Bridging the Disconnect: Nepal's Diplomatic Reset

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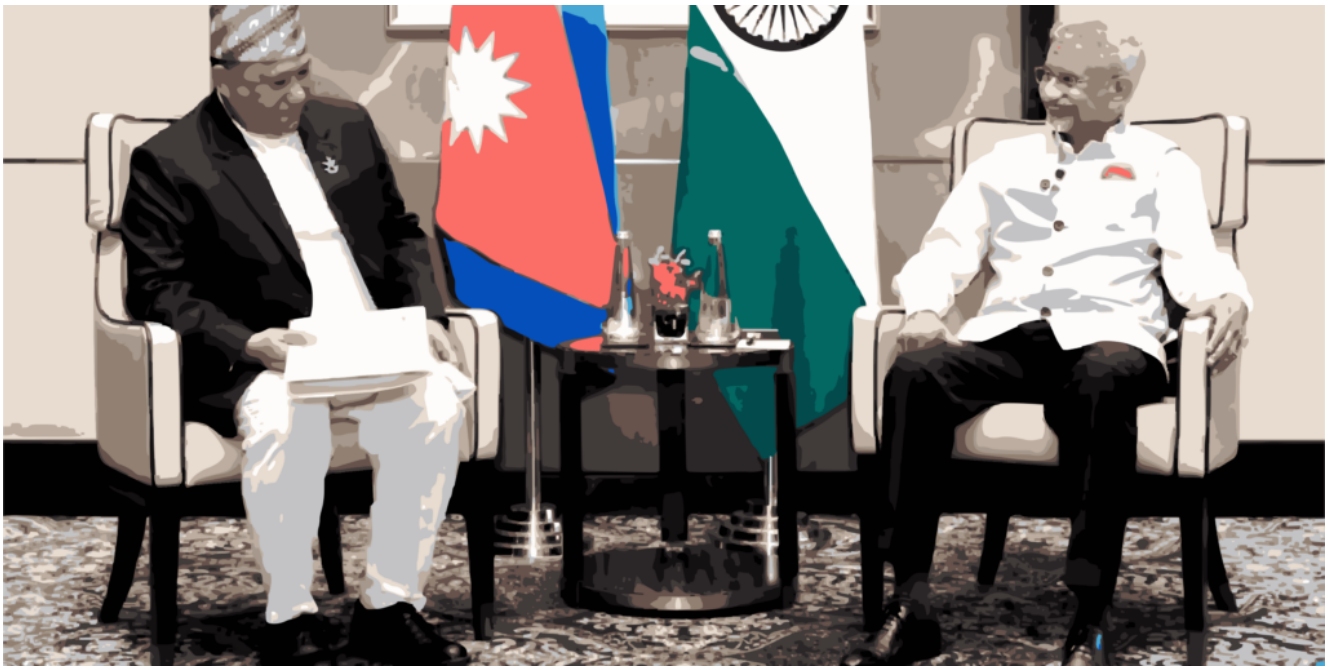

Delhi's Detour

According to Nepalese media reports, on the 10th of June, an Indian military helicopter transporting a high-ranking official (DG of ITBP) encroached into Nepali airspace, the Darchula-Kalapani region, without permission or notification. In doing so, it heightened scrutiny in Nepal of the newly elected government's approach to the 'border dispute' with India. The dispute resurfaced in early May 2026, when India announced the resumption of the Kailash Mansarovar Yatra via the Lipulekh Pass, a route Nepal has long claimed as its own territory. Nepal formally objected, asserting that Limpiyadhura, Lipulekh, and Kalapani, east of the Mahakali River, are integral parts of Nepal under the 1816 Treaty of Sugauli. India rejected the objection as unjustified and lacking a historical basis and proceeded with the yatra.

Against this backdrop, Prime Minister Balen Shah, after imposing a self-declared moratorium on high-level engagements,

refused to meet the Indian Ambassador or the Foreign Secretary, or to travel to India, despite a standing invitation from Prime Minister Modi. This is an unfamiliar position for New Delhi, which has historically managed relations with Nepal through predictable bilateral channels. The current impasse between the two countries is rooted in the Kalapani-Lipulekh border dispute. With PM Shah refusing direct engagement, India has sought alternative entry points into the RSP government.

The Bharatiya Janata Party President Nitin Nabin invited the Rastriya Swatantra Party chairman, Rabi Lamichhane, to visit India. Lamichhane promptly accepted the invitation and arrived in Delhi on 1st June. He met with ministers and dignitaries, including Home Minister Amit Shah, Foreign Minister Jaishankar, National Security Advisor Ajit Doval, Foreign Secretary Vikram Misri, and Prime Minister Modi. Both Modi and Lamichhane described the meeting as having been productive, with Modi reemphasizing India's Neighborhood First policy, and pledging commitment to improving bilateral relations through developmental diplomacy.

In the meeting, Lamichhane conveyed to Modi that the RSP has no political baggage from the past. He emphasized a desire to look beyond historical constraints and narratives, seeking instead to build a partnership based on mutual trust, pragmatic cooperation, and progress. The primary agenda of the meeting was to integrate the two nations' economies rather than simply open their borders. This is planned to be achieved via digital corridors, trade normalization, and streamlined physical connectivity. The discussion touched on the possibility of collaboration in sectors such as IT, sports, religious tourism, and cross-border transit. Prime Minister Modi recommended major capital investments in Nepal's hydroelectric and travel industries, promising to "extend all possible cooperation to [Nepal]" once they "fix [their] priority." Lamichhane also invited Prime Minister Modi to

visit Nepal, and Modi responded positively.

