hands — Ujiyari.com | Free UPSC & State PCS Editorial Analysis

KEY ARGUMENTS AT A GLANCE

Writing in The Indian Express, the argument is that Nepal loses Least Developed Country status on 24 November, with a three-year deferral being sought, threatening garments, textiles and carpets, where the loss of duty-free access raises apparel duties by roughly 9 percentage points in key markets, with an overall export loss of about 4.3 per cent, while its deeper problem is low investment despite remittances of about USD 15 billion and foreign exchange reserves covering some 18 months, so India should offer a two-hand strategy of economics and technology that widens Nepal's choices rather than narrowing them.

✓ SUPPORTING

- LDC graduation removes preferential and duty-free market access simultaneously with concessional development finance, so a country loses two forms of support at the moment it is judged to have succeeded, which is a structural feature of the category rather than a Nepal-specific problem.
- Nepal's macro indicators are superficially comfortable, with large remittance inflows and reserves covering some 18 months of imports, yet the binding constraint is that this liquidity is not converting into productive investment, so a purely financial response would not address the actual weakness.
- A strategy framed around expanding Nepal's options rather than securing its exclusivity is more likely to succeed because small states adjacent to large ones consistently seek multiple partnerships, and an approach that treats third-country engagement as disloyalty invites the very hedging it aims to prevent.

⚠ COUNTER

The counter-view is that India's difficulties with Nepal have been political rather than economic, arising from boundary disputes, constitutional grievances of the Madhesi community and the memory of the 2015 border blockade, and that an economic package cannot substitute for addressing those. On this reading, offering investment while the political irritants persist buys transactional cooperation rather than durable alignment, and Nepal will continue to diversify regardless.

→ WAY FORWARD

India should support Nepal's request for a graduation deferral at the United Nations while simultaneously preparing for graduation: extend preferential market access that survives LDC status on a bilateral basis, direct investment into hydropower, transmission and connectivity where Indian demand provides the assured offtake Nepal lacks, and pair this with visible progress on the political irritants so the economic offer is not read as leverage.

MAINS ANSWER FRAMEWORK

QUESTION

Nepal's graduation from Least Developed Country status will remove preferential market access even as its structural constraints persist. Examine the implications for India-Nepal economic relations and suggest a policy response. (250 words)

INTRODUCTION

Nepal is scheduled to graduate from the United Nations category of Least Developed Countries, a formal recognition of development progress that carries an immediate economic cost. Writing in The Indian Express, the argument is that India should respond with a strategy that widens Nepal's economic options rather than one that competes for its exclusive alignment.

BODY

LDC status is determined by the Committee for Development Policy, a subsidiary body of the UN Economic and Social Council, through a triennial review applying three criteria: per capita income, the Human Assets Index and the Economic and Environmental Vulnerability Index. Graduation withdraws the preferential and duty-free market access that LDCs enjoy in many markets, together with access to concessional finance and certain flexibilities under World Trade Organization agreements.

For Nepal the exposure is concentrated in garments, textiles and carpets, where the column places the apparel tariff increase at roughly 9 percentage points in markets where duty-free access lapses, and the consequent overall export loss at about 4.3 per cent, which is why a three-year deferral is being sought. The deeper diagnosis offered is that Nepal's constraint is not liquidity.

Remittances of around USD 15 billion and foreign exchange reserves covering some 18 months of imports indicate an economy with resources that are not being converted into productive capacity, so the missing input is investment, absorptive capacity and market access rather than money. This is where India's comparative advantage lies, since Indian demand can supply the assured offtake that makes Nepali hydropower and manufacturing investable, in a way no distant partner can.

The column's framing of two hands and ten fingers captures the strategic point: Nepal, like most small states adjacent to a large one, seeks multiple partnerships to widen its room for manoeuvre, and an Indian approach that treats engagement with China as defection produces precisely the hedging it seeks to prevent.

CONCLUSION

A balanced answer should register the counter-argument that India-Nepal friction has been political rather than economic in origin, involving boundary questions, Madhesi constitutional grievances and the memory of 2015. An economic offer unaccompanied by movement on those will secure transactions rather than trust.

The strongest position combines support for Nepal's deferral request with bilateral preferences that survive graduation.

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