Nepal vs Anti- Corruption

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How does Nepal's Gen Z anti-corruption protest impact its balancing act in the India-China relations?

Abstract

Nepal's Gen Z–led anti-corruption movement culminated in the resignation of Prime Minister K. P. Sharma Oli, marking a watershed moment in the country's political trajectory. Oli's ouster signaled a potential recalibration of Nepal's foreign policy, particularly in its strategic balancing between China and India. Beijing's economic stakes under the Belt and Road Initiative face new uncertainties amid concerns over Nepal's gover-

nance capacity, while New Delhi has responded swiftly to mitigate regional spillover and safeguard its strategic security interests. The appointment of interim Prime Minister Sushila Karki introduces a technocratic leadership whose foreign policy orientation remains to be defined. As Nepal prepares for elections in 2026, its political stability will be pivotal not only for domestic renewal but also for shaping the future dynamics of South Asia's regional security architecture.

Introduction

On 9 September 2025, Nepal's Gen Z–led anti-corruption movement reached a dramatic climax. What began as youth-driven demonstrations against entrenched patronage and impunity escalated into the resignation of Prime Minister K. P. Sharma Oli and the storming of state institutions, culminating in the effective overthrow of the government. The protests, coordinated largely through digital networks and marked by unprecedented participation of young citizens, signaled a generational rejection of elite capture and institutional failure.

This episode is more than a domestic turning point for Nepal, and one that could potentially turn into an international flashpoint. Holding their breaths are two countries whose strategic equilibrium is balanced at the peaks of the Himalayas: China and India. For Kathmandu, Beijing represents a critical trade and infrastructure partner, the latter delivered under the ambit of the Belt and Road Initiative (BRI). New Delhi, on the other hand, maintains significant cultural and religious relations in addition to deep people-to-people ties.

Both these political and economic heavyweights are suspicious of each other's growing influence in Nepal and the broader South Asia. In this context, Nepal's political stability becomes a critical variable not only in the regional security calculus, but also in the future tenor of the China-India relations. This brief explores Nepal's relationship with India and China and its strategic balancing act; the implications of the regime change ushered by the anti-corruption movement on Beijing and New Delhi's engagement; and the broader consequences for South Asia's regional stability.

Nepal has a legacy of balancing ties with its neighbouring regional powers. As a small, landlocked country bordered by China to the north, and surrounded by India, Nepal's foreign policy posturing consistently displayed cordiality and pragmatic engagement between its two neighbours as a way to protect its national interest and territorial sovereignty. As a 'historic buffer state', its interest is mediated by a delicate interplay of its economic and border security objectives, though its relationship with China often overstates the commercial and development imperatives, challenging India's longstanding position.

A clear indication of Nepal's economic (re-)alignment was deposed Oli's first official visit to China in December 2024 – a departure from the tradi-

tional pilgrimage of newly instituted political leaders to India. And this historic visit bode well for Nepal: the two sides noted their readiness to sign a memorandum of understanding on the construction of the Trans-Himalayan Multi-Dimensional Connectivity Framework and the Framework for Belt and Road Cooperation. These arrangements supported Nepal's vision to be transformed from a "land-locked.. to a land-linked country" with joint investments in ports, roads, railways, aviation, power grids and telecommunication. China is also one of the major donor countries in Nepal, and is the first country to sign a bilateral economic aid agreement in 1956.

While the economic engagement with China has consistently been spotlighted, Nepal's trade ties with India should not be downplayed. Kathmandu is a major destination of Indian exports, especially oil and food valued, with bilateral trade valued at USD8.5 billion annually. Despite this, Nepal-Indian relations had more ups and downs, considering the ties founded on shared culture, religion and trade. Government-to-government relations have been volatile, especially around tense border disputes peppered with nationalist sentiment. More recently, India had to play catch-up with China's growing influence, due to Kathmandu's perceived inability of Indian Prime Minister Narendra Modi to effectively operationalise the 'Neighborhood First Policy', New Delhi's strategy to bring back economic, and security development to its near-neighbours and to the subcontinent. This strategic void was swiftly occupied by a more assertive and economically agile China, which increasingly positioned itself as a responsive and dependable partner, particularly in the eyes of Nepal's political elite.