External Affairs Minister Dr. S. Jaishankar also invited the Minister for Foreign Affairs of Nepal, Mr. Shisir Khanal, who arrived in India on the 5th of June. On the 6th of June, the ministers met to review the full spectrum of Nepal-India relations. This included development cooperation, connectivity, trade and transit, energy, and people-to-people ties, and also held a high-level meeting with National Security Advisor Ajit Doval.

One Government, Two Foreign Policies

PM Shah's comments regarding the dispute have caused friction within the ruling party. While Shah governs with candor and idealism that disrupt the established diplomatic convention, the RSP's foreign apparatus is left to do damage control to maintain cordial diplomatic relations. Shah's idealism versus the RSP's need to maintain a careful, consistent foreign policy is quickly becoming one of the RSP's biggest internal challenges, with implications for India-Nepal ties.

Within the RSP, the ministers appointed by Lamichhane posted extensively about his 5-day visit to India. In contrast, Balen Shah and the ministers he appointed have remained silent on this matter. Moreover, the visits by both Lamichhane and Khanal lacked any official discussions on the border dispute. It is speculated that Shah's comments on the dispute stem from his attempt to protect his image as a revolutionary and to break away from the established diplomatic conventions of previous governments. As a leader known for his bold and defiant image, he could face damage to his popularity if he fails to achieve any territorial gains. Since India was unlikely to concede disputed territory, pursuing the issue would be politically risky. Instead, Shah appeared to frame the situation as a mutual dispute, implying that neither side was simply being bullied. However, his comments received massive backlash domestically. Shah's unguarded remarks also

undermined the legitimacy of Nepal's territorial claims, a point likely noted by New Delhi as well. In doing so, Shah conflated two distinct issues: localized cross-border encroachment in demarcated segments and the unresolved territorial dispute over the Limpiyadhura-Lipulekh-Kalapani area, effectively conceding ground on the very claim his government insists remains open.

As a form of damage control, the Foreign Ministry of Nepal issued a statement reassuring the Nepali public that the PM was referring to the Dasgaja area, i.e., no man's land, and cross-border occupation rather than to the unresolved territorial disputes with India. Moreover, the Ministry stated that joint technical teams from both India and Nepal are active along the border to collect data and address encroachment and occupation issues. It reiterated that the government is determined to resolve this dispute through diplomatic channels based on historical treaties, maps, and mutual understanding. India also released a statement saying there is no need for third-party involvement in improving bilateral relations. India's MEA spokesperson, Randhir Jaiswal, attributed the situation to the shifting course of the Gandak river, signaling a willingness to address the dispute over the area of Susta but excluding the disputed area of Kalapani by omission. Incidentally, Nepal's reported approach to the British ambassador to mediate was promptly declined, underscoring that no third party was willing to step into the dispute.

For India, the visit offered reassurance that the RSP government, despite Shah's posturing, is fundamentally interested in improving bilateral relations. Both Lamichhane's and Khanal's visits to New Delhi demonstrated that New Delhi has opened multiple avenues of engagement within the RSP, ensuring that Shah's idealism does not become the sole determinant of bilateral ties. Moreover, New Delhi's magnanimous approach towards Lamichhane indicates that Delhi

may be exploring rival power centers within the new dispensation in Kathmandu.

Regardless of Shah's remarks, Khanal's meeting with Jaishankar yielded notable results. The joint release of the UPI-NPI linkage is particularly important in facilitating economic interdependence between the two countries.

Additionally, on the 15th of June, Nepal resumed its seasonal hydropower supply to Bangladesh, routed through the Indian grid, 40 MW from mid-June to mid-November, with a proposed increase to 60 MW awaiting India's approval. While the volume is modest, the arrangement is the first of its kind in the region and positions India as the indispensable transit hub for South Asian energy trade.

Another important development is the transfer of 72 medical centers and 12 heritage sites, under India's Reconstruction Program. Following the 2015 earthquake that claimed nearly 9,000 lives, India committed substantial reconstruction assistance. The official conclusion of these initiatives marks the end of a prolonged phase in bilateral ties, demonstrating India's commitment to developmental pledges despite shifting political winds. The completion of internal procedures for the India-Nepal Mutual Legal Assistance Agreement in Criminal Matters arguably carries the most long-term weight. This agreement will provide an institutional legal framework to enhance the effectiveness of investigation, prosecution, and judicial proceedings relating to cross-border crimes that bilateral goodwill alone cannot resolve.

Shah's Dilemma, Delhi's Patience

Nepal's Gen Z revolution last year was swift, complete, and highly violent. It has resulted in the young republic retaining its multi-party democracy, prevailing economic structure, and power centers. Notably, it has also led the nation to re-pose great faith in the young incumbent PM, Balen

Shah. Hence, the PM appears to be caught in a dilemma. He is intent on fundamentally altering the business-as-usual status quo through style and some substance, but structural imperatives related to foreign policy and domestic economic conditions are likely to impose strong constraints on his ability to do so. This is particularly acute in an issue that is highly nationalist and populist in nature – the pending settlement of territorial disputes with both India and China.

New Delhi, meanwhile, had adopted a highly conciliatory approach towards Nepal's Gen Z revolution (in contrast to the revolution in Bangladesh) and hopes to maintain bilateral ties on good terms despite the rupture within Nepal. Hence, Delhi is likely to apply a combination of forbearance towards the 'new ways' of the incumbent government, while also guarding against over-exuberance from Kathmandu.