

**NEPAL-INDIA RELATIONS: DEPENDENCY, CONSEQUENCES AND
STRATEGIES**

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LETTER OF RECOMMENDATION

I certify that this dissertation entitled “Nepal-India Relations: Dependency, Consequences and Strategies” has been prepared by Ms. Gita Gurung under my supervision. I hereby recommend this dissertation for final examination by the Research Committee, Department of International Relations and Diplomacy, Tribhuvan University in fulfillment of the requirements for the Degree of MASTER’S IN INTERNATIONAL RELATIONS AND DIPLOMACY.

.....
Prof. Dr. Khadga K.C.

Supervisor

Date: November 15, 2020

DECLARATION

I hereby declare that this dissertation is my own work and that it contains no materials previously published. I have not used its materials for the award of any kind and any other degree. Where other authors' sources of information have been used, they have been acknowledged.

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ABSTRACT

Nepal is positioned between two large nations- India and China but it is more close to India due to its' accessible geography, shared historical, economic, religious, socio-cultural and people to people ties from the ancient time. Although Nepal constructed Kathmandu-Khasa highway in 1960s, geographical constraints like land locked situation and poor connectivity facilities with China has been obstructing Nepal to diversify its relations. As a result of geographical constraints coupled with structural scarcity, Nepal has been asymmetrically depending over India for its access to sea, trade and commerce and in large, this economic dependency is also disaffecting Nepal's security and foreign policies. India has been supporting in political transitions in Nepal whenever its interests synchronize with anti-regime groups. Taking advantage of Nepal's economic and political dependency, India's interferences in Nepal's internal affairs are observed time and again. Whenever Nepal's tries to diversify her foreign policy engaging with northern neighbor in economic, military, foreign or political affairs; India expresses its dissatisfaction using its unofficial hard economic power. India imposed economic blockades in 1969, 1989 and 2015. Realizing asymmetrical dependency over single country increasing vulnerabilities and threats to any nation, Nepal has been using different strategies in different periods to skip from India's dominance. In this context, this research first discussed Nepal-India relations and explored political, economic and military dependency of Nepal. Then, it explained about the consequences that Nepal is facing due to its asymmetric dependency over one country. Finally, the paper critically examined the different policies used by Nepal in the past and also suggested other possible strategies by comparing them with the successful strategies of small European state- Switzerland.

Keywords: Nepal-India, Relations, Dependency, Consequences and Strategies.

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LIST OF ABBREVIATIONS/ACRONYMS

| | |
|---------|--|
| ADB | Asian Development Bank |
| AIIB | Asian Infrastructure Investment Bank |
| ASEAN | Association of South East Asian Nations |
| BIMSTEC | Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation |
| BRI | Belt and Road Initiative |
| BRICS | Brazil, Russia, India, China and South Africa |
| CARICOM | The Caribbean Community and Common Market |
| CPN | Communist Party of Nepal |
| DFHRI | Democratic Freedom and Human Rights Institute |
| EPG | Eminent Persons' Group |
| FDI | Foreign Direct Investment |
| FTA | Free Trade Area |
| GDP | Gross Domestic Product |
| GONFCGO | Government of Nepal Financial Comptroller General's Office |
| GONMOF | Government of Nepal Ministry of Finance |
| INSEC | Informal Sector Service Center |
| IMF | International Monetary Fund |

| | |
|-------|--|
| LDCs | Least Developed Countries |
| LPG | Liquefied Petroleum Gas |
| MOU | Memorandum of Understanding |
| NAM | Non-Aligned Movement |
| NATO | North Atlantic Treaty Organization |
| NDB | New Development Bank |
| NICCI | Nepal-India Chamber of Commerce and Industries |
| MFN | Most Favored Nations |
| NRB | Nepal Rastra Bank |
| OAS | Organization of American States |
| R & D | Research and Development |
| SAARC | South Asian Association for Regional Cooperation |
| SAFTA | South Asian Free Trade Area |
| SCO | Shanghai Cooperation Organization |
| SPA | Seven Parties' Alliance |
| UNMIN | United Nations Mission in Nepal |
| UNSC | United Nations Security Council |
| WTO | World Trade Organization |
| ZOP | Zone of Peace |

CHAPTER 1. INTRODUCTION

1.1 Background

India and Nepal share intimate friendship and interconnection through eons. Geography, history, culture and people to people ties are the bases of Nepal-India relations. Since, 1769 AD, the political, security and economic relations of contemporary Nepal and India has been featuring various forms and occurrences.

Nepal has developed its foreign policies in line with political development took place in the history of India. In the era of unification that spanned 1769 to 1815 AD, the Shah regimes were very cautious on the foreign policy issues. So, the regime followed the traditional exclusive political monopoly while maintained the controlled economic activities across the India and China. Prithivi Narayan Shah, the founding father of modern Nepal suggested maintaining close friendship with China whereas he also advised to keep good relations with shrewd British India but with enough carefulness (Khanal, 2019, p.98).

After the Sugauli Treaty, i.e., 1815 to 1846 A.D, East India Company pursued to indulge in engaging Nepal to suit their political purpose. Subsequently, the political volatility inside palace culminated with the rise of the Rana regime. The regime extended the friendship with the East India Company that ruled from 1846 to 1951 AD. The regime supported the East India Company in various wars and revolts with the intentions to save its own throne (Malla, 1983, pp.33-35).