It is apparent that Nepal intends to benefit from both its Sino and Indian relations, while being cautious to avoid the trappings of great power politics. Central to Nepal's strategic balancing posture is Kathmandu's assertion of an independent foreign policy, an objective that remains difficult to sustain amidst recurrent political instability and fragmented governance.

On 8 September 2025, tens of thousands of young people came to the streets to protest against corruption and nepotism, further aggravated by a government ban on social media platforms. What followed next were images reported across the globe – the ransacking of the parliament and scores of politicians' homes set ablaze. Similar anti-corruption uprisings have also been seen in Indonesia and the Philippines. The following day, Oli had announced his resignation. In a landmark political development, Nepal appointed former Chief Justice Sushila Karki as interim Prime Minister, marking a historic moment as she became the nation's first female head of government.

With Oli's predisposition towards Beijing, his removal from office signalled a potential realignment in Kathmandu. Official Chinese response however, was more measured, emphasising the two countries' "time-honored friendship" at the heels of Karki's appointment. It was reported that Chinese media outlets have acknowledged that Nepal's governance chal-

lenges – characterised by endemic corruption and institutional fragility – pose significant risks to the efficacy of local institutions. These structural weaknesses are not merely domestic concerns but carry strategic implications for the viability and long-term sustainability of Chinese investments under the BRI. The operational success of BRI-linked projects in Nepal – at least in the eyes of regular Nepali citizens – will ultimately hinge on the capacity of local institutions to uphold transparency, regulatory coherence, and administrative competence. However, the Oli government's proposed social media restrictions – widely interpreted as emulating Chinese models of censorship – may lead to aversion to pro-China political figures, at least in the short-term.

This opens an opportunity for New Delhi to reengage. India has seen its near-neighbours confront similar political turmoils, such as in Bangladesh in 2024 and Sri Lanka in 2022. But the situation in Nepal has made India respond more quickly than the other civil disorders in the subcontinent, with Modi swiftly reacting to unfolding events over X (formerly Twitter) and activating an emergency security meeting with his cabinet. This can be expected, given the large number of Nepali diaspora in India – at about 3.5 million – and without restrictions, making it apparent for India to contain any spill-over effects, especially on the potential breakdown at the borders. Prolonging the unrest would also have repercussions on India's energy security, such as its Arun-3 and Phukot Karnali hydropower projects in Nepal. New Delhi also needs to walk a tightrope in engaging Nepal's new government, considering its close affiliation with Kathmandu's major political parties, or build fresh ones with the newly installed government.

Given Karki's technocratic credentials and her background in the judiciary, it remains premature to assess the contours of her foreign policy disposition. A major consideration for her government is how it could harness international support to prepare for the elections on 5 March 2026, and one that is credible for China and India, and other key bilateral partners.

Certainly, Oli's exit from Nepal's politics caused complications for China, and the manner by which he was ousted was a security challenge for India. It is critical for both China and India's long-term interests that Nepal remain stable and peaceful. Recognising its inherent geopolitics, Nepal would need to maintain its balancing act to advance its own interest with pragmatism. For Beijing, Kathmandu would need to demonstrate that it is a serious economic and development partner sufficient for sustained Chinese investments. For New Delhi, Kathmandu can reopen dialogues on longstanding issues, such as on the border, to arrive at a peaceful resolution, while stimulating two-way trade, especially on service and digital sectors.

The Gen Z-led democratic renewal in Nepal can have broader implications in the security of South Asia. Aside from China and India, Pakistan also monitored the situation closely given its historical ties, albeit with limited strategic significance for Nepal. This demonstrates that any political vacuum within Nepal would be a cause of concern for South Asian coun-

tries, not only because of the spill-over effects, but also how governance and economic challenges – such as youth unemployment, widespread corruption, and elite impunity – can become drivers for deteriorating security situation and tools for opportunistic forces.

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