CHAPTER I
INTRODUCTION

1.1 Background of the Study

Bearing in mind that modern theoretical and empirical research in the area of geo-economics is pretty diversified and represented by numerous authors, its detailed analysis by far exceeds the article format, thus we decided to restrict our analysis to a limited number of research areas, which seem to be the most relevant.

Exposition of basic material. At the present time countries are different from what they were in the past, because a state can no longer use military force as a tool for solving of their economic problems. The industrially developed nations are facing a deep demographic crisis, which does not let them use of a wide mass of young people in the process of war. In a free market, western countries will have two ways to support a competitive edge: first, to invest in their own production and technology; and second, to use such processes that will not allow potential competitors to improve their technology and develop its economy (Kvinikadze, 2016).

Geo-economics is a new edition of old rivalry between states. Within such rivalry, capital for investing in industry provided or directed by the state is an equivalent to fire weapons; product development supported with government subventions equals to weapon improvements; and market penetration with the help of the state takes place from military bases and army on foreign soil as well as diplomatic influence. Itshould be noted that unlike economic wars, geo-economic rivalry does not intend to weaken the economy of an opponent. Its goal is to strengthen its own economy and increase its competitiveness. Geo-economic competition differs from normal trade, as it does not follow the rules operating in global trade. Every state tries to implement those rules that are beneficial for it and thus dictates its own rules to other competitors.Geo-economic rivalry as "competition", which aims to improve the competitive situation in the global market and create conditions for geo-economic growth(Luttwak, 1999).

Geo-economicrivalry may turn into a common threat for Global and National Economic Systems. It may give a new meaning to nation states, as it can perform the function of conducting war for the creation of a modern state, which was typical for the post-WWII period. It is known that mercantilism is a characteristic of geopolitics and it causes damage to global trade because geopolitics always pursued military-political goals, while geo-economics always is oriented on achieving of social and economic goals without disrupting the integrity of global market. On the contrary, it contributes to the growth of wealth and efficiency of utilizing economic tools which aim to seize the best part of this wealth. At the same time, geo-economic rivalry makes use of such non-tariff methods which in their essence break the rules of free competition and free market adopted on global multinational and bilateral levels. This is exactly what Mr. Luttwak has in mind when claiming that in "geo-economics dominates an offensive tool" (Luttwak, 1993).

Geo-economics can be understood as the intersection of economic tools and interests with political and security considerations and how countries utilize the former to achieve the latter or vice-versa. Distinguishing a primacy between politics and economics in statecraft can be tricky as the sequencing of war, diplomacy and business is not always linear. Few international actors blur the lines between politics and business to the point of making them indistinguishable as some Gulf Cooperation Council (GCC) states do. Individuals there can simultaneously be state leaders, heads of the armed forces, hedge fund managers, as well as private investors who dispense unconditional aid while being cherished clients of defense contractors. This combination of roles (a result of their distinct political and economic models) allows them to deploy economic levers in support of their geopolitical aims in unparalleled ways.(Routledge, 2017).

Geo-economics as a form of statecraft or as economic geography perspectives, less so the critical geography view. However, economics itself is a contested term that carries different connotations to different people. Economics can variously be taken to mean, e.g. balancing of income and expenses (the classical political economy view), anything involving calculative behavior (mainstream economic sociology), or just about anything that has been labelled economics (the performative aspects of economics). In deepening our understanding of geo-economics, we need to probe more deeply into the interconnections between space, politics and economics(Mattlin&Wigell, 2016).

The geo-economics dynamic that is important to America consists of the basic rhythms and stages of world economic development. These rhythms and stages have their own causes, which are sometimes even linked to the American dynamic, but an analysis of these causes would go beyond the limits of the present study. The content of the ideas, values, and symbols generated in foreign and national centers of cultural endeavor depends largely on autonomous processes in the nodes and networks of creative generators, and only indirectly, through a two-step mechanism, on macro historical events (Kollinz, 2002).

The South Asian Region consists of eight countries i.e. Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, which share their common historical ties and geography and ecological cycles. These countries also share a common colonial past except Bhutan, Nepal and most part of the Afghanistan. If we recognized the history of last sixty years of the post-colonial period of the region, then we found that South Asia has been the least recognized sub-region across the globe. Lyon asserted that "South Asia has been a region without regionalism1

The equity-proximity policy of Nepal needs to be amplified with a credible prevention of self-reliance. Therefore, Nepal must have equal pursuance of sub-regional cooperation for its socio-economic development. However, the future of Nepal lies in Asia Pacific for both the economic and security concerns. Hence, the country of Nepal must consider the international, national and regional environment when determining its domestic strategies for security options. With a potential for internal ethnic and social conflict, as a small landlocked state in the volatile South Asian environment between two powerful states, Nepal's security concern are enormous. In the multidimensional security atmosphere, the country's approach to the security concern also needs to be multifaceted. Therefore, this is the time of the hour for Nepal to maximize the element of the power of the nation and balance diplomacy with credible prevention for its people and economic growth. In near future, the key concern may be more regional bearing, visualizing a comprehensive collective security, but the safety of the part must never be out of sight.(Thapa , 1997).

History is evident to the fact that Nepal has become rich whenever her immediate neighbors, India to the South and China to the North have become economically strong. At present, prosperity in Nepal is being understood and interpreted in its relation with Nepal's geographical proximity with the economic development of India and China (Baral, 2015). Noticeably, such an understanding is the reflection of the geography hypothesis. To materialize it, connectivity through modern infrastructure is a prerequisite. Unfortunately, Nepal is sadly deprived of the inclusive economic institutions and infrastructural development to formally jump start as a viaduct between two rising economies (Bhattarai, 2017). Still, it is not good to exterminate hopes and aspirations by unfolding bitter realities. Many of the scholars and critics have reckoned development activities and objectives of prosperity pursued by India and the unrivalled infrastructural and technological development of China as the sign of relief and hope to underdevelopment in Nepal. Despite their contentious border issues and political differences, the communist China and democratic India have little animosity in their economic relations. Owing to the same, Nepal aspires, at least in rhetoric, statements delivered during visits, to get rid of the conventional cliché of being identified as "a land locked country". Circuitously, she aims to escape the political cliché of being branded as "an India locked country" (Shrestha, 2015).

Apparently, such aspirations bear assorted jingles for national prosperity with a fresh formula: Nepal is not landlocked between India and China, but land linked between India and China . It is not a new and novel discourse. In the year 1973, Late King Birendra had stated that Nepal is not a part of the subcontinent: "It is really that part of Asia which touches both China and India. Our historical experience is that we maintain friendly relations with both these countries" (Jha, 1976). Redefining the geostrategic location of Nepal, King Birendra dismissed the geopolitical dependency on India. Rather he advocated on the geopolitical opportunities that Nepal has, lying in the strategic portion of Asia. But, prosperity has more to do with geo-economics than to geo-politics, and today's context is also not of the Cold War (1945-89). However, the resurgence of geo-politics cannot be ignored. The Ukrainian crisis and case of the Crimean annexation in 2014 in the European continent and the Indian blockade on Nepal from September 2015 to March 2016 in Asian continent(K.C& Bhattarai,2018).

Geo-economics is one of the most important foreign policy phenomena today. States are increasingly turning to the use of economic instruments rather than traditional political and military ones to pursue their desired strategic ends. Tasks for creating employment through proper utilization of geological and cultural diversities in the tourism sector, enhancing physical and institutional structures for the sustainable development of foreign currency earnings and attracting tourists from neighboring countries have remained a challenges .Geo-economics therefore entails an approach to territory and security that differs to that of geopolitical concerns about the protection of national borders and economies, territorial expansion and political alliances. The geo-economic emphasis on global economic competitiveness has altered both the domestic and the foreign policies of states, even if long-term goals have remained broadly consistent.

From above different concept the study can explain that geo-economics is one of the most important foreign policy phenomena today. States are increasingly turning to the use of economic instruments rather than traditional political and military ones to pursue their desired strategic ends. Geo-economics is an approach to territory and security that differs to that of geopolitical concerns about the protection of national borders and economies, territorial expansion and political alliances. The geo-economic emphasis on global economic competitiveness has altered both the domestic and the foreign policies of states, even if long-term goals have remained broadly consistent. The term geo-economics refers that "The use of economic instruments to promote and defend national interests, and to produce beneficial geopolitical results."

1.2 Statement of the Problem

Nepal is similarly significant recipient of the passageway. Nepal has had experienced an unbearable political change in the course of the most recent thirty years. The nonattendance of financial advancement coupled by an extended and escalated political change has pushed dominant part of populace to a 'trap of dissatisfaction and dread of undesirable future'. The nonattendance of monetary undertakings and joined by a waiting political activism has caused to result the accompanying undesirable outcomes, enough to make a weakness in public mix, security and the long standing social union of individuals. Henceforth the serious issue of geo-economic matters advancement of Nepal that Nepal's political circumstance is reliably momentary and blasted by unsteadiness. The current degree of weakness, the shortcoming in conveyance of the public authority foundations, helpless framework conditions, and doubt among the political entertainers will present number of difficulties to start the venture at quick movement. Connection among Nepal and India, and the connection among China and India are as yet unpredictable and mind overwhelming. This circumstance requires increasingly more drew in correspondence and make sound geo-financial connection among them and furthermore with different nations. The research focuses impact of geo-economic relationship of Nepal among with south Asian countries. This study tried to solve the following research problems.

a) What is the status and pattern of export and import of Nepal?
b) How does the geo-economic status affect the foreign trade of Nepal?

1.3 Objectives of the Study

The major objectives of the study i to establish the economic relationship of Nepal with south Asian countries through geo-economics. However, its specific objectives are given below:

a) To analyze the status and pattern of export and import of Nepal.
b) To analyze the impact of geo-economic status towards the GDP in Nepal.

1.4 Significance of the Study

The study is useful to economist planners, tax officers, politicians, government and other in interested person ,institution about the contribution to the utilization of resources in order to economic development of Nepal with relation of south Asian countries. Nepal certainly has a continued need for assistance whether from China, the United States, India, or others in the international community. So this study also provides the information about trends and projection of geo-economics relation with south Asian countries.

The study contributes to the existing literature on geo-economics relation to Nepal with south Asian countries. The result could be used to design geopolitical strategies and carry out to enhance economic development of nation.

1.5Limitation of the Study

This study has its own limitations for lack of time and money. Therefore, it focuses on the particular area because it has certain limitations, which are as following.

a) This study is focus on the South Asian economy only.
b) It focuses on socio-economic impact of geopolitics.
c) It is an individual study, so it cannot cover whole aspects of economy but it can be reference for further study in this field.

1.6Organization of the Study

This study is divided into six chapters. Chapter one presents the conceptual background followed by the problem discussion which has presented the research area and research question. Chapter two presents the literature review and related research work, connected to the topic moreover chapter three a description of the methodology according what and now the data was collected for this study. The chapter four includes data presentation, analysis and about the economic status of Nepal and chapter five includes its economic relation with the summary, conclusions and recommendations.

CHAPTER II
REVIEW OF LITERATURE

There are many rules operating in global trade. Every state tries to implement those rules that are beneficial for it and thus dedicates its own rules to other competitors.Geo-economic rivalry as "competition", which aims to improve the competitive situation in the global market and create conditions for geo-economic growth.Geo-economics does not oppose geo-politics. To achieve geopolitical goals, geo-economics uses economical methods, just as geo-strategy employs military ones. Therefore, geo-economics does not substitute geopolitics, but transforms it. Geo-economics is based not only on logic, but also on the syntax of geo-politics and geo-strategy and, in a broader sense, on the whole on practice of conflict situations.

2.1 Theoretical Concepts

Geopolitics is a study of the relationship between geographical factors and the politics of states and nations and their interactions with the neighboring countries and international community. The Swedish political scientist Rudolf Kjellén who used the terminology geopolitics first time in 1899 (Encarta dictionary, 2004), described that the geographical location, size, natural resources, population and other physical features and environmental influence a country and determine the political, military, level of economic development and cultural characteristics of a nation. Kjellen further explained that the geographical as well as physical features employ impact on relations between the nations. His focus about the geographical features was more on mountains and oceans and their impact on international politics as well as interstates' relations.

Another notable German geographer OyvindOsterud described that 'geopolitics indicates links and causal relationships between political power and geographic space; in concrete term it is often seen as a body of thought assaying specific strategic prescription based on the relative importance of land power and seas power in the world history. The geographical tradition had some consistent concerns, like the geopolitical correlates of power in world politics, the identification of international core areas relationships between navel and terrestrial capabilities' (Osterud: 1988).

Traditionally, the factors of geography and other physical features play vital role in any country's survival, independence, security and identity. Similarly, the geographical and physical factors have had greater importance in determining foreign policy matters. However, with the economic globalization, increasing inter-dependency, introduction of the international laws on various issues, formation of international organizations like United Nations, World Trade Organization, evolutions of international regimes such as Universal Declaration of Human Rights, International Atomic Energy Agency, Environment Protection Acts, Crime Prevention regimes etc., the traditional roles of the geographical factor described by various writers in determining a country's position in international arena have significantly declined. "The decay of the value of distance has today diminished the relevance of geography and the nation's ability to gain power status by geographic means has markedly declined, even it has not disappeared completely" Dahal (1997). Currently, the geopolitical studies include the country's territorial size, location, natural resources, level of economic development, composition of the population and its size, its organizational and intellectual abilities, communication and circulation and their impact on nations' role in international politics as well as country's foreign policy matters.

2.2 Review of Empirical Studies

2.2.1. International Studies

The term "geo-economics" is of a more recent origin, and also more vexing than geopolitics. The term is commonly associated with Edward Luttwak's writings in the early 1990s (Luttwak 1990, 1993), although it did not spurn a major scholarly discussion at the time. Writing at the cusp of the end of the Cold War, Luttwak contended "Everyone, it appears, now agrees that the methods of commerce are displacing military methods—with disposable capital in lieu of firepower, civilian innovation in lieu of military-technical advancement, and market penetration in lieu of garrisons and bases" (1990: 17).

For Luttwak, geo-economics denoted the successor system of interstate rivalry that emerged in the aftermath of Cold War geopolitics. As Matthew Sparke has remarked, Luttwak's argument was essentially still realist, historicist, and state-centric (Sparke 2007: 339).

More recently, and probably much because of the rise of major new economic powers, such as China, India and Brazil, there is renewed interest in the concept. Yet, an overview of the literature in recent years indicates that there seems to be no agreement on what exactly the term means. Indeed, it is striking how many articles have been produced that mention the term in the title of the article, without ever clearly defining it. This special issue tackles the many ways in which scholars understand the term geo-economics, by focusing on a set of major regional powers (China, the EU and Russia) and on how we might understand the actions of these powers in various contexts where economic interests, political power and geography intersect.

(Youngs 2011: 14) Defined that geo-economics is broadly understood to revolve around "the use of statecraft for economic ends; a focus on relative economic gain and power; a concern with gaining control of resources; the enmeshing of state and business sectors; and the primacy of economic over other forms of security" . The view is state-centric, essentialist, and rooted in (neo)-mercantilist theory in that it focuses on states as agents of economic power**.**Limão and Venables (2001) find a link between the quality of infrastructure and transport costs, and conclude that infrastructure investments are important for exported economic growth.

However, Subramanian and Arnold (2001) argue that differences in logistics performance are driven only in part by the poor quality of physical infrastructure services such as road, rail, waterways, port services, and interfaces. The inadequacies are often caused by non-tariff policy and institutional constraints such as red tape, inadequate enforcement of contracts, poor definition and enforcement of rules of engagement, asymmetry in standards, delays in customs, delays at ports and border crossings, pilferage in transit, corruption, and highly restrictive protocols on movement of cargo.

Ahmed and Ghani (2010) suggest that a key challenge facing South Asia is high trade cost. Improved infrastructure and growth through improved connectivity, stronger institutions, less conflict, and corruption, would allow the region to share its benefits widely.

Hanson (1994, 1996) examines the impact of economic integration between the United States and Mexico, and developed a model of regional production networks where assumed the process of industrial production had two parts. The first is the input processing stage, which is related to the technological components of the output. The second is the assembly stage, which is more labor intensive. The first stage can be outsourced to neighboring countries if the relative cost of production of part of the process or the whole process is less than that in the home country. Thus, this part of the production process is location specific and depends on the cross-border movement of goods. The second stage depends on the availability of skilled labor in the country. The location of specific industries would depend on the concentration of skilled labor for it in different parts of the country.

Anderson (1979) was the first to provide clear microfoundations to the trade gravity model that rely on assumptions that would strike present-day readers as absolutely standard. The simplest gravity model stems from the pure expenditure system where no tariff or transport cost exists. From this simple specification, he introduces the concept of the trade share-expenditure system where traded goods' shares of total expenditure vary widely across regions and countries. Finally, he derives a more general gravity model by introducing many goods, tariff, and distance (in the form of transit cost) into the model. By specifying demand in these terms, Anderson helps to explain the presence of income variables in the gravity model. This approach was also adopted by Bergstrand (1985), who specifies the supply side of economies more thoroughly to show that prices in the form of GDP deflators might be an important additional variable to include in the gravity equations described above. Price effects have also been captured using real exchange rates in some gravity spatial agglomeration and economic growth are positively correlated, in particular in relation to the industrial revolution in Europe. Many economists (Henderson 1988, Williamson 1988, Lucas 1988) have emphasized the role of cities in economic growth and technological progress. Quah (1996) suggests a positive relation between growth and agglomeration of industries in a region of a nation.

Fan and Scott (2003) suggested a positive relationship is found between industrial agglomeration and productivity in economies that were formerly dominated by central planning deal with industrial agglomeration and economic development in East Asia, with special reference to People's Republic of China (PRC). It also highlights that the sectors and spaces that are undergoing economic liberalization are the most prone to the formation of agglomeration economies. They found a strong relationship between industrial clustering and productivity in a few industries that have gained prominence after the government's drive toward economic liberalization, especially in the coastal provinces and large cities.

Krugman and Elizondo (1996) argued that when economists discuss trade policy in developing countries, they generally pay little attention to its effects on the internal economic geography of those countries. They hold that this is a mistake and that the trade policies of developing countries and their tendency to develop huge metropolitan centers are closely linked. Krugman and Venables (1995) propose to seriously consider the effects of globalization on real national incomes. They develop a core-periphery model of the world economy, and show how increased globalization affects the real incomes of core and periphery nations. In their simple model, regional differentiation is driven by the interaction of scale economies and transport costs.

DeRosa and Govindan (1995) showed that welfare gains are much higher when member countries go for unilateral liberalization on a nondiscriminatory basis. A partial equilibrium analysis of the cement industry by Pursell (2004) suggests that preferential liberalization between India and Bangladesh would lead to substantial gains through increased competition in the regional market.

2.2 Nepalese context

Countries in South Asia have made impressive progress in developing their economies in the last two decades without much regional-level interaction. Some studies indicate South Asian countries could perhaps gain much higher growth if regional economic interaction grows (Srinivasan, 2006). Others call for greater interaction among the SASEC countries for enhancement of trade and investment (Dubey et al. 2000, ADB 2008).

De, Raihan and Kathuria (2012) show that improved trade facilitation and regional transit would help increase trade between India and Bangladesh. There is strong evidence to show that improving the efficiency of customs and administrative procedures, and simplifying trade-related documentation can facilitate trade between the two countries.

Baysan et al. (2006) argued that the economic case for SAFTA is relatively weak. They point out that the economies in South Asia are relatively small in terms of the gross domestic product (GDP) and trade flows. Though the region's population is substantial (one-fifth of the world), current per capita incomes are so low that the economic size of the region is less than one twentieth of the world in terms of GDP. This proportion drops to 0.4% (if India is taken out of the picture). They further argue that the probability of the most efficient suppliers of the member countries being within the region is slim. Therefore, SAFTA is likely to be trade diverting. Another reason is the relatively high levels of protection in SAARC economies. If a country participating in a regional arrangement is open, it will not suffer from trade diversion even if it is tiny. There are also problems with the selection of excluded sectors and stringent rules of origin.

founded the trade relations between India and China are ever increasing but the mode of transportation includes the lengthy and cumbersome marine transportation for the most part from the east coasts of China to the Indian port. It then takes further time to transport these goods to the northern states of India. The shortest possible roadway from the Northern Indian state of Bihar to the proposed Kerung dry port at Nepal-China border of TAR is only 265 kilometers which saves a lot of time and transportation costs for both countries. Developing electric railway would further trim that distance and cost significantly making it the only best option for trade. Chinese, Nepalese and Lately the Indian government officials and policy makers seem to agree with the idea of the above mentioned trade route. (Dahal, Mishra &Panday, 2010)

However, in the course of time Nepal had adopted foreign policy to protect itself by aligning with either of two of its neighbors. Only after the 1950s democratic movement, it has been basically adopting a nonaligned foreign policy. The basic guidelines on its foreign policy and geo-strategy remained same despite the changed domestic political situation in the last five decades. After the end of Cold War, the earlier roles the non-alignment movement played in the international politics is remained in the margin, but the policy it had adopted in the 1950s still weight great value to a country like Nepal whose geographical location lies in between two powerful countries. And its slow pace of level of economic development locates it in the periphery of world capitalist system. Though technological innovation changes in the global system, but the gap between the powerful and weak, wealthy and poor and big and small has still been widening. “The Third World states are maintained in their subordinate position within the world capitalist economy” (Viotti&Kauppi, 1990).

The size of a country is defined in terms of power. The power of a country derives from the size of its territory, the size of the population, national income, natural resources, military strength etc (Khadka: 1997). By the existing standards of size and power, Nepal is small, weak, and one of the least developed states (Dahal: 1997). However, various writers argue that in terms of size Nepal is not as small as it appears.

Only because of it’s surrounding specially its two geographically largest and most populous neighboring countries of the world: China and India contributed in creating the image of “small” nation of this country. Nepal’s neighbors to the south and the north are the most populous countries in the world and their images has shaped this reflection of “small Nepal” both at home and abroad. With an area of 147181 square kilometers, Nepal is bigger than some of its neighbors. According to the 1996 World Bank Atlas, only 41 countries out of 209 have a population larger than Nepal. As Pandey argues, the geography of the country has affected not only the perception of its size but also the substance of its public policies and performance (Pandey, 1999).

They have been widely used in analyzing regional trade agreements (RTAs) to predict their effect on bilateral trade flows. Studies that employ the gravity model include Srinivasan and Canonero (1995), Sengupta and Banik (1997), Hassan (2001), Coulibaly (2004), Hirantha (2004), Tumbarello (2006), Rahman (2003), Rahman et al. (2006), and Rodriguez-Delgado (2007). The findings of these studies have been mixed. For example, Srinivasan and Canonero (1995) and Sengupta and Banik (1997) predict that the impact of a South Asian free trade agreement (FTA) on trade flows would be small for India, but much larger for smaller countries. They predict a 30% increase in official intra-South Asian Association of Regional Cooperation (SAARC) trade, which could be 60% informal trade became a part of official trade. Coulibaly (2004) finds net export creation, and Tumbarello (2006) and Hirantha (2004) find net trade creation from SAPTA. On the other hand, Hassan (2001) found SAPTA has a net trade diversion effect, while Rahman (2003) found the dummy variable for South Asia to be insignificant, indicating that regional integration is unlikely to generate significant trade expansion.

Rahman et al. (2006) found that there is significant intrabloc export creation, but also evidence of net export diversion through use of an augmented gravity model to identify trade creation and trade diversion effects originating from SAPTA. It also appears that Bangladesh, India, and Pakistan are expected to gain from joining the RTA, while Nepal, the Maldives, and Sri Lanka will be negatively affected. Rodríguez-Delgado (2007) evaluated SAFTA within the global structure of overlapping RTAs using a modified gravity equation and examines the effects of the trade liberalization program, which started in 2006. The study predicts that SAFTA will have a minor effect on regional trade flows. The gravity model simulation suggests that the program will influence regional trade flows mainly by increasing India’s exports and imports from Bangladesh and Nepal.

The major partial equilibrium studies on RTAs in South Asia are by Govindan (1994), DeRosa and Govindan (1995), Pursell (2004), and the World Bank (2006). The advantage of these models is that they are generally based on disaggregated data and are flexible, which facilitates sector-specific study. However, a major problem is that they ignore general-equilibrium interactions, and thus cannot capture inter-sector effects on an economy. A partial equilibrium model for the food sector, used by Govindan (1994), shows the effect of preferential liberalization within the region on intraregional trade in food. It finds that such preferential liberalization will generate welfare gains through an increased trade in food within the region.

Raihan and Razzaque (2007) explained the welfare effects of RTAs. Their main contribution is decomposing the welfare effects of SAFTA (calculated from GTAP simulation results) into trade creation and trade diversion effects for individual South Asian countries. It appears that Bangladesh will incur a net welfare loss.

Though it will have a positive trade creation effect, the negative trade diversion effect will offset this. However, all other South Asian countries will gain from SAFTA, India the most. Raihan and Razzaque (2007) explored the possible reasons for Bangladesh's large trade diversion effect. From the GTAP simulation results, it appears that imports from People's Republic of China (PRC) and other low-cost sources will decline under SAFTA, while those from India will increase significantly, which indicates the replacement of low-cost import sources with a high-cost source. However, two caveats apply while qualifying these GTAP simulation results. First, the GTAP database does not allow enough disaggregation of commodities, and second, since the model is a comparative static model, potential new trade (or, more precisely, dynamic effects) cannot be captured.

The South Asia Subregional Economic Cooperation (SASEC) program's subregional corridor operational efficiency study indicates that seamless transit transport through the Kakarvitta–Panitanki–Phulbari–Banglabandha corridor will allow Nepali traders easier access to the Mongla or Chittagong ports in Bangladesh, which will promote competition among transshipment ports such as Kolkata and Haldia, and help lower logistics costs (ADB 2006). In addition to providing the physical infrastructure, nonphysical barriers have to be lowered to promote the cross-border movement of goods. Rajkarnikaret.al (2010) examined the effectiveness of delivery of logistics services and its implication on Nepal's export performance. The study discusses the various constraints on Nepalese exports beyond the issue of transit.

According to a study on trade facilitation in Asia and the Pacific (ADB/ESCAP 2009), simplifying, harmonizing, and standardizing processes and documents are an essential step in reducing the time and cost needed for imports and exports, and also making them more predictable. Engman (2009) estimated that the transaction costs associated with import and export procedures amount to 7% to 10% of the value of the goods traded. Improving these processes can boost competitiveness. Completing export or import procedures in most developing economies of the Asia-Pacific region takes at least 50% more time than it does in developed economies. The average number of documents and time required for import/export in many sub regions in Asia and the Pacific is at least twice as high as in the Organization for Economic Co-operation and Development (OECD) (ADB/UNESCAP 2009). Duval (2006, 2007) highlighted the various issues of trade facilitation in Asia-Pacific countries, including Nepal, India, and Bangladesh, and also provides a broad perspective of trade facilitation beyond WTO negotiations.

Security is very important for trade facilitation. Ojha (2006) found container security and the high premiums for transit insurance to be major problems for Nepalese transit cargo to and from Kolkata and Haldia ports. He points out border measures alone are not sufficient and suggests comprehensive reform. The deep-rooted differences within the Nepali society surfaced at the spontaneous process of development have later transformed into the conflict. The scarcity of the resources, illiteracy, poverty and unequal distribution of opportunity have created a catastrophic effect to burn conflict. At the state level– discrimination based on tribe, language and the religion was distinct in all sectors of social life (Subedi, 2010: 72).

The balance of power is very important to maintain stability. The deterrence effect itself controls one to another. The consequences of war are devastating for the nations–so the power equilibrium itself is the indicator of the tension of war in the region. In order to balance the power–the rival invests major portion of its public budget in the defense. Guided by this philosophy, South Asia is geopolitically and geo-strategically important due to its unique location. Starting from Russia to Down China, India and Pakistan are four nuclear powers. One shares border with the other nuclear actor. Security is very important in this nuclear armed belt. Any event can lead India-Pakistan to the brink of nuclear war. If the balance of power is maintained in the region it may create an environment of mutual deterrence. Dynamics of balance of power are very important in South Asia. Whenever the balance of power of the region got disturbed there happens a war. China as a biggest stake holder in Asia plays a role in maintenance of balance of power in the region (Naseer, Amin, 2011).

The Nepali Maoist has been charging India for the entire deadlock in Nepal's peace process. And India too has to bear responsibility for political impasse as what

Professor SD Muni has accepted in the interview. He further reiterated as what the Maoist say that India is entirely responsible is not correct. All five components of Nepali Politics (Maoist, NC, UML, Madhesialliance and the international community) are responsible for the mess in Nepal. India has gone away from consensus. That is the main fault. In some respect, India has also gone away from the democratic principle that the largest party should lead the government in Nepal (Muni, 2010).

CHAPTER III

RESEARCH METHODOLOGY

Research methodology is a scientific approach which deals with the systematic procedure of collecting data and used of appropriate research methods. This chapter deals with methodology adopted in the study which carried out to achieve the objectives of the study. Research design, Research site, Selection of research school, Sample of the study, Research tools, Classroom observation, Semi structure interview, Reliability and Validity Tools, Data collection procedure, Data analysis Procedure, Ethical consideration are considered here in this chapter.

3.1 Research Design

The main of the objective of the research of the thesis is toempirically analyze the effect of geo-economic towards the GDP, foreign aid, foreign debt and investment in Nepal and analyze the status and pattern of export and import with south Asian countries by employing the econometrical tools. Firstly, to analyze the status and pattern of export and import in Nepal with south Asian countries, this research has used simple percentage method.

The second objective of the thesis is to empirical analysis the status and pattern of geo-economic on export, import, GDP, foreign aid, foreign debt in Nepal by employing Bar Diagram and trend analysis. The second objective will be to examine the causal relationship between foreign economic policy and geo-economic effect with the GDP, foreign aid and foreign debt in Nepal hence the economic development in Nepal.

The study employs descriptive and causal-comparative research design. The descriptive research design is applied to obtain a complete and accurate description of government revenue and economic growth. Descriptive statistical tools like mean, standard deviation, skewness, and kurtosis to give a clear picture of expenditure and economic growth. The causal-comparative research design is used to find out the cause-effect relationship between interdependent variables. This study employ unit root test to check stationery of the data, co-integration test to check whether the dependent and independent variable has long run the association, error correction mechanism to check short-run adjustment and Granger causality to check the direction of causality between the interdependent variables.

3.2 Description of variables

This study has been based on the following key terms which explained as below;

Gross Domestic Product (GDP) - GDP refers to the total output of goods and services produced by countries economy in a certain time period especially in a fiscal year within the territory, by resident and non-residents, regardless of its allocation between domestic and foreign claims.

Public Debt - Public debt refers to loan raised by a government within a country or outside the country. A government resorts to public debt when its expenditures exceed its revenue. Public loans are collected by the government form banks, institutions and individuals on the conditions given in writing that those would be repaid and interest would be paid regularly as per the terms of the loan. Governments borrow to finance their operations and to regulate the volume of aggregate activity in the economy. Public debt involves the issue of short terms and long terms securities.

Budget Deficit - It is the revenue gap between the total expenditure minus total revenue plus foreign grants. In other words, it is the excess of government's total expenditure over its income.

Fiscal Deficit - It is the gap between total expenditure minus total revenue of the government.

External Debt (ED) - External debt occurs when a borrowing unit acquires money from international resources. It refers to international transfer made at confessional germs rather than at market rates for promoting economic development of the nation. Alternatively, external debt refers to the obligation of a country to foreign agency or government through bilateral and multilateral sources.

Internal Debt (ID) - Internal debt refers to the public loan within the country for domestic or internal sources. The government borrows money domestically form individuals and financial institutions.

Total Debt (TD) - It is the sum of internal debt and external debt.

Symbolically, TD = ED + ID

Bilateral debt (BD) - Bilateral Debt is the debt based on a direct arrangement between two countries. Bilateral debt occurs when a debt unit acquires money or a quantity or goods and services from the government of the country.

Multilateral Debt (MD) - Multilateral debt results when a debt unit acquires money or goods and services from union of nations or government institutions, business person and consumers or international organizations such as WB, IMF, EU.

Debt Servicing - The sum of interest and principle payment and repayment or interest on external public and publicly guaranteed debt.

Burden of Debt - Burden of debt is the sacrifice of the community through a risk in taxation at the time of repayment and for paying the annual interests on the government.

Export of Goods and Services (XGS) - It is the amount of the goods and services sold o another country.

Import of Goods and Services (MGS) - It is the total value of goods and services purchase from the rest of the world.

3.3Nature and Source of Data

It is framework of the study, guiding the collection and analysis of the data, the research instrument to be utilized and the sampling plan to be followed. Specially speaking, research design describes the general plan for collecting, analyzing and evaluating data. This research is aimed at studying implement through analyzing South Asian and Nepal relationship resource mobilization perspective, its laws and regulations and problems and prospects so the materials of information relating South Asian and Nepal relationship and its various theoretical aspects, empirical results and experiences are taken in the way of this study for its good picture. Actually this is a review of South Asian relationship since its conception, decisions, preparation, implementation and results achieved till now. This research has followed descriptive, analytical and correlation research design.

3.4 Sources of Data

All the possible and useful data and views as far available have been collected. The sources of data indicate the place from where the information is gathered. Secondary sources used to collect the required data for the study.

3.5Processing and Analysis of data

Processing means a series of operations on data in a research, so as to obtain desire outcome. Analysis means the categorizing, ordering, manipulating and summarizing of data to obtain answers to research questions. The collected information have compiled and tabulated in different headings. These data have to be patronized and graphed into different way so as to make research understandable even at a glance. Different statistical tools and techniques included to craft the collected data into published form so as to obtain desire objective.

3.5.1Tools for Analysis

To make research objective, find to accurate result and practicable, different tools are used. The information received in different aspect of south Asian and Nepal relationship from primary and secondary sources was first processed for tabulation and analysis. For the purpose of analysis generally simple statistical tools have been used which are as follows:

- Simple Percentage
- Bar diagram and Trend line
- Correlation Analysis

3.6 Reliability and Validity of Tools

In general, validity of instrument is the extent to which an instrument measures what it is supposed to measure and performs as it is designed to perform (Stanely, 2016).

The researcher focused on content based application and sample based activity centered tools including questionnaires, interview and focused group discussion.

Since the research was conducted on the basis of direct contact of the selected samples it must be valid and authentic. So for the validity of the study, researcher adopted the contextual references for the content validity and population representative sample for external validity.

Pilot testing was the first measure to ensure the reliability of the tools of this study. The reliability of questionnaires form was established according to the questionnaire which was done for three times as test re-test approach by using the questionnaire form. To obtain the reliability of study, standardized practice of questionnaire production was adopted for the study by the help of guide and teachers. This interpretation was done in the implementation of the framework as the researchers have developed and was matched up with the standard approach of recent trend

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

After collecting and organizing the data, the next step is to present them systematically so that they can be presented in various forms such as tabular form, diagrammatical form, graphical form, etc. After presentation, the next step is to analyse the data with the help of financial and statistical tools that is concerned about comparative analysis and interpretation of available data. this chapter is concerned with presentation analysis and interpretation of data. After presenting the data in a tubular and graphical form, they are analysed and interpreted.

This paper began with the premise that while inter- national trade has become more and more regionalized globally, Europe and the Asia-Pacific differ in their regionalization tendencies. The European model has seen formal arrangements toward deeper economic and political integration, but regionalism in the Asia-Pacific remains at the level of private and academic initiatives. In both cases, however, trade transactions have become more geographically driven, whether encouraged by preferential agreements or market forces in the form of firm-motivated trade flows

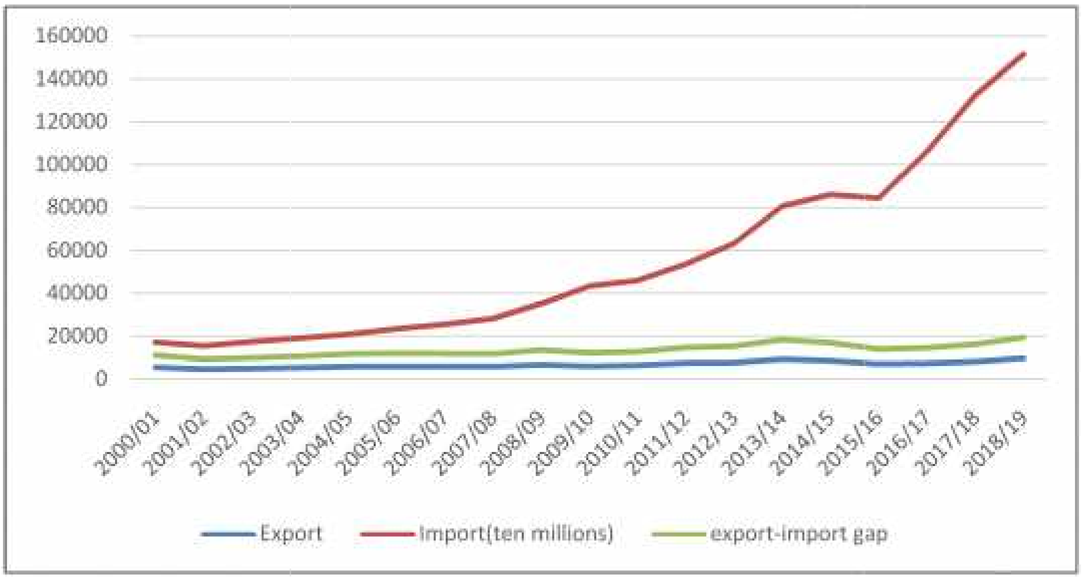
4.2 To analyse the status and pattern of export and import in Nepal

The first and most important objective of this thesis to analyze the status and pattern of export and import in Nepal by simple percentage method and trend analysis. It is a technique used in technical analysis that attempts to predict the future stock price movements based on recently observed trend data. Trend analysis is based on the idea that what has happened in the past gives traders an idea of what will happen in the future.

A relationship between two quantitative entities is established using trend analysis. The future of this relationship is set on the basis of the trend in the past and thus known as trend analysis. Businessmen get a fair idea about the future market trends with such an analytical strategy.

Leading with data from the past is a concrete way of going ahead with the business and that's exactly whattrend analysisdoes. An accumulated statistical data is to be followed to a level of saturation, which indicates it's high time analyze newly recorded data. Trend analysis in research can get you the insights you need for better decision making and business planning.

Figure 4.1: Trend and pattern of export, import and export-import gap(Rs in million)



Source: economic survey 2019/20

According to the shows it explains the trend and pattern of export and import, import, export-import gap of Nepal. So the figure shows in fiscal year 2000/2001 the export was Rs.55654.1 million and import is Rs. 115,687.2 million where the export import gap (X-M) in the same year was Rs.60,033.1 million. The pattern of export has been increasing till F/Y 2013/14 and it became Rs. 91,991.4 million and its decrease and become 73049 million till F/Y 2016/17. Import also has been increasing and become Rs990113 million in F/Y 2016/17, where the export-import gap has been increasing each and every year and become Rs.917064 million in F/Y 2016/17. In fiscal year 2018/19, the import has been increasing and reached to Rs.1418535.3 million and export has been reached to Rs.971095 million and the same year large export import gap is Rs.1321425.8 million

Thegrowthofexport has beenlowdueto structuralproblemslikeweakbaseofphysical infrastructure,lackofconducive environmentforinvestment.

Duringlastdecade,thegrowthandbaseofmerchandiseexportintotaltradehas beendeclined.

4.2.1: Export-Import Gap

Measures of export promotion control in redundant imports and substitution of imports through domestic production has led to increase in exports and contraction in imports has resulted an improvement in trade deficit. Balance of payment position is in surplus. Foreign exchange reserve is in robust position. Remittance inflow has started to decrease in recent months due to the outbreak of COVID-19. Yet the external sector has remained in balanced

Since the fiscal year 2018/19, the export growth rate has been high. In fiscal year 2018/19, export was increased by 19.4 percent and imports by 13.9 percent. 6.3 The share of exports in the total merchandise trade has increased due to the negative growth rate of imports and high growth rate of exports in recent months of fiscal year 2019/20. The share of merchandise export to total trade was 6.4 percent in fiscal year 2018/19 has increased to 7.5 percent in mid-March of fiscal year 2019/20

During the first eight months of the fiscal year 2019/20, total merchandise export has increased by 22.3 percent to Rs.74.91 billion. During the corresponding period of fiscal year 2018/19, total merchandise export was increased by 15.6 percent to Rs.61.22 billion. During mid-March of fiscal year 2019/20, merchandise export to India has increased by 35.5 percent, other countries by 1.1 percent and has decreased by 19.4 percent to China. During the corresponding period of fiscal year 2018/19, merchandise export to India had increased by 26.3 percent, other countries by 1.3 percent but decreased by 5.1 percent to China.

During mid-March of fiscal year 2019/20, the exports of palm oil, cardamom, Ayurvedic medicine, herbs, jute goods has increased and exports of corrugated sheet, wire, readymade garment, juice, copper wire, etc., have decreased. During the first eight months of fiscal year 2019/20, merchandise import has decreased by 2.6 percent to Rs 924.24 billion. During the corresponding period of the fiscal year 2018/19, such imports had increased by 23.8 percent to Rs.949.11 billion. During the mid-March of fiscal year 2019/20, the import from India has decreased by 7.5 percent, China by 5.5 percent but other countries increased by 6.8 percent.

During the mid-March of fiscal year 2019/20, imports of raw palm oil, chemical fertilizer, hot-roll, raw soybean oil, machinery items and machinery parts has increased whereas the import of merchandise goods including m-s billet, transportation vehicles and parts, gold and petroleum products, cement, has decreased.

During the mid-March of fiscal year 2019/20, total foreign trade has decreased by 1.1 percent to Rs.999.15 billion. In the corresponding period of the fiscal year 2018/19, total trade had increased by 23.2 percent to Rs.1010.33 billion.Nepalese economy is developing economy where one of the major problem us export-import gap. Nepal is lest developed country with limited exportable good without specialization such as food, grains, garment product, carpet and other raw materials. Nepal is exporting vary few goods and services is low price which reduce the competitiveness of the product. Major exportable goods are raw materials and food grain but import goods are final as well as capital goods. So that year by year the gap is growing rapidly.

There is few possibilities to reduce import of goods. So that we most promote export.This export import gap situation clearly show that export import gap is increasing in each fiscal year and each fiscal year we are in tread deficit. Big amount of money goes as a trade deficit and we always have to take Public Debt.

Table:4.1:Trend of Export-Import Gap (Rs in million)

Year	Export(X)	Import(M)	Export-Import Gap(X-M)
2000/01	5565.41	11568.72	-6003.31
2001/02	4694.48	10738.9	-6044.42
2002/03	4993.06	12435.21	-7442.15
2003/04	5391.07	13627.71	-8236.64
2004/05	5870.57	14947.36	-9076.79
2005/06	6023.41	17378.03	-11354.62
2006/07	5938.31	19469.46	-13531.15
2007/08	5926.65	22193.77	-16267.12
2008/09	6769.75	28446.96	-21677.21
2009/10	6082.4	37433.52	-31351.12
2010/11	6433.85	39617.55	-33183.7
2011/12	7426.1	46166.77	-38740.67
2012/13	7691.71	55674.03	-47982.32
2013/14	9199.14	71436.58	-62237.44
2014/15	8531.91	77468.42	-68936.51
2015/16	7011.71	77359.91	-70348.2

2016/17	7304.91	99011.32	-91706.41
2017/18	8135.98	124510.32	-116374.34
2018/19	9710.95	141853.53	-132142.58

Source: Economic Surveys (F/Y 2000/01- 2019/20), GoN/MoF (2000-2020

Table 4.6.1 shows that the pattern if export and import in review period. In F/Y 2000/2001 the export was Rs.55654.1 million and import is Rs. 115,687.2 million where the export import gap (X-M) in the same year was Rs.60,033.1 million. The pattern of export has been increasing till F/Y 2013/14 and it became Rs. 91,991.4 million and its decrease and become 73049 million till F/Y 2016/17. Import also has been increasing and become Rs990113 million in F/Y 2016/17, where the export-import gap has been increasing each and every year and become Rs.917064 million in F/Y 2016/17. In fiscal year 2018/19, the import has been increasing and reached to Rs.1418535.3 million and export has been reached to Rs.971095 million and the same year large export import gap is Rs.1321425.8 million

This export import gap situation clearly show that export import gap is increasing in each fiscal year and each fiscal year we are in tread deficit. Big amount of money goes as a trade deficit and we always have to take Public Debt.

4.3 To analyze of the effect of geo-economics towards the GDP, foreign aid, Foreign Direct Investment, foreign debt in Nepal.

The second objective of this thesis is to analyze the effect of geo-economic towards the GDP, foreign direct investment, foreign aid, foreign debt in Nepal with various secondary data. Geo-economics does not oppose geo-politics. To achieve geopolitical goals, geo-economics uses economical methods, just as geo-strategy employs military ones. Therefore, geo-economics does not substitute geopolitics, but transforms it. Geo-economics is based not only on logic, but also on the syntax of geo-politics and geo-strategy and, in a broader sense, on the whole on practice of conflict situations. Hence the following analysis will analyze the impact of geo-economics towards the GDP, foreign direct investment, foreign aid and foreign debt in Nepal.

The Industrial Business Act, 2076 BS has been issued and enforced to encourage, protect and regulate the industrial sector to help increase the contribution of this sector to national income. With the objective of poverty alleviation, the Guidelines on Operation of Small Enterprise Development Program (Fifth Amendment), 2076 BS, has been approved. The Special Economic Zone Act is amended. Due to the outbreak of COVID-19 pandemic and measures to minimize its effect the gross value added of manufacturing industry is estimated to be negative by 2.3 percent in fiscal year 2019/20. The annual average contribution of manufacturing industries over the last 5 years is 5.5 percent. Such contribution is expected to remain 5.1 percent in fiscal year 2019/20.

A single point service center has come into operation in the Department of Industry with the objective of providing all kinds of services to domestic and foreign investors from single place.

Foreign investment is increasing in industrial sector due to existing policy, legal, structural reforms and procedural simplifications. During the mid – March of fiscal year 2019/20, foreign direct investment (FDI) commitment has increased by 165.38 percent compared to that of mid-March of fiscal year 2018/19, and has reached Rs.29.67 billion.

Foreign investment of Rs.155.0 billion has been approved by Investment Board and investment commitment of Rs.29.6730 billion for 173 industries with provision of 8,906 employments is received in Department of Industry during the mid-March of fiscal year 2019/20. Investment commitment during mid-March of fiscal year 2018/19 was Rs.11.18 billion in 218 industries from which 7,953 employments was expected to be generated. From the beginning to mid-March of fiscal year 2019/20, Rs.324.0005 billion was committed for investment in 4,999 industries. Of the total registered foreign investment commitment, the share of small industries is 83.0 percent, medium 11.0 percent and small 6.0 percent

Table 4.2: Details of registered Industries during the last 10 years (Rs.in ten million)

Fiscal year	Number of registered industry	Total capital	Fixed capital	Working capital	Proposed employment
2010/11	242	9041.6	7791.3	1250.2	13,727
2011/12	279	8442.7	7936.2	506.5	16,960
2012/13	446	11960.1	10798.3	1161.8	28,535
2013/14	307	4073.7	3504.9	1258.9	11790
2014/15	370	8137.1	7743.5	1014.8	13167
2015/16	348	2054.4	1416.5	1704.0	11663
2016/17	400	1712.3	1241.63	1805.4	11842
2017/18	400	6134.9	5714.63	2132.8	13940
2018/19	344	3186.3	2462.4	1918.3	14594
Total	3136	**54742.5**	**48609.3**	**12752.7**	**136218**

Source: department of industry2019/20

According the above table the foreign investment on industry in Nepal within the last ten fiscal year. The table shows the number of foreign industry in Nepal is increasing simultaneously from fiscal year 2010/11 and 2016/17and stable in year 2017/18 and decline in year 2018/19. So the table shows number of foreign industry is in increasing trend and decline for last two year.

Table 4.3: Total Foreign Investment during last ten years (Rs. In ten million)

Fiscal year	Number of registered industry	Total Foreign Investment	Number of employment
2010/11	242	1005.3	10902
2011/12	279	713.8	9035
2012/13	446	1981.1	16569
2013/14	307	2013.2	11790
2014/15	370	6745.5	13167
2015/16	348	1525.4	11663
2016/17	400	1520.6	11842
2017/18	400	5576.6	13940
2018/19	344	2547.9	14594
Total	**1927**	**18010.9**	113602

Source: Department of Industry

According to the above table the total foreign investment in industries is Rs.10053 million in fiscal year 2010/11 similarly, Rs. 7138 million, Rs. 19811 million, Rs. 20132 million in fiscal year 2011/12 ,2012/13 and 2013/14 respectively. The total foreign investment on industries has been increasing and reached to Rs. 55479 million in fiscal year 2017/18 and it declines to Rs. 25479 million in fiscal year 20118/19.

Table 4.4: Foreign investment by country in Nepal (Rs.in ten million)

Country	**Number of industries**	**Foreign investment**	**Proposed employment**
China	1668	14109.00	79827
India	796	9773.11	73195
UK	200	1547.60	1325.30
USA	417	1329.20	18818
South Korea	357	1257.40	11898
Singapore	51	451.70	3528
UAE	22	346.50	1877
Mauritius	11	343.50	1055
Canada	47	333.70	2478
Japan	275	322.70	10419
Other Countries	1155	2586.10	50784
Total	**4999**	**32400.50**	**267132**

Source: Department of industry2019/20

Of the total industries approved for foreign direct investment, investment of China stands the highest, 44.0 percent and India stand with 30.0 percent. In terms of the number of industries registered Chinese are 33.0 percent and Indian 16.0 percent. A total of 267,132 employments is estimated to be generated from the industries to be established from foreign investment.

Table 4.5: Details of industries of foreign investment as per industry classification (by mid-march 2020)(Rs in Ten million)

Classification	Number	Total foreign investment	Proposed Employment
Agriculture and forest based industry	288	705.92	10379
Construction	46	298.30	3226
Energy	86	12880.18	11595
Information, broadcasting and communication technology	91	726.23	4911
Manufacturing	1191	5795.35	102717
Mining	72	798.10	8786
Service	1655	6178.20	70039
Tourism	1570	5018.23	55479
Total	4999	32400.50	267132

Investment growth pattern in foreign invested project is not similar. In comparison to the foreign investment made in fiscal year 2018/19 it is expected a rise in fiscal year 2019/20. The reason behind the growth in foreign direct investment commitment among others is the starting of single point service and improvement in investment environment. Of the total industries of foreign investment registered as of mid-March of fiscal year 2019/20, energy industries are 40.0 percent, service oriented industries 19.0 percent, manufacturing industries, 18.0 percent and tourism industries 16.0 percent. Investment in construction industry has the lowest, 1.0 percent. On the basis of employment generation, manufacturing industries are on top rank, construction industries are behind even in terms of employment generation. On the basis of registration of industries, highest number of industries of foreign investment are in service 33.0 percent, tourism 31.0 percent, and manufacturing sector 24.0 percent. The lowest number of industries registered are in construction and mineral sector.

4.3.1:Share of foreign direct investment as percentage of GDP

Foreign direct investment (FDI) can serve as an important source of financing to complement domestic investment for the economic growth and development of the Least Developed Countries (LDCs). The distinctive aspect of FDI in globalized context is that it brings in not only needed capital but also technical know-how, managerial and organizational skills, and access to foreign markets along with boost in productive activities to a host economy. Moreover, FDI tend to have a number of direct and indirect spillover effects through various linkage and channels that can be of considerable benefit for host economy.

Table4.6: Share of foreign direct investment as percentage of GDP(Rs.in million)

Year	**FDI**	**% change of FDI**	**GDP**	FDI as % of GDP
2000/01	-33	0	441519	-0.01
2001/02	-282	755.45	459443	-0.06
2002/03	961	-440.5	492231	0.20
2003/04	0	-100	536749	0
2004/05	136	0	589412	0.02
2005/06	-470	-445.4	654084	-0.07
2006/07	362	-177.1	727827	0.05
2007/08	294	-18.18	815658	0.04
2008/09	1,829.00	522.39	988272	0.19
2009/10	2,852.00	55.92	1192774	0.24
2010/11	6,437.00	125.7	1366954	0.47
2011/12	9,195.00	42.85	1527344	0.60
2012/13	9,082.00	-1.23	1695011	0.54
2013/14	3,195.00	-64.82	1964540	0.16
2014/15	4,383.00	37.19	2130200	0.21
2015/16	5,921.00	35.19	2253163.1	0.26
2016/17	13,503.90	128.07	2674492.8	0.50
2017/18	17,512.82	26.29	3031033.6	0.58
2018/19	13,068.77	-25.38	3464319.1	0.38

According to the table it explains the trend and pattern of FDI and its share to GDP of Nepal. So the table shows in fiscal year 2000/2001 the FDI is negative Rs.330 million and GDP is Rs.441419 million. The percentage of FDI to GDP in the same year was -0.01. The pattern FDI has been increasing and it became Rs. 175128.2 Million in fiscal year 2017/18 and it decreases and become 130687.7million till F/Y 2018/19. The share of FDI to GDP is negative but it gradually increases and peak in fiscal year 2011/12 by 0.60 percent and it has been declined in FY 2018/19 and it becomes 0.38 percent.

The percentage change of FDI is 0 in fiscal year 2000/01 and it has increased to 755.45 percent in FY 2001/02. But it is negative in FY2002/03. It gradually decreasing until FY 2007/08 but again it increased by 522.39 percent in FY 2008/09. It has been decreased by 25.38 percent in FY 2018/19.

ThegrowthofFDIhas beenlowdueto structuralproblemslikeweakbaseofphysical infrastructure, lack of sound foreign investment policies, lack of security guaranties, lackofconducive environmentfor foreign investors etc

4.3.2 Growth Trend in Government Debt

The role of government has been increasing and investing more, so the government expenditure is increasing. The reliance on taxation is not possible in view of the large amount of financial resources required for government expenditure. Therefore, Nepal is facing large and growing financial resource gap in the budgetary resource. In this context, the government borrowing both external and internal is needed for supplementing the resource gap. The government has to borrow large amount of loans to meet the fiscal deficit. Public debt is the main source for financing fiscal deficit in Nepalese fiscal system and both internal and external sources of borrowing have been adopted in any underdeveloped economy for financing fiscal deficit, which is common phenomenon in any underdeveloped economy. That total debt has been increasing rapidly since the restoration of multiparty system.Due to the rapid increasing in the government expenditure, public debt has become imperative in bridging the resource gap. The government has been unable to raise the revenue to meet the expenditure needed. Government of Nepal collects revenue from tax revenue and non-tax revenue. The state has not been able to collect tax revenue as expected due to the several reasons. All those factors have contributed to the government failure in collecting required revenue. This leaves with the government no other option then borrowing to need the revenue shortfall and the borrowing has taken place either within the country or from abroad.

Table 4.7:Trends in Government Debt and Annual Growth Rate(Rsin ten million)

Fiscal Year	External debt (ID)	External Debt (ED)	Total Debt(TD)	%of share of ID in TD	% of share of ED in TD	GDP	ID as % of GDP	ED as % of GDP	TD as % 0f GDP
2000/01	700	1204.4	1904.4	36.76%	63.2%	44151.9	1.59	2.73	4.61%
2001/02	800	769.86	1569.86	50.96%	49.0%	45944.3	1.74	1.68	3.79%
2002/03	888	454.64	1342.64	66.14%	33.9%	49223.1	1.8	0.92	3.12%
2003/04	560.78	762.9	1323.68	42.37%	57.6%	53674.9	1.04	1.42	2.95%
2004/05	893.81	926.61	1820.42	49.10%	50.9%	58941.2	1.52	1.57	3.93%
2005/06	1183.42	821.43	2004.85	59.03%	41.0%	65408.4	1.81	1.26	4.17%
2006/07	1789.23	1005.35	2794.58	64.03%	36.0%	72782.7	2.46	1.38	5.66%
2007/08	2049.64	897.89	2947.53	69.54%	30.5%	81565.8	2.51	1.1	5.64%
2008/09	1841.71	996.89	2838.6	64.88%	35.1%	98827.2	1.86	1.01	5.23%
2009/10	2991.4	1122.34	4113.74	72.72%	27.3%	119277.4	2.51	0.94	7.27%
2010/11	4251.6	1207.56	5459.16	77.88%	22.1%	136695.4	3.11	0.88	9.29%
2011/12	3641.9	1108.31	4750.21	76.67%	23.3%	152734.4	2.38	0.73	7.73%
2012/13	1904.29	1196.94	3101.23	61.40%	38.6%	169501.1	1.12	0.71	4.86%
2013/14	1998.3	1799.88	3798.18	52.61%	47.4%	196454	1.02	0.92	5.63%
2014/15	4242.3	2553.13	6795.43	62.43%	37.6%	213020	1.99	1.2	9.79%
2015/16	8777.45	3445.59	12223.04	71.81%	28.2%	225316.31	3.9	1.53	17.57%
2016/17	8833.77	5801.3	14635.07	60.36%	39.6%	267449.28	3.3	2.17	19.53%
2017/18	14475.09	9223.77	23698.86	61.08%	38.9%	303103.36	4.78	3.04	29.74%
2018/19	9638.2	21027.85	30666.05	31.43%	68.6%	346431.91	2.78	6.07	36.03%

Source- 2018/19), GoN/MoF (2000-2019Table 4.4.1 shows that the government

Borrowing and annual growth rate from the period 2000/01 to 2018/19. The contribution of both external and internal debt to the total debt has been in the pace of increasing trend. The average annual growth rate as percentage share of internal debt and external debt to total debt is 31.43 percent and 69.6 percent respectively. The above table shows that the total debt has been increased from NRs. 19,044 million in

F/Y 2000/01 to NRs.30666.05 million in F/Y 2018/19. Debt increase rapidly in recent fiscal year is for the reconstruction cause by the Earthquake 2015.

The share of internal debt and external debt as percentage of GDP is 1.59 percent and 2.73 percent respectively in F/Y 2000/01.This has been changed to 2.78 percent and 1.48 percent respectively in F/Y 2018/19. The contribution of external debt has been increased compared to internal debt in the study period from F/Y 2000/01 to 2018/19.

4.3.3: Pattern of External Debt in Nepal

The foreign assistance in terms of grants and loans are the major sources of external financing in Nepal. The need of external borrowing is growing due to the revenue deficit. Internal debt is not sufficient to government for development activities. Due to the low resource mobilization, the fund collection is inadequate. Therefore, external debt is the most essential source of revenue to the government. Nepal has borrowed the external loan through bilateral and multilateral sources. Bilateral loans are loans from government and their agencies, loans from autonomous bodies and direct loans from official export credit agencies. Multilateral loans are loans and credits from multilateral agencies such as World Bank, International Monetary Fund, Regional Development Banks and multilateral and intergovernmental agencies.

Table 4.8 Pattern of External Debt in Terms of Disbursement by Major Sources(NRs. In Million)

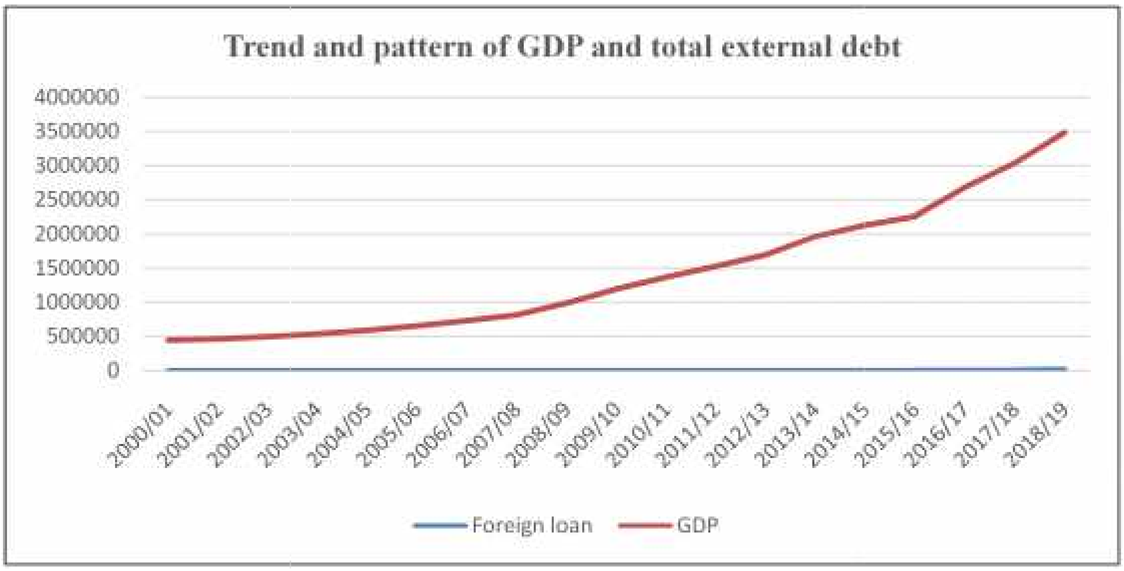
F/Y	Bilateral Debt	Multilateral Debt	Total external Debt	percent Share of Bilateral Debt	percent Share of Multilateral Debt	GDP	Bilateral Debt as percent of GDP	Multilateral Debt as percent of GDP	External Debt as percent of GDP
2000/01	586.7	11457.3	12044	4.9	95.1	441519	0.13	2.59	2.72
2001/02	87	7611.3	7698.6	1.1	98.9	459443	0.018	1.79	1.67
2002/03	657.2	3889.2	4546.4	14.5	85.5	492231	0.13	0.88	0.92
2003/04	66	7563.2	7629	0.9	99.1	536749	0.01	1.6	1.61
2004/05	126.5	9139.6	9266.1	1.4	98.6	589412	0.02	1.76	1.79
2005/06	40.6	8173.7	8214.3	0.5	99.5	654084	0.01	1.3	1.3
2006/07	9004.6	1048.9	10053.5	89.6	10.4	727827	1.23	0.15	1.44
2007/08	632.1	8347.8	8979.9	7	92.9	815658	0.08	1.71	1.14
2008/09	612.9	9356	9968.9	6.1	93.9	988272	0.07	0.99	1.06
2009/10	4550.6	6672.8	11223.4	40.5	59.5	1192774	0.4	0.6	1.02
2010/11	4823.7	7251.9	12075.6	39.9	60.6	1366954	0.3	0.5	1.01
2011/12	3254.4	7828.7	11083	29.4	70.6	1527344	0.21	0.51	0.72
2012/13	2574.4	9394.9	11969	21.5	78.5	1695011	0.15	0.56	0.71
2013/14	1573.7	19556.9	21130	7.4	92.6	1964540	0.08	1.01	1.1
2014/15	3427.6	22188	25615.6	13.4	86.6	2130200	0.16	1.04	1.2
2015/16	3201.5	30026.8	33228.3	9.6	90.3	2253163.1	0.14	1.3	1.5
2016/17	6098.7	52923.4	59022.3	10.33	89.67	2674492.8	0.23	1.97	2.20
2017/18	10489.9	79287.0	131551.4	7.9	60.2	3031033.6	0.35	2.61	4.34
2018/19	18319.9	76081.5	147271.2	12.43	51.66	3464319.1	0.53	2.19	4.25

Source: Economic Surveys (F/Y 2000/01- 2018/19), GoN/MoF (2000-2019).

Table 4.5.1 shows that the pattern of external debt in terms of disbursement by major sources. It shows that bilateral loan is in decreasing trend and multilateral loan is in increasing trend and it reflects that the total external debt has been increasing in each fiscal year expect 2006/07.

External debt is NRs. 12,044 million in F/Y 2000/01 which is increased to NRs. 33614.6million in F/Y 2017/18. The average annual growth rate of bilateral debt and multilateral debt is 17.39 percent and 82.44 percent respectively which shows that the share of multilateral debt is high in total external debt.

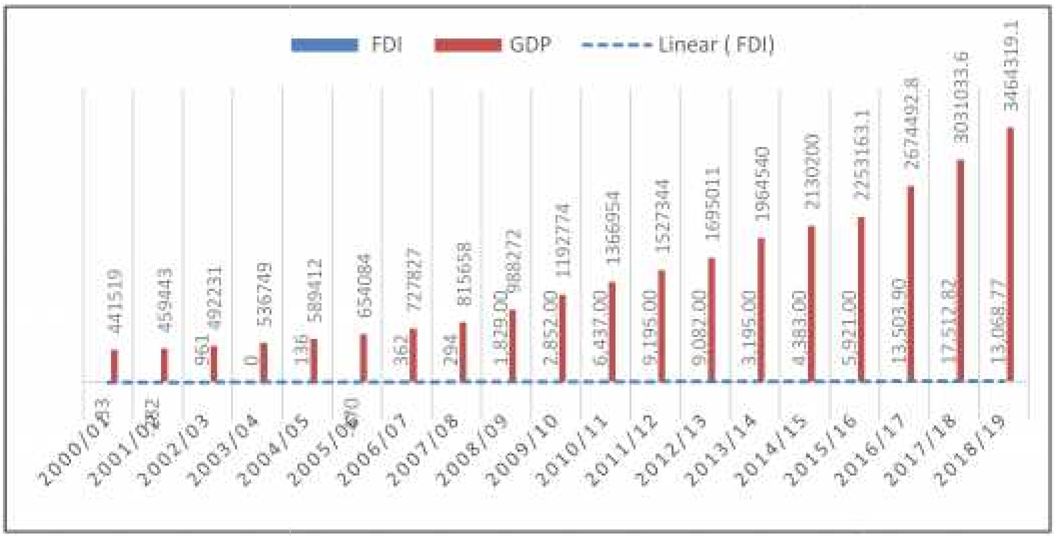
Figure 4.2: Trend and pattern of GDP and total external debt (Rs.in ten million)



Source: economic survey 2019/20

The figure shows the trend and pattern of GDP and total external debt of Nepal. So according to the above figure the trend and pattern of total external debt is simultaneously in increasing trend and the GDP in slightly in slow motion increasing but in the comparison to trend of total external debt the variation of increment of GDP is very slow or in low rang.

Figure 4.3 Trend and Pattern of FDI in Nepal(Rs.in ten million)

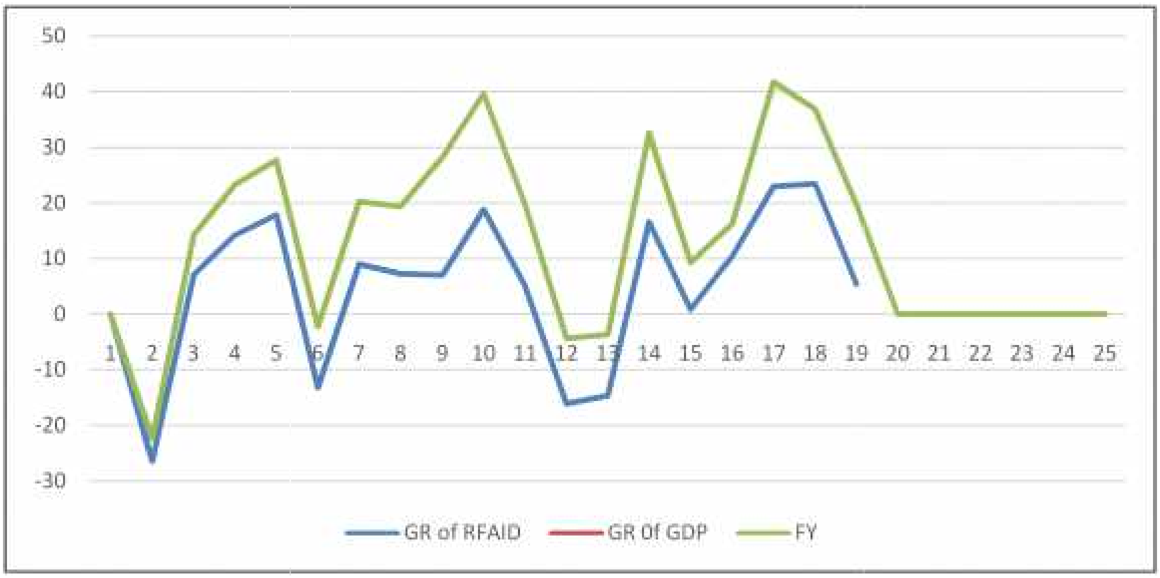


Source: economic survey 2019/20

According to the shows it explains the trend and pattern of FDI and its share to GDP of Nepal. So the figure shows in fiscal year 2000/2001 the FDI is negative Rs -330 million and GDP is Rs.441419 million. The percentage of FDI to GDP in the same year was -0.01. The pattern FDI has been increasing and it became Rs. 175128.2 Million in fiscal year 2017/18 and its decrease and become 130687.7million till F/Y 2018/19.The figure shows that the relation between the FDI and the GDP is also seen positive as there are some hindrances in the implementation. If the FDI friendly acts are implemented, and the conducive environment is made, then FDI can be a good resource for the development of the nation.

The figure explains the FDI was initially negative and gradually increased and peak in fiscal year 2002/03. Reformation of the act lured a number of investors at that period. The FDI gradually decreased and reached negative level during 2004-2008, due to country's insurgency period and political disputes. Where the FDI was Rs.18290 million in FY 2008/09 and reached over Rs.28520 million in FY 2009/10, this shows the graph-increasing trend of inward FDI. Till fiscal year 2017/18 and it declines in fiscal year 2018/19.The graph shows the trend and pattern of FDI is increasing due to political stability In Nepal has not yet tempted investors towards it comparing to other South Asian countries. India, Pakistan, Bangladesh, etc have more inward FDI than Nepal. Despite of having enough natural resources and scenic beauty, Nepal has failed to put attention to foreign investors. Nepal has not been able to attract inward FDI to its length in comparison to its neighboring South Asian countries.

Figure 4.4 Trend of foreign aid in Nepal(Rs.in ten million)



Source: economic survey 2019/20

The ratio of total federal income and federal revenue to total federal expenditure is 86.2 percent and 78.6 percent, respectively during the mid-March 2019/20. Such ratios were 84.1 percent and 80.9 percent, respectively during the corresponding period of fiscal year 2018/19. The ratio of foreign aid disbursement to total federal expenditure is 10.2 percent during mid-March of fiscal year 2019/20. Such ratio was 9.3 percent during the corresponding period of fiscal year 2018/19.

The commitment of development cooperation is increasing. Foreign aid of Rs.109.28 billion has already been committed till the mid-March of fiscal year 2019/20 which includes Rs.16.19 billion grants and Rs.93.9 billion loan. Of the total commitment made during the said period consists 14.8 percent grant and 85.2 percent loan.Such ratios of commitment of grant and loan were 12.6 percent and 87.4 percent, respectively in the corresponding period of fiscal year 2018/19. Foreign aid commitment of Rs.107.18 billion was received by mid-March of fiscal year 2018/19.

Development cooperation commitment equivalent to Rs.138.26 billion was made during fiscal year 2018/19. Of the total development cooperation commitment, the ratios of grant and loan were 24.2 percent and 75.8 percent, respectively during that period. The share of grant is decreasing in the total development cooperation in recent fiscal years.

According the above figure it explains the trend and pattern of rate of foreign aid and rate of GDP in Nepal.in fiscal year 2001/02, foreign aid is negative while the GDP is increased by 4.05 percent. Gradually, foreign aid hasincreased by23.48 percent and it becomes Rs.38357.5 million in FY 2017/18 but the rate of increased foreign aid is declined and it becomes Rs.40445.79 million in FY2018/19.

4.4Correlation Analysis

Research shows that these three indicators can comprehensively reflect geo-economic relationships between countries. Competitiveness and complementarities are reflected in the flow of resources and products between countries. In general, raw material, labor force, capital, and products flow from low-efficiency areas to high-efficiency areas, and from resource-rich to resource-poor countries or regions. Thus, we selected three comprehensive indicators (I/G,Y/G & X/M) to reflect the I/G= Total investment in fixed assets/gross domestic product Y/M = Total output of secondary and service sector,X/M = Total annual exports /total annual imports.

I/G = Total investment /gross domestic product (GDP)

Y/G = Total output of secondary and service sector /GDP

X/M = Total annual Export/Total annual imports

Table 4.9 Correlation ship between GDP and Export/Input

Variable	I/G	Y/G	X/M
I/G	1		
Y/G	0.732949	1	
X/M	-0.84585	-0.62594	1

Note: Authors calculation through Excel.

The table 4.9.1 shows that correlation between total investment, gross domestic product,total output of secondary and service sector, total annual export and total annual imports. Hence, the correlation between Y/G and I/G is 0.73 that shows strong positive relationship between total investment /gross domestic product(I/G) and total output of secondary and service sector /GDP(Y/G), the correlation between X/M and I/G is -0.84 that shows very strong negative relationship between total annual export/total annual imports(X/M) and total investment /gross domestic product (I/G) and The correlation between X/M and Y/G is -0.62 that shows strong negative relationshiptotal annual export/total annual imports (X/M) and total output of secondary and service sector (Y/G).According to the results the correlation of the related variable is not significant due to there is strong negative relation between total annual export/total annual imports(X/M) and total investment /gross domestic product (I/G) and total annual export/total annual imports(X/M) and total output of secondary and service sector (Y/G). Hence there is insignificant relationship between variable X/Mwith variable I/G and Y/G.

4.5 Problems associated to the geo-economics in Nepal in south Asia.

A permanent process of economizing geopolitics increases the flexibility of global economic relations, their dynamics reflected in transition from the analysis of geo-economics of constant economic and geographic variables to the analysis of the values of variables: capital flows, erosion of national economic systems. Description by process is referred to geo-economics. This term is widely used in the scientific literature since the 1990s, using the model of international economy, political economy, geopolitics, economic and political geography, and others. However, so far there is no consensus about the subject of geo-economics, almost all researchers beginning from Friedrich List who work on the problems of geo-economics (Renner,1942; Alexiades,1946; Braudel,1981;)

In the midst of the World War II, the American scientist Mr. George T. Renner used the term “geo-economics” for the first time in 1942 (Babic, 2009, 27). Decades later, another American scientist, Mr. Edward Luttwak, tried to theoretically substantiate the term geo-economics in his article “From geopolitics to geo-economics: the logic of conflict, grammar of commerce”, published in 1990. “Today the main battlefield is economic rather than military; sanctions are taking the place of military strikes, competing trade regimes are replacing military alliances, currency wars are more common than the occupation of territory, and the manipulation of the price of resources such as oil is more consequential than conventional arms races" (Leonard, 2015,4).

Leonard suggested that the world had entered the era of geo-economics, becoming the battlefield for obtaining, use and (re) distribution of national and international goods and services. Under these conditions traditional states have to rethink and reorganize the mode of operations in order to create and support strategically important sectors of economy through use of geo-economical weapons (research and development financing, direct financial support to economy, etc.). This in turn aims at creation of comparative advantage for these sectors in global markets.

Still as time passes these postulates have certainly undergone the evolution. As of to date there is a number of often contradictory definitions of geo-economics, which deviate by far from the initial postulates formulated by Mr. Luttwak. Stemming from this we are interested in analyzing, whether these alterations to the initial concept of geo-economy enriched or on the contrary – devalued it. In this article we aim to review the initial concept of geo-economics, as defined by Mr. Luttwakvis a vis other popular geo-economical concepts, to formulate our own vision of the modern geo-economic idea.

The South Asian Region consists of eight countries i.e. Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, which share their common historical ties and geography and ecological cycles. These countries also share a common colonial past except Bhutan, Nepal and most part of the Afghanistan. If we recognized the history of last sixty years of the post-colonial period of the region, then we found that South Asia has been the least recognized su-region across the globe. Lyon asserted that "South Asia has been a region without regionalism". Nevertheless, Nepal is an amusing and mysterious country in south Asia. The country was almost closed off completely to the outside world until the 1950s. Since the emergence of modern Nepal, due to its geographical conditions, its foreign relations with other south Asian countries have been remarkably limited. In general, Nepal occupies a unique geostrategic position where real politics is seen to get a win-win situation for Nepal continuously. However, most of the time Nepal have tried to maintain a policy of equidistance between India and China. The paper

dealt with the changing scenario in Nepal in the present time. Myriad factors play a very crucial role to determine the future of Nepal's dynamics.
Also, the geographical proximity of Nepal with India and China regions has increased its geopolitical importance and sensitivity to its regional as well as extra-regional countries.

Geographical location of the Himalayan range has to be seen in the context of its geological and geomorphologic features. As far as geographical location of Nepal is concerned, it covers 147181 square kilometers of area, and the shape of its inhabitant is almost in a rectangular shape with an average length and width of 885 kilometers and 193 kilometers respectively. It has been located approximately north-west to the south-east orientation between 80°04' and 88° 12' east longitude and 26°22' and 30°27' north latitude. If we compare Nepal with its neighboring countries like India and China, it has been found that it is 23 times smaller than India as well as 68 times smaller than China. Nepal's sandwiched location between such a two oversized and mutually hostile neighbors has been metaphorically likened to "a yam between two boulders"8-10 and often called upon a decisive importance for marching forwards towards socio-economic development.

The another important aspect of Nepal's location is it's a ladder like style on both sides physical gap in between the Indo Gangetic plain in the south and Tibetan plateau in the north. In practice, 'India-locked' from the three more accessible sides even though the nearest access to the sea is 1127 kilometers away beyond the Indian Territory. Another significant aspect of Nepal's Land-lockedness is more acute in that the other similarly handicapped countries have alternate access to the sea through more than one country. In addition to Nepal's physical extrovertedness is also more distinct in the sense that the other landlocked countries such as Switzerland or Afghanistan have their most effective parts of the central heartland both in terms of productivity as well as strategically significance whereas Nepal lies along the border with India. Therefore, as far as development process of Nepal is concerned political and geographical location play a very vital role.

As it is well known, Nepal and India have been closely linked by history, geography, culture, as well as religious, commercial and economic ties. Mutual trust and friendship, along with the desire for peace and stability, are the cornerstone of the relations between the two countries.

Nepal is an important neighbor of India and occupies special significance in its foreign policy because of the geographic, historical, cultural and economic linkages/ties that span centuries. The Nepal-India relationship is determined more by geography and history than any other considerations. The two countries not only share an open border and unhindered movement of people, but they also have close bonds through marriages and familial ties. The open border is a symbol of their deep trust and friendship13. But now days the freedom of movement at the open border eases the criminals to commit crimes of burglary, robbery, theft, murder, smuggling, narcotic drugs, human trafficking, illegal movements of arms and ammunition and many more14. These are also the factors, which have provided platform to various irritants and constraints between the two countries.

The country was India-opened even at a time when it was cut off from the rest of world until the end of the Rana regime in 1951. After India achieved independence from the British in 1947, Nepal and India signed the Treaty of Peace and Friendship in 1950 and confirmed that the border between the two countries would remain open to the great advantage of the peoples of the two countries. As such, there is no need of passport or visa formalities among the border inhabitants or other nationals of Nepal and India. Therefore, political instability and adverse security situation in Nepal has been a cause of deep concern to India. There is evidence that anti-India elements have taken advantage of the chronic political instability and poor governance in Nepal.

The establishment of diplomatic relations between Nepal and China, the rivalry between India and China has been increasing on Nepalese soil. India wants to uphold its traditional leverage in Nepal; whereas China wants to puncture this relationship and seek its own space in different layers of administration, security agencies, army and not the least among the people also. Whereas India, that always had a strong presence in Nepal, is trying to increase its political and economic influence. Also it is mainly for the political reason that the rulers of the country, for centuries, were inspired by India. This shows that the main concern for India has been to keep Nepal independent for safety reasons and not for the idealistic reason.

From time immemorial Nepal and China have been close neighbors following political changes in both countries; theestablishment of a diplomatic relationship between them on the August 1, 1955 renewed the relationship in the formal set ups. China-Nepal relationship is relatively new. China has significantly increased its engagement in Nepal since the signing of the Comprehensive Peace Agreement (CPA) in 2006, with a particularly marked increase in 2011. China's engagement in Nepal takes a variety of forms: economic investment, trade, aid, infrastructural development, military assistance, diplomatic exchanges, as well as cultural and educational initiatives.

China sees Nepal as crucial to the security of Tibet as Nepal has traditionally been a crossing point for Tibetan refugees. It seeks support from the Nepali government in controlling the twenty thousand Tibetan exiles based there, who often protest against Chinese policies in their homeland18. Nepal and China relations have become a model of friendly cooperation for countries of different social systems and neighboring countries to live in friends and harmony19. In 1961, China and Nepal agreed to construct a 104-kilometer road from Kathmandu to Kodari on the China-Nepal border, with Nepal paying no attention to the Indian criticism that the Himalayas were the natural security barrier to outside forces.

China's growing interest in Nepal is being viewed with particular concern by India. The increase in the number of visits by Chinese officials and leaders to Nepal, since the end of the monarchy and reinstatement of democratic government in that country in 2006-07, indicates that China is trying to scale up its engagement with Nepal. The concern in India arises from the hypothesis that the growing Chinese presence in Nepal could undermine both India's influence and its strategic equations with the Himalayan country.

Next to Pakistan, Nepal enjoys the second priority in China's strategic calculation. The importance of Nepal to China's strategic thinkers and planners arises not only because of its potential for being used against India in times of peace as well as war, but also because of its potential to India for being used to create instability in Tibet if there are disturbances there after the death of His Holiness the Dalai Lama.

Security stems from her geostrategic position Nepal’s occupies an important place in South Asian region. The country not only placed at the crossroads of two most powerful civilizations but also it is in the heart of the Himalayas, the formidable range of mountains separating Indo-subcontinent from the Tibet-Chinese region. Whilst India is about two thousand miles long and the Himalayan and the Tibetan plateau are the most important features of the physical and political geography of the subcontinents.Therefore the country of Nepal occupies the central position in the Himalayan and also control about one-third of the mountain range.

Since its foundation, Nepal’s security has always been a major issues concern. The country’s security policy began to evolve during the period of unification (the 1750s to 1760s), but it was conceptualized later by the founder King Prithivi Narayan Shah. Basically, the security was evolved in Nepal against the backdrop of threats posed by the East India Company in India and Tibet in China during 18th and 19th Century. The security perceptions that evolved at that time did not change even with the passage of successive regimes even after India became independent from British colonialism and on other hand, the birth of China as a People’s Republic after Communist Party took over the power in the year 1949.

In recent days, India and China have expressed their great concern about the escalation of violence and its breakdown of law and order in the country. Actually, they see the growing conflict in the country which would have spillover effects on the border area of both the countries. The hijacking of an Indian Airlines New Delhi-bound flight from Kathmandu by the terrorists in the year 1999 has raised the serious possibility of using Nepal’s land against India’s internal matters. The increasing nexus between various armed groups in Nepal and India human trafficking and uncontrollable migratory movements are issues that India and Nepal have recognized as the newer threats to the security as well as interests of both countries. India has continuously asked Nepal to control the illegal activities of alleged Pakistani intelligence supported groups working against India from Nepal’s land. The security concerns of India has become alive after the northern border has become sensitive because of security concern along with China going Communist in the year 1949 and annexing Tibetan in the year 1950.

As far as security is concern India's anxiety is the use of Nepal's territory for anti-India activities whereas Nepalese Prime Minister has already assured that the country's land will not allow for any security activities against India26. Whilst, the Nepali Prime Minister's assurance seems to be in favor of India but the major concern about it is how long this assurance is going to stay. As the country of Nepal has been increasing closeness with China which will be some security concern for India, on the other hands presently China's concern regarding security is that insecurity and instability in the country of Nepal might strengthen anti-China elements along its Tibet Autonomous area borders which seek China's trouble spot.

China is also concerned about the country which is being used by other powers country to challenge its strategic interests. Chinese security analysts argued that the country is being used by the United States of America in its larger strategy of encircling China. From the land of Nepal, several demonstrations in the capital of Nepal, as well as Tibet by Tibetan separatists, have been taken place. This has led China to be skeptical on external engagement in the country. The Chinese Ambassador ZhengXianling raised this issue and also remarked that foreign forces were actively involved in initiating the anti-China China activities in the country. Therefore China developed its relations with the Maoists to serve its security interests in Nepal. The Maoists in Nepal are sympathetic to China due to ideological empathy. Whilst the Maoists extended their hands towards China as they require support from any powerful country. China accepted it as Maoists view, India and the USA as 'imperialist power' and argued that they were also fighting against their interference in Nepal's politics. The geopolitical location of the country along with China proactive South Asia policy has unambiguously accentuated the security dilemma in the region.

By examining South Asia as a regional subsystem, the discussion which has been made above analyze the strategies that the two giants of regional power i.e. India and China have pursued with respect to the country of Nepal, an insignificant neighboring nation in the region. Indian and Chinese strategies reflect their respective desires to enhance their relative impact over Nepal on the cost of each of them. Both the countries display a lack of satisfaction with current status quo and have pursued strategies that have goals of maximization the share of their regional power. In so far as the strategies of India and China are concerned to the Nepal, an offensive realism seems to be played in the region. In an incessant security competition, the small states seek to preserve their sovereignty by restoring the balance in its strategies.

Therefore, such states promote their country’s interest by not explicitly supporting any one great power. But pursuance of their policies that preserve their independent existence that is true in Nepal’s case. Nepal has repelled when the attempts have been made by both India and China for saying about its priority on foreign policy. As a small landlocked state, the country of Nepal has been forced to keep good humor with its neighbors. Whilst, Sino-Indian security competition over the increasing the power and enhance their influence in South Asia has been the major reason in the evolution of Nepal’s foreign policy.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATION

The South Asian Region consists of eight countries i.e. Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, which share their common historical ties and geography and ecological cycles. These countries also share a common colonial past except Bhutan, Nepal and most part of the Afghanistan. If we recognized the history of last sixty years of the post-colonial period of the region, then we found that South Asia has been the least recognized su-region across the globe. Lyon asserted that “South Asia has been a region without regionalism”. Nevertheless, Nepal is an amusing and mysterious country in south Asia. The country was almost closed off completely to the outside world until the 1950s. Since the emergence of modern Nepal, due to its geographical conditions, its foreign relations with other south Asian countries have been remarkably limited. In general, Nepal occupies a unique geostrategic position where real politics is seen to get a win-win situation for Nepal continuously. However, most of the time Nepal have tried to maintain a policy of equidistance between India and China. The paper dealt with the changing scenario in Nepal in the present time. Myriad factors play a very crucial role to determine the future of Nepal’s dynamics.Also, the geographical proximity of Nepal with India and China regions has increased its geopolitical importance and sensitivity to its regional as well as extra-regional countries.

Geo-economics as a form of statecraft or as economic geography perspectives, less so the critical geography view. However, economics itself is a contested term that carries different connotations to different people. Economics can variously be taken to mean, e.g. balancing of income and expenses (the classical political economy view), anything involving calculative behavior (mainstream economic sociology), or just about anything that has been labeled economics. In deepening our understanding of geo-economics, we need to probe more deeply into the interconnections between space, politics and economics.

All what we said above indicates that geo-economics is not a scientific discipline. It is most likely economical (as well as geopolitical) dynamic ideology, aimed at achievement of particular geostrategic goals of the state.

This chapter is the central part of the study, major findings and facts are in this section. This chapter not only shows the over view of the study, it may provide recommendation. Conclusion has drawn on the basis of findings of the study and through which recommendations are attempted.

5.1: Summary of the Findings

The major objectives of this study are to analyze the status and pattern of export and import and effect of geo-economic towards GDP, foreign aid, foreign debt in Nepal. These objectives are analyzed and finding result on the following tables, figures and trend lines. The major findings on effect of geo-economic towards GDP, foreign aid, foreign debt, foreign direct investment and status and pattern of export and import are as follows:

I. All what we said above indicates that geo-economics is not a scientific discipline. It is most likely economical (as well as geopolitical) dynamic ideology, aimed at achievement of particular geostrategic goals of the state. Nepal has been taking big amount of external and internal loan with the obligation of future repayment. In Nepalese context, foreign loan share is rapidly increasing which increase financial and real burden for the future generation. Therefore, the debt servicing is one of the problems of Nepalese economy because most of the portion of revenue has been used to pay the interest of internal and external debt. The external debt is in confessional rates whereas internal borrowing in normally at market rate. As a result, repayment amount of internal debt is grater then the external one. The public debt of Nepal is still burdensome, as foreign loan are available at subsidized rate.

II. The increasing trend of internal debt is greater than external debt. The average annual growth rate of internal debt as percentage of GDP is 2.12 percent, external debt as percentage of GDP is 1.60 percent and total debt as percentage of GDP is 9.76 percent which shows that the burden of internal debt is growing rapidly than the burden of external debt. Thus to remove this problem of burden proper debt management is necessary in Nepal.

III. This export import gap situation clearly show that export import gap is increasing in each fiscal year and each fiscal year we are in tread deficit. Big amount of money goes as a trade deficit and we always have to take Public Debt.

IV. The relation between the FDI and the GDP is also seen positive as there are some hindrances in the implementation. The percentage change of foreign direct investment is peak in FY2007/08 by 52.39 but it has declined by 25.38 percent in FY 2018/19. India has occupied 35% and china has 25.6% foreign investment of total foreign investment**.**

V. The relation between the FAID and the GDP is also seen positive

5.2 Conclusion

Geo-economics is one of the most important foreign policy phenomena today. States are increasingly turning to the use of economic instruments rather than traditional political and military ones to pursue their desired state All what we said above indicates that geo-economics is not a scientific discipline. It is most likely economical (as well as geopolitical) dynamic ideology, aimed at achievement of particular geostrategic goals of the state. But we can try to make a generalization of factors which geopolitics repelled sidelined. For example, in determining the economy, there is one aspect on which the views of all scientists converge. This is an urgent need to improve the level of education and lifelong learning (especially the state bureaucracy), which meet the requirements of the new economy, as well as the skills of the state apparatus to promote their own companies on markets outside the country. Based on the foregoing geo-economy generally can be defined as the ability of Political elite and state bureaucracy apply predominantly economical methods for securing the competitiveness of a nation’s economy and pave the road for its expansion on global and regional markets All what we said above indicates that geo-economics is not a scientific discipline. It is most likely economical (as well as geopolitical) dynamic ideology, aimed at achievement of particular geostrategic goals of the state. But we can try to make a generalization of factors which geopolitics repelled sidelined. For example, in determining the economy, there is one aspect on which the views of all scientists converge. This is an urgent need to improve the level of education and lifelong learning (especially the state bureaucracy), which meet the requirements of the new economy, as well as the skills of the state apparatus to promote their own companies on markets outside the country. Based on the foregoing geo-economy generally can be defined as the ability of Political elite and state bureaucracy apply predominantly economical methods for securing the competitiveness of a nation's economy and pave the road for its expansion on global and regional markets ends. Geo-economics is an approach to territory and security that differs to that of geopolitical concerns about the protection of national borders and economies, territorial expansion and political alliances. The geo-economic emphasis on global economic competitiveness has altered both the domestic and the foreign policies of states, even if long-term goals have remained broadly consistent. Term geo-economics is defined "The use of economic instruments to promote and defend national interests, and to produce beneficial geopolitical results. "

Based on the following facts on the study of status and pattern of export and import and effect of geo-economic on GDP, foreign debt, foreign aid in Nepal. We conclude it into two parts:

I. One deal the shows that, there is increase in trade deficit every year in increasing rate.

II. Second dealt with there is no remarkable /significant contribution of foreign debt in economic development and economic growth of Nepal. That only increase the financial burden to future generation.

5.3 Recommendation

All what we said above indicates that geo-economics is not a scientific discipline. It is most likely economical (as well as geopolitical) dynamic ideology, aimed at achievement of particular geostrategic goals of the state.

I. We can try to make a generalization of factors which geopolitics repelled put aside. For example, in determining the economy, there is one aspect on which the views of all scientists congregate. This is an urgent need to improve the level of education and lifelong learning (especially the state bureaucracy), which meet the requirements of the new economy, as well as the skills of the state apparatus to promote their own companies on markets outside the country. Based on the foregoing geo-economy generally can be defined as the ability of Political elite and state bureaucracy apply predominantly economical

II. Method for securing the competitiveness of a nation's economy and pave the road for its expansion on global and regional markets.
III. It is found that the development of infrastructures leads to increment in export. Hence, the Government should focus on to keep developing transport and road facilities to bring a balance of trade between export and import.
IV. The government has promotes the domestic inputs based industries by providing different subsidies and incentives to reduce the importand reduces the import and export gap.
V. FDI is positively correlated with the economic development of the nation, which can be maintained through the favorable economic policy of the nation. The focus on attracting FDI will be necessary, not only to increase investment in the economy but also to maintain external stability
VI. The relation between the FDI and the GDP is also seen positive as there are some hindrances in the implementation. If the FDI friendly acts are implemented, and the conducive environment is made, then FDI can be a good resource for the development of the nation.
VII. The policy has provisioned one door one window, one step policy to inflows the FDI but the reality in practice is different. Many doors and windows are there in practice. Focusing on the one door policy is the urgent need.

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Appendix 1

Data for various variables (Rs.in ten million)

Year	**GDP**	**Investment**	**Export**	**Import**	**Manufacturing and Service sector**
2000/01	41342.85	9864.87	5565.41	11568.72	5735.97
2001/02	41409.2	9301.95	4694.48	10738.9	8792.45
2002/03	42969.93	10538.32	4993.06	12435.21	7361.23
2003/04	44865.43	13167.05	5391.07	13627.71	8271.29
2004/05	46316.5	15590.67	5870.57	14947.36	12661.62
2005/06	48043.46	17563.28	6023.41	17378.03	5675.34
2006/07	49365.06	20877.85	5938.31	19469.46	4590.65
2007/08	52225.99	24727.2	5926.65	22193.77	11369.98
2008/09	54265.24	31302.87	6769.75	28446.96	11024.92
2009/10	56575.91	45648.93	6082.4	37433.52	5832.15
2010/11	58753.39	51926.82	6433.85	39617.55	7796.57
2011/12	61463.65	52688.9	7426.1	46166.77	23616.5
2012/13	63777.09	63260.12	7691.71	55674.03	15275.29
2013/14	67422.67	80875.79	9199.14	71436.58	16333.24
2014/15	69426.94	83198.26	8531.91	77468.42	19870.08
2015/16	69568.77	76341.64	7011.71	77359.91	51904.86
2016/17	74955	125213.32	7304.91	99011.32	45936.58
2017/18	79678.45	167242.1	8135.98	124510.32	65437.71
2018/19	85106.93	215717.81	9710.95	141853.53	42960.75

Appendix II

I/G: ratio of total investment /GDP

Y/G: ratio of total output of secondary and service sector/GDP

X/M: ratio of export/import

Data for various variables (Rs.in ten million)

I/G	Y/G	X/M
0.238611	0.138742	0.481074
0.224635	0.212331	0.437147
0.245249	0.171311	0.401526
0.293479	0.184358	0.395596
0.336612	0.273372	0.39275
0.365571	0.118129	0.346611
0.422928	0.092994	0.305006
0.473465	0.217707	0.267041
0.576849	0.203167	0.237978
0.806862	0.103085	0.162485
0.88381	0.1327	0.162399
0.857237	0.384235	0.160854
0.991894	0.239511	0.138156
1.199534	0.242251	0.128774
1.198357	0.286201	0.110134
1.097355	0.746094	0.090638
1.670513	0.612855	0.073779
2.098963	0.821272	0.065344
2.534668	0.504786	0.068458

Appendix III

Data for various variables

FAID: Foreign Aid

GDP: Gross Domestic product(Rs.in million)

FY	**FAID**	**GDP**	GR of FAID	GR 0f GDP
2000/01	1879.75	441519	-	-
2001/02	1384.085	459443	-26.3687	4.059621
2002/03	1482.834	492231	7.134605	7.136467
2003/04	1694.811	536749	14.2954	9.044128
2004/05	1997.745	589412	17.87421	9.811476
2005/06	1733.8	654084	-13.2121	10.97229
2006/07	1889.934	727827	9.005306	11.27424
2007/08	2027.864	815658	7.298138	12.06757
2008/09	2170.64	988272	7.040709	21.16255
2009/10	2580.865	1192774	18.8988	20.69289
2010/11	2714.109	1366954	5.162765	14.60293
2011/12	2277.325	1527344	-16.0931	11.73339
2012/13	1943.541	1695011	-14.6568	10.97768
2013/14	2266.996	1964540	16.64256	15.90131
2014/15	2285.895	2130200	0.833658	8.432508
2015/16	2525.073	2253163.1	10.46321	5.772373
2016/17	3106.163	2674492.8	23.0128	18.69948
2017/18	3835.765	3031033.6	23.48885	13.33116
2018/19	4044.579	3464319.1	5.443868	14.29498

Appendix IV

Fiscal fear	GDP	External debt
2000/01	441519	1204.4
2001/02	459443	769.86
2002/03	492231	454.64
2003/04	536749	762.9
2004/05	589412	926.61
2005/06	654084	821.43
2006/07	727827	1005.35
2007/08	815658	897.89
2008/09	988272	996.89
2009/10	1192774	1122.34
2010/11	1366954	1207.56
2011/12	1527344	1108.31
2012/13	1695011	1196.94
2013/14	1964540	1799.88
2014/15	2130200	2553.13
2015/16	2253163.1	3445.59
2016/17	2674492.8	5801.3
2017/18	3031033.6	9223.77
2018/19	3464319.1	21027.85