The political system of both the nation embarked on the new era following the regime change post 1950 AD. Despite the various political changes, the interconnection of the political, social and economic system remained intact. Nepal's

good access with connectivity facilities with India promoted Nepal's closer socio-economic, cultural, religious, trade and commerce, security and people to people ties with India than China.

Generally, small land locked developing states like Nepal have limited capabilities. Their foreign policy agenda is significantly influenced by their geographic size and location, the limited human and natural resources at their disposal and the geo-political regional framework they operate in (Bhattarai and Cirikiyasawa, 2020, p.53). Great powers have larger economic, military, diplomatic and technological capabilities whereas small powers with geographical constraint, located in between two large countries like Nepal are inferior in terms of these capabilities. As a result, they become dependent on neighboring powers in trade, defense and other capabilities. Nepal also became more and more dependent on India due to its structural constraints.

Physical geographical situation of Nepal has contributed in Nepal's dependency over India limiting its choice to diversify its economic, defense and foreign relations. As a result, Nepal's trade, commerce and access to sea are fully dependent over India. Nepal's prosperity, stability and relations with the rest of the world are dependent over India. Taking the advantage of geographical location, India always tries to enter in the internal matters of Nepal in order to achieve its self-interests from historical time period (Mishra, 2004, pp.627-646).

Nepal exported total goods and services amounting 28.02 percent in 1980s, 16.15 percent in 1990s and 59.04 percent in 2000s to India whereas Nepal imported 24.01 percent of total goods and services in 1980s, 22.39 percent in 1990s and 58.06 percent in 2000s from only India (Khanal, 2014). Trade deficit report reveals that Nepalese

economy is highly dependent upon Indian economy and deeply affects by its economic, security and foreign policies. The main reason of the outcome is the existence of Nepal as a small land-locked country between the two giants coupled with the structural constraints that stymied the endeavors to accelerate the development goal.

High Himalayas in Nepal's northern bordering area have limited its easy connectivity with China because of which Nepal's trade with China is minimal in comparison with that of India (Subedi, 2016, p. 45). 65 percent of Nepal's total export and 63 percent of its total import is dependent over India because of good connectivity facilities and geographical accessibility with India (K.C. and Bhattarai, 2018, p.79). Due to this over dependency in single country, Nepal also faced economic embargoes and blockades time and again from its southern neighbor.

Internal production is very low in Nepal. According to Ministry of Finance (2019), Nepal's industries are contributing only 5.7 percent in Nepal's GDP. Nepal is exporting large quantity of raw materials in low cost which can only import low quantity of finished goods with high cost from India and other nations. Nepal is even dependent over 15.7 percent of import of agro and animal based essential food products required for sustaining life (National Planning Commission, 2019). Moreover, foreign loan and grants are the source of 24 percent of expenditure of Nepal's budget of fiscal year 2020/21 whereas around 70 percent of its developmental expense is dependent over foreign assistance (GONMOF, 2020).

Robust economy is a prerequisite phenomenon to ensure reliable, secure and sovereign international relations. The ratio of strength of diplomatic maneuver of a country is directly proportional to its economic dominance. The capability of India to

influence the Nepal policies using its economic maneuvering has been observed in the occurrence of the various developments over the years.

1.2 Statement of the Problem

Shared history, culture, religion and tradition are the bases of multi-dimensional age old –socio-cultural, political, economic and religious relations between Nepal and India. But due to Nepal's geographical situation and structural scarcity, India has been dominating in Nepal's economy, politics, security and foreign relations (Mishra, 2004, p. 627). Nepal's prosperity, stability and relations with the rest of the world are dependent over India due to its accessible geographical connection. India has been using its economic power and geographical constraint of Nepal to influence Nepal's policies.

Nepal's trade deficit with India increased by 200 percent in the time period of three decades from 1981 to 2011 (Adhikari, 2016, p. 6). Out of Nepal's total foreign trade, only 30 percent was with India during Panchyat era but today the trade dependency with India is above 63 percent due to which even a small change in Indian policy could wholly affect Nepali industries, tourism, education and daily life (p.7).

India's role in Nepali movements and politics began during establishment of democracy in late 1940s (Sharma, 1998). Whenever Indian interests in Nepal not get fulfilled, it uses its hard economic power to influence Nepal's policies. When Nepal decided to remove Indian military check posts from its northern border, India imposed economic blockade to Nepal in 1969. Similarly, India again imposed economic blockade to Nepal in 1989 when Nepal bought weapons from China. The latest blockade was imposed in 2015 due to Nepal's ignorance to incorporate Indian

suggestions while drafting new constitution. India has been playing in Nepal's internal matters ranging from 12 points agreement signed in Delhi to India's interference while drafting Nepal's constitution in 2015 (Khanal, 2016, pp.341-480).

Nepal adopted different strategies to cope with the adverse consequences and threats posed due to its unilateral dependency over India but the recent incidents of political interferences and blockade indicates ineffectiveness of those policies.

1.3 Research Questions

- How is the relations between Nepal and India?
- What are the consequences of Nepal's asymmetric dependency over India?
- Which strategies should Nepal adopt to cope with its external threats?

1.4 Objectives of the Study

- To access Nepal- India relations.
- To examine the consequences of Nepal's asymmetric dependence over India.
- To explore strategies of Nepal to cope with external threats.

1.5 Delimitations of the Study

The study was delimited in many ways. Individual researcher has to face so many obstacles while undertaking research work. This research was mainly based on the published and unpublished primary and secondary data. It was difficult to find out relevant materials in some extent. So, the availability of resource material is an important part of any research, and as in this research there was scarcity of proper resources.

This study has covered the realist theory mainly focusing on economic, political and security relations between India and Nepal. It has drawn its conclusions on the basis of the consequences of dependency of Nepal to India.

1.6 Organization of the Thesis

The following will be the order of the chapters for the proposed thesis:

Chapter One: Background and Introduction

Chapter Two: Literature Review

Chapter Three: Conceptual Framework and Research Methodology

Chapter Four: Nepal-India Relations and Dependency

Chapter Five: Consequences of Nepal's Asymmetric Dependency

Chapter Six : Strategies of small states: Nepal's strategies in comparison to Swiss
Policies

Chapter Seven: Summary and Conclusion

CHAPTER 2. REVIEW OF THE LITERATURE

2.1 Small States in International System

There is no universally accepted or internationally agreed definition of small states (Henrikson, 2001, p. 56). Less population, small territorial size as well as economy and limited military capabilities are the basic features of small states (East, 1975, p. 160).

United Nations in 1969, termed states having population up to one million as small states. But in 1971, United Nations Institute for Training and Research defined small states as those states having exceptionally low population, area as well as human and economic resources (Maass, 2009, pp.65-83). World Bank identifies small states as countries having 1.5 million or less population and having rank above 75 percentile in "Political Stability and Absence of violence" in its global governance indicators (The World Bank, 2019). In case of Nepal as well, its economy is small and lacks political stability but its area and population are not exceptionally small.

Small states are those international actors which do not have ability to apply power to other states and also cannot resist whenever other states apply power to them (Fox, 1959, pp. 2–3). Nepal also couldn't resist power when India imposed blockade to Nepal in different time periods.

But, Robert Keohane and Robert Rothstein see small states as the matter of perception (Keohane, 1969, pp. 291-310). Rothstein argues, "A small power is a state which recognizes that it cannot obtain security primarily by use of its own capabilities and that it must rely fundamentally on the aid of others". Though Nepal has its own security arrangements, it has structural scarcity in economic and security terms due to

which it is dependent on foreign powers for arms, ammunitions and war like materials.

Keohane says, “A small power is a state whose leaders consider that it can never, acting alone or in a small group, make a significant impact on the system”. Nepali leaders' perception that they cannot change or impact the existing system without Indian support verifies Nepal as a small state as per Robert Keohane's definition.

A state may be defined as small based on its weak international position and less influence on the international system (Kosary, 1987, p. 2). There are different views on the power of Nepal. Bhattarai (2017, p.4) discussing whether Nepal is a small power or not argues that smallness is a matter of influence and Nepal is small in comparison with its two large neighbors having global strategic and economic influence but European nations of Nepal's size are not considered small.

In case of Nepal, Nepal possesses low level of military, economic, diplomatic and technological capabilities in comparison with its large neighbors. Nepal's foreign policy agenda is significantly influenced by its geographical size and location, scarcity in economic and military structures and the geo-political regional framework (Bhattarai and Cirikiyasawa, 2020, p.53).

Due to Nepal's geo-strategic position, China and India are competing for their influence in Nepal which can be illustrated by their competition for commitment to connect Kathmandu with their railways. Also, India is assisting Nepalese living near Nepal-Tibet border areas whereas China is operating Confucius centers in Nepal-India border region (Jaiswal, 2016, p.99).

Nepal's geographical positioning has given it both vulnerabilities and opportunities. Nepal's geo strategic importance to power nations is increasing every day due to which it can emerge as a vibrant bridge between China and South Asia if best connectivity infrastructures can be developed and geo-politics can be managed in an efficient way (Bhattarai, 2019, p.114).

2.1 Challenges of Small States

The economic challenges of a small state coded by the Report of the Commonwealth Secretariat / World Bank Joint Task Force on Small State are remoteness and isolation, income volatility, openness, limited diversification, vulnerability to Natural disasters and environmental change, access to external capital, poverty and limited institutional capacity (The World Bank, 2000).

In small states, political set up struggles to nurture the norms of real democracy. As the society is less diversified, uneducated and economically underdeveloped, it is politically less active. This situation of small state further led to the “legitimacy crisis”. Legitimacy crisis is the incapability of a political system to engender and maintain the belief that existing political institutions are the most appropriate or proper ones for society. There are possibilities of military topples and real challenge of sustaining democracy and attracting mass participation in politics (Lipset,1959, p. 86).

Small states usually having small geographical size possesses limited military capability. They have small militia, limited combat hardware and techniques. They do not have retaliatory capability during external invasion. Similarly, they do not have technical capability to produce military technologies in their own country due to which either they purchase weapons from other countries or receive them in aid from

foreign powers. Small states are also weak to tackle the non- conventional forces due to which external elements make them as their playground to carry out illicit activities like drugs and human trafficking, terrorism, etc. which further deteriorate social and political situation inside the country (Gupta, 1998, pp. 519-524).

2.2 Theoretical Premises on Dependency

Dependency is defined as an explanation of the economic development of a state in terms of the external influences--political, economic, and cultural--on national development policies (Sunkel, 1969, p. 23).

Some experts consider dependency as a historical condition shaping the structure of world economy in a certain way such that some power nations becomes determinant to the fate of small nation (Santos, 1971, p. 231).

Rational choice theory of economics assumes that rational people pursues to maximize utilization out of the available resources. Scarcity simply denotes the gap between the resources and theoretically limitless wants. In other words, scarcity is lack of resource like material, capital, human resources, information, institutions and so on. Structural scarcity thus can perceive the concept of structural power. Structural power is “the power to shape framework within which states relates to each other, to people or to corporate enterprises” (Strange, 1988, p. 25). There are four primary power structures: security, knowledge, production and finance (p. 26).

Liberal reformer, Prebisch-Singer's dependency theory propounded that wealthy state refers as core are enriched by resources flow of poor state refers as periphery state (Harvey, Kellard, Madsen, 2010, p.357). It added that term of trade for underdeveloped countries deteriorate as it will able to purchase fewer and fewer

manufactured goods from developed countries in exchange for a given quantity of primary products it export to them. Prebisch-Singer hypothesis states that price of primary products decline relative to the price of manufacturing good over the longer term that causes the term of trade of primary-product-based economies deteriorate (p.358).

Prebisch-Singer's concept contrasts with the neo-classical theory which assumes growth in economic activities in any countries as beneficial to every country though unequally benefitted. Prebisch –Singer's solution of the problem of periphery is through the policy of import substitution so that they need not purchase the manufactured products from the richer countries.

Marxists theorists viewed the persistent poverty as a consequence of capitalist exploitation. Marxist thinker, Frank views underdevelopment of periphery states at present as a by-product of their continuous engagements with core countries from historical time period as a part of Capitalist system (Frank, 1972, p.3). In short, economic and political powers in international system are heavily centralized in the industrialized and developed countries.

Another concept, Patron-Client theory also discusses dependency of client state over patron state. The idea of patron-client has a root in anthropology in which tribal chief (patron) provides financial assistance and security to the people of the tribe whereas peasants (client) become loyal towards the chief. In International relations as well, big power (Patron) provides financial and security assistance to small power (Client) using its superior resources and influence for which client has to show its loyalty through solidarity in international forums or matters and by providing strategic advantage to its patron (Scott, 1972, p.92).

Three major characteristics of Patron-Client relations are reciprocity, asymmetric relations and patron's interest (Scott, 1972, p. 93). Reciprocity means Patron state provides foreign aid and military assistance to the client and client state also has to provide something in return to patron state like solidarity and loyalty. In the same way, asymmetric relations denote unequal relations in which Client has to be more dependent over Patron than that of Patron towards client.

Finally, Patron state has some interests from its client state. The objectives of patron may be ideological convergence of client state which was the main target of Patron during cold war time. Soviet Union had a desire that its client states need to follow communist system whereas USA had an intention that its clients adopt capitalist democratic system of governance. In the contemporary international relations, patron has an aim to get support or same voice of Client state in international forums and issues.

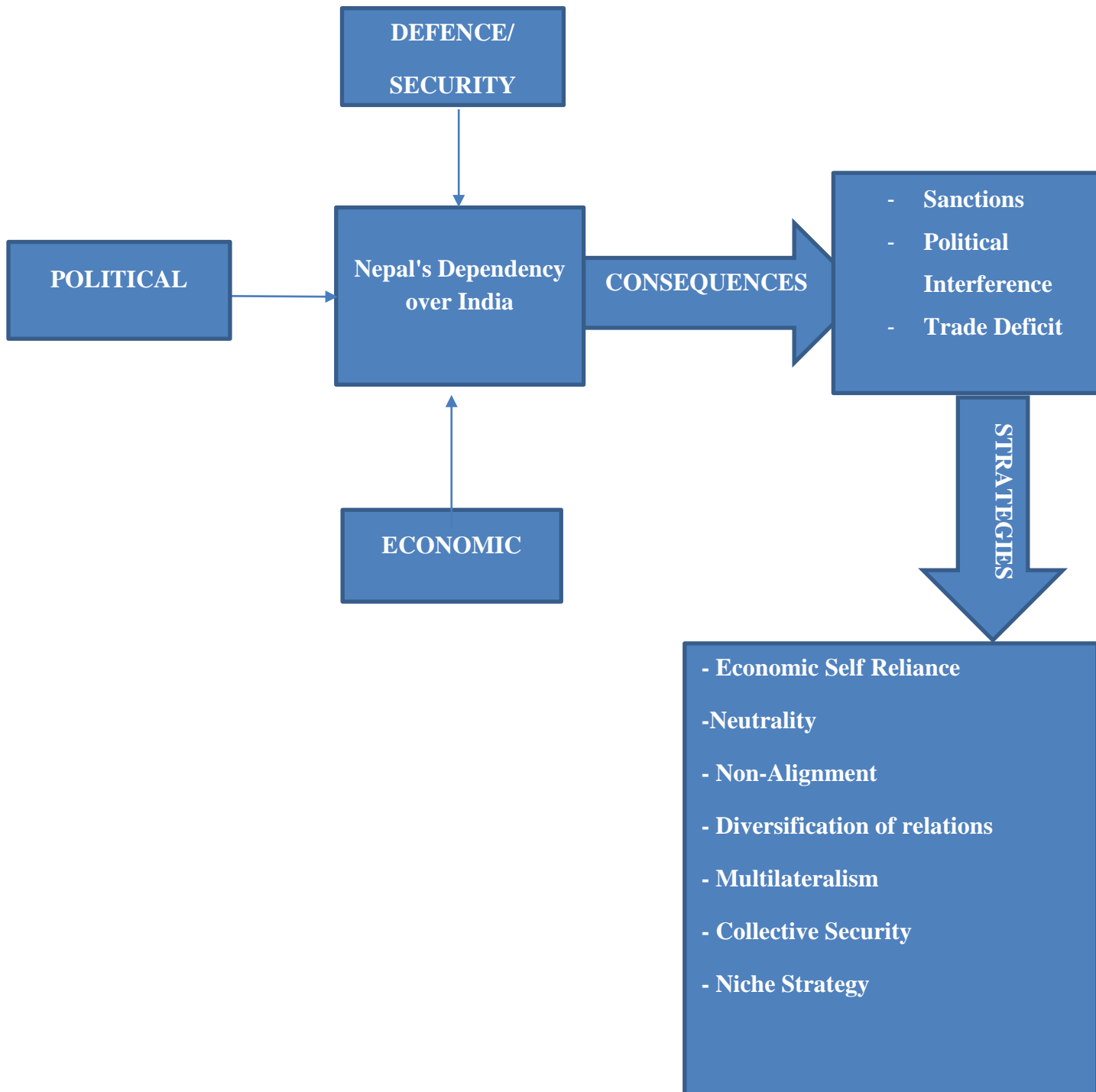
Research Gap

While reviewing the aforementioned literatures, the researcher has found inadequate knowledge on the long term strategies that land locked countries like Nepal should adopt, learning from Swiss experience. Therefore, this research has been done to fill the knowledge gap on the topic.

CHAPTER 3. METHODOLOGY AND CONCEPTUAL FRAMEWORK

3.1 Conceptual Framework

Figure.(i). Conceptual Framework of the research



3.2 Research Methodology

Primarily, this study is a qualitative research design. Detailed in-depth analysis of the stated problem has been done in a qualitative way. Mostly primary and secondary data from government data, scholarly publications, articles, conference reports, books, different quotations, speeches, interviews and so on have been used on the research. Apart from that, various aired/available printed interviews have been used to confirm the validity of the study. Definitions, concepts and electronic and internet media sources are mostly used for this research.

The study is descriptive and analytic in nature. Side by side with different theories, comparative studies that are found in a research paper, journal, and article have been focused. The collected data are analyzed accordingly.

3.2.1 Research Design

This study has adopted qualitative research design.

3.2.2 Sources of Data

Both primary and secondary data has been collected from government portals, websites, archives and international sources. Books, dissertations, journal articles, news, views, reports, press releases, interviews, official documents and statements are used as the sources of this research work.

3.2.3 Method of Data Analysis

Descriptive and analytical methods have been employed for data analysis in order to draw conclusions in this research. Whenever possible, the results drawn from the research are presented in charts, figures and diagrams. Detailed description and explanation of the findings are done to fulfill the research objectives.

CHAPTER 4. NEPAL'S RELATIONS AND DEPENDENCY WITH INDIA

4.1 Nepal's Political Relations with India

Nepal maintained her political relations with India even before unification of Nepal. The Licchhavi rulers who were said to have come from India to Nepal in 250 AD played important role to strengthen relation between Nepal and India. Similarly Malla kings also extended their relations with India during their era. After unification of Nepal, the founder of modern Nepal, Prithivi Narayan Shah describing Nepal as 'a yam between two boulders' maintained the equidistance policy between India and China for protection of Nepal's independence. But Sugauli treaty signed after loss in Anglo-Nepal war (1814-1816) marked the beginning of Nepal's dependency over British India and decreasing relations with Tibet (Baral, 2016, p.17).

Nepal lost its one third of its territory to the British India from the treaty and article seven of Sugauli treaty prohibited Nepal to maintain relations with other European and American powers without consent of the British government (Malla, 1983). Through the treaty, British-India began to maneuver diplomatic pursuits during the Rana regime. Although British India accepted Nepal as a sovereign state through peace and friendship treaty in 1923, Kathmandu had to consult with British India on its relations with other states like Bhutan, Sikkim, Tibet and China (Adhikari, 2018, p. 54).

After India's independence in late 1940s, India rejuvenated a “Treaty of Peace and Friendship” in 1950 to establish a new diplomatic relation thus far. The treaty is considered as bedrock for the 'special relations' between Nepal and India with the provision of open border. However, it is deemed as a contentious treaty and has been a political issue in Nepal. The “treaty” along with the “Letter of exchange”

established the basic framework to guide endeavors of Nepal affecting mainly security and economic relations (Khatri, 2001).

While anti-Rana movement was expanding using Indian soil, India committed Ranas to support them to sustain their regime if new Peace and Friendship treaty can be signed but the Rana regime collapsed in less than one year after signing the treaty (Mishra, 2004).

In socio-economic aspects, article six requires India and Nepal to give national of the others national treatment with regard to participation in industrial and economic development of such territory and grant concession and contracts relating to such development. This provision favors the competitive Indian entrepreneur and poses serious challenge to Nepalese businessman.

Under the article seven, of the “Nepal-India Treaty of Peace and Friendship, 1950”, government of India and Nepal agrees to grant privilege to the nationals in the matter of residence, ownership of property, participation in trade and commerce, movement in the territory of others. It has serious implication in case of Nepal as it can produce an unequal and disproportional impact for Nepal (Shrestha, 2003, p.76).

The “Nepal-India Treaty of Peace and Friendship, 1950” made the provision of open border between Nepal and India for the greater advantages of the people of both countries (Jha, 2010, p.63). But the treaty can produce asymmetrical impacts on Nepal. If India breaches the provisions, Nepal does not have the capacity to compel it to oblige. Instead, India can impose diplomatic, economic, political pressure. It can block the border (as it did during the 1988-89), prevent transportation of merchandize of Nepal (Paudel & Karki, 2015, p. 405).

Mishra argues that there were always Indian hands behind every political transitions including Maoist insurgency that took place between 1947 to 2003 taking advantage of Nepal's geography (Mishra, 2004). In order to give pressure to Rana regime, King Tribhuvan's family fled to Delhi in 1950 with the help of India. Tripartite agreement between Ranas, Nepali Congress and the King, popularly known as 'Delhi Compromise' marks the beginning of democratic era and the end of Rana regime in Nepal. Koirala (as cited in Sharma, 1998, p.176) revealed that the three parties never got chance to sit and discuss together but only communicated through Indian PM Jawaharlal Nehru. Mishra (2004, p. 631) states that the democratic government formed in Nepal operated with the virtual advice of Delhi in all the political, administrative, security and foreign relations matters of Nepal.

While addressing India's parliament in 1950, Nehru (as cited by Baral, 2015) said:

From time immemorial, the Himalayas have provided us with magnificent frontiers, we cannot allow anything to go wrong in Nepal or permit that barrier to be crossed or weakened, because that would be a risk to our own security.

Nehru's statement reveals that India was not accepting Nepal's absolute sovereignty and latter one's sovereignty is respected only when India feels secure from the threat beyond Himalayas (Kattel, 2020).

King Mahendra realized that special relations with India limits Nepal's freedom endangering national sovereignty due to which he began to neutralize special relations with India through his attempts to diversify aid, trade and foreign relations in 1960s (Dahal, 2011, p.40). Mahendra was sought to reduce the vulnerability due to over dependency to a single power. Nepal maintained neutral position during Sino-

Indian border war in 1962 and King Mahendra also agreed to connect Nepal's capital with Tibet through the Kathmandu-Kodari road which got completed in 1965 under Chinese assistance.

Along with the unequal treaties, open and easily accessible border between Nepal and India helped to promote political, cultural, economic relations which also helped India to become one of the major influential external actors in Nepal. Threatened Nepal with the annexation of neighboring state-Sikkim by India, put forward the proposal of 'Zone of Peace' (ZOP) in 1975. India considered king Birendra's declaration of ZOP as the act to weaken India's strategic and security goals and did not accept the proposal (Khan, 2016, p. 165). The treaty would also replace the old treaties like tripartite treaty of 1947 and peace and friendship treaty of 1950 as well as prevents both India and China to engage Nepal in any future wars between them (Malla, 1983, p. 78).

Though India is the largest democracy in the world, it has the history of ignoring Nepali mandate and imposed blockade towards Nepal when Nepal's sovereign body could not make decision as per Indian interest. Nepal decided to make the provision of work permit necessary for the Indian workers in Nepal in 1987. In order to create pressure over Nepal, India imposed blockade in 1989 when Nepal purchased arms and weapons form China in 1988 by closing 13 out of 15 total transit points in Nepal-India border (Garver, 1992, p. 77). Similarly, India also refused to renew Indo-Nepal trade and transit treaty which expired in 1988. It has severe effect in Nepal's economy.

Nepal faced a major problem due to entry of around one lakh Bhutanese refugees in the early 1990s. India provided its route through Assam to Bhutanese to

enter in Nepal (Ikram, 2005, p.110). Although Bhutan's external relations is guided by India according to their bilateral treaty of 1949, Indian government refused Nepal's request to support it in resolving Bhutanese refugee issue (p.113).

Especially, Communist Party of Nepal raised voice against Indian interference and put forward the agenda to cancel unequal treaties with India during election season in Nepal (Mishra, 2004). When Communist party of Nepal, Maoist started 10 years insurgency in Nepal in 1996, they presented 40 points demand to government where they stated India as 'hegemonic' and 'regional imperialist' (Subedi, 2016, p.34). Indian Government declared Communist Party of Nepal (Maoist) as a terrorist organization and some of the key leaders of Maoist were arrested in India. However, CPN (Maoist) used Indian territory to regroup and retreat in insurgency which is the reason for their rapid success (Mishra, 2004, pp. 634-642). India was also accused of providing arms and training to Maoist combatants.

I.K.Gujral, the Indian foreign minister during United Front Government in 1995, propounded the famous Gujral Doctrine which stressed on adopting liberal attitude towards the problems of India's neighbouring countries - Bangladesh, Nepal, Sri-Lanka, Bhutan and Maldives, without looking for reciprocity from them (Shukla, 2006, p.368). The doctrine gave importance to good faith, non-interference, respect to each other's territorial integrity and sovereignty and peaceful bilateral negotiations as the basic features of inter-state relations with these five neighbouring countries. According to Shukla, when Gujral became India's Prime Minister in 1997, he made a significant step to support Nepal in diversifying its foreign trade link by signing an agreement to provide alternative trade route to Nepal to reach Bangladesh via Phulbari of West Bengal.

Khanal (2016, pp.19-139) claims India's interference in Nepal's internal decision making ranging from 12 points agreement signed in Delhi to the process of drafting new constitution. India took initiation to organize meeting between Maoist leaders and Nepal's major political parties leaders in 2005 and 12 points agreement was signed between Seven Parties Alliance (SPA) and CPN (Maoist) in New Delhi. This resulted 'Peoples' movement II' in Nepal that lead to downfall of monarchy in 2008. India's role is more visible in the period of transition and due to such kind of high level of interference; India gets criticized from Nepali people.

From 2005 to the Indian PM Modi's visit to Nepal in 2014, India dealt Nepal with no political contact but only with its bureaucracy and intelligence (Subedi, 2016, p.35). Modi's speech during this visits become more popular and help to decrease anti-Indian thought. He also showed interest to revise 1950 Treaty of Peace and Friendship and agreed to form Eminent Persons' Group (EPG) which got mandate to review 1950 Treaty (Subedi, 2016, pp. 36). EPG prepared single joint report and submitted to their respective government but Indian government has not received the report till today.

There are border dispute between Nepal and India in 21 districts of Nepal which covers more than 60000 hectares of land with major disputes in Kalapani, Lipulekh, Susta, Limpiyadhura, Tanakpur, etc (Poudyal, 2014, p.34). Many of the border pillars have been either removed or misplaced from Indian side (p.34). Border encroachment issues have been reported by journalists and Nepali leaders also visited the disputed area. India Nepal relations became more complicated when both countries published their cartographic map including disputed land in 2020.

Similarly, Nepal suffered from undeclared economic blockade in 2015 when Constitution Assembly passed a new constitution by majority. India cut the supply of medicine, fuel and other commodities in Nepal. More than 90 percent of Constitution Assembly members voted in favor of new constitution but some socio-political groups mainly Madhesh-centric party protested against few points of new constitution (Pant, 2018, p.24). Some days before promulgation of new constitution, Indian foreign secretary, S. Jaishankar visited Nepal and tried to give pressure to postpone the promulgation of constitution which was ignored by Nepali leaders and that resulted in blockade (Karki and K.C., 2020). Experts consider the blockade as the violation of many international laws and conventions like Vienna convention of 1965, UN convention of law of sea of 1973, SAFTA agreement, etc. which guarantees transit right of landlocked countries.

When Narendra Modi came in power in 2014, he brought the policy of 'Neighborhood First' which resonates with 'Gujral Doctrine' but in practice it resembled with Nehru's policy (Kattel, 2020). Kattel argues that Modi's engagement with neighbors through proxies has worsened relations with neighboring countries including Nepal.

Though Nepal and India has deeply rooted relations, many ups and downs were seen time and again. Nepalese nationals dislike the India's interference in the internal affairs of Nepal. In spite of having good people-to-people relations, instability and mistrust can be seen in government-to-government relations. Though Nepal wants to have relations with India on the basis of sovereign equality, India is often blamed for its intention to play the role of 'big brother' with colonial mindset and continuity of Nehru's policies (Karki and K.C., pp.93-94).

Nepali people perceive that treaties like 1950 Treaty of peace and friendship, Koshi treaty, Mahakali treaty, Gandak treaty are not equally beneficial but only fulfill India's vested interests of India (Karki and K.C., 2020, p.88). Such one sided treaties provide space to India to play role as a major factor in Nepal's politics, economy and security.

4.2 Nepal's Economic Relations with India

Economy is the key to guide the choice of relation among countries. For this, Nepal fancies economic autarky while ensuring its sovereignty. As strength of an economy defines the ambit of influence a country can pursue but Nepal has a meager role even to determine its economic policy independently.

The size of Indian economy and capacity to supply large amount of essential goods and service have significant effects on the determination of policies of external economy of Nepal. For a land-locked country like Nepal, its transit trade is possible only through India and, in fact, 90 per cent of its foreign trade is with India due to which India tries to make Nepal act as per Indian advice in security, economic and foreign policies (Upreti, 2001, p. 5).

Nepal-India relations is often pronounced as the matrimonial relation of 'Roti-Beti' because Nepalese people living in Terai region are dependent over Indian market for their daily life whereas cross border marital relations is in wider existence between Nepal and India (Patel, 2017, p.76).

Nepal-India Peace and Friendship Treaty of 1950 enhanced Nepal's economic relations with India. Article 6 of the treaty acquires both governments to provide national treatment to each other's citizens in industrial and economic developments along with same treatment in concessions and contracts. Equal treatment to Nepali

and Indian citizens in trade and business favors Indian businessman because Nepali businessman and traders cannot compete with Indians.

Under Article 7, privileges on the matters of residence, ownership of property, participation in trade and commerce, movement and other similar issues can be granted to each other's citizens on the basis of reciprocity. Free movement across the border as per 1950 treaty has contributed in promoting employment opportunities as well as promoted trade, business, socio-cultural and people to people ties between two countries. But completely unwatched border may increase terrorist and criminal threats due to which clear demarcation and proper regulation of border should be done in order to improve Nepal-India bilateral relations (Paudel and Karki, 2015, p. 412).

Nepal's external economy has been traditionally inter-connected with India. However, during autocratic regimes, it had enjoyed the favorable balance of trade. According to the government data, in 1949/50 AD, the total import was approximately NPR 80,000,000 and export was approximately NPR 11,240,000 (History of Nepal Customs, 2019). But after the seven decades, in the fiscal year 2075/76 BS Nepal imported NPR 917.9 billion while exported only NPR 62.73 billion (History of Nepal Customs).

The ever widening economic relation is attributable to the growth of the economy of the both countries after privatization, liberalization and globalization during early 1990 AD. Nepal government followed quantitative restriction policy before 1986 and number of quota were fixed to be allowed to import that successfully contained the trade deficit. But, in 1986 the government started to ease restriction on import by the introduction of the import auction licensing system as a liberal trade policy which precipitated the growth in bilateral trade and also burgeoning of trade

deficit of Nepal. Further, deficit exacerbate as Nepal became the member of WTO in 2004, where it has been abide by the low tariff policy.

Basically, size of economy of India and it has largest industrial bases among the world. However, Nepal is small economy with land locked between two giant nations, has not been extensively connected with China. So, Nepal is compelled to import essential product like fuel and manufactured goods from India. Due to Nepal's difficult geographical as well as less developed physical connectivity facilities with other neighbor China, Nepal is fully dependent over India for its access to sea, trade, commerce and in large, this economic dependency is also guiding Nepal's security and foreign relations. In addition, Nepal has been implementing big development projects that demand heavy products in large volume which ultimately spikes the trade deficit.

Adhikari (2016, pp.6-7) presents the data showing 200 percent increment in Nepal's trade deficit with India from 1981 to 2011 which reveals Nepal's asymmetric dependency over India and lack of diversification of its trade. The author also presented the fact that 30 percent of Nepal's trade dependency over India during Panchyat era heightened to 63 percent at the present time.

India always secured its number one position in bilateral trade, source of foreign aid, investment, and assistance to Nepal. India was the first country to reach Nepal with relief materials after devastating earthquake hit Nepal in 2015 (Embassy of India, 2020). It has also pledged largest sum of 1 billion US dollar for relief and reconstruction after the disaster.

Revenue for Nepal Government from custom duties

The size of the economy of Nepal is small so the government depends on international trade to increase its revenue. The amount collected from custom duty on import is one of the major sources of the government revenue. Government collected NPR 643.38 billion revenue from tax on international trade and transactions in the fiscal year 2018/19 (GONFCGO, 2019, p.8). The revenue from custom duties contributed approximately 44 percent of 829. 63 billion total revenue of government in fiscal year 2019/20. Because two third of the foreign trade is connected with India, it has been the part of highest contributor of revenue collection for the government.

Indian Foreign Direct Investment (FDI) in Nepal

Nepal Rastra Bank (NRB) reported the paid-up capital of India touched the record of NPR 41.47 billion and has been followed by China with NPR 26.81 billion (NRB, 2019, p.12). It is executing big project like Arun III hydro -worth 900 MW which cost approximately USD 1.6 billion- that is considered to be the significant importance for Nepal. The India investments included the 6percent in agro and forestry, 1 percent in construction, negligible in information technology, mineral, 34 percent in services and 30 percent in tourism, 25 percent in manufacturing. The penetration of FDI is another example of India dominance in financing Nepalese projects apart from trade (NRB, 2019).

More than 150 ventures are operating in all over Nepal having ownership in various sectors. Asian Paints (Nepal) Pvt. Ltd, Berger Jenson & Nicholson (Nepal) Pvt. Ltd, Nepal SBI Bank Ltd, Everest Bank Ltd, Surya Nepal Private Limited are some of the major joint ventures that have larger market share of Indian investors (NRB, 2019). Indo-Nepal Treaty of 1950 provided special preferences to Indian

government and private firms to engage in economic matter due to which investment of Indian ventures increased in Nepal after Nepal adopting liberal economic policy in 1990s.

Table (i): Year-Wise Total FDI, Indian FDI, Number of Employment and Share of IFDI

Rs in Million

| FY | Total FDI | Indian FDI | No of Employment by IFDI | Share of IFDI (percent) |
|----------------|------------------|-------------------|---------------------------------|--------------------------------|
| 1989/90 | 898.51 | 70.4 | 6039 | 7.83 |
| 1990/91 | 406.28 | 26 | 1501 | 6.40 |
| 1991/92 | 597.84 | 289 | 3303 | 48.34 |
| 1992/93 | 3083.67 | 1362.5 | 4045 | 44.18 |
| 1993/94 | 1378.76 | 444 | 2298 | 32.20 |
| 1994/95 | 477.59 | 115 | 761 | 24.07 |
| 1995/96 | 2219.86 | 235 | 1585 | 11.00 |
| 1996/97 | 2395.54 | 1508 | 3570 | 62.95 |
| 1997/98 | 2000.28 | 180 | 694 | 9.00 |
| 1998/99 | 1671.22 | 724 | 1361 | 43.32 |
| 1999/00 | 1417.61 | 243 | 1628 | 17.14 |
| 2000/01 | 3102.56 | 1282 | 2524 | 41.32 |
| 2001/02 | 1206.95 | 678 | 1452 | 56.17 |
| 2002/03 | 1765.33 | 505 | 1065 | 28.60 |
| 2003/04 | 2764.8 | 1696 | 1560 | 61.35 |

| | | | | |
|----------------|----------|------|------|-------|
| 2004/05 | 1635.77 | 1167 | 3125 | 71.35 |
| 2005/06 | 2606.39 | 1563 | 3020 | 59.96 |
| 2006/07 | 3226.79 | 2167 | 1908 | 67.15 |
| 2007/08 | 9812.6 | 4555 | 3187 | 46.41 |
| 2008/09 | 6255.09 | 2500 | 2105 | 39.96 |
| 2009/10 | 9100 | 3994 | 1835 | 43.90 |
| 2010/11 | 10050.71 | 7007 | 3274 | 69.71 |
| 2011/12 | 7140.81 | 2298 | 1754 | 32.20 |
| 2012/13 | 19936.23 | 2691 | 3471 | 13.50 |
| 2013/14 | 20107.42 | 6451 | 2108 | 32.08 |

(Department of Industry, n.d., as cited in Adhikari and Baral, 2015)

According to the above data, share of Indian FDI in Nepal's total FDI was only 6.40 percent in 1990/91 which increased to 71.35 percent in FY 2004/5. Again, Indian FDI decreased to 13.50 percent in the FY 2012/13. Chinese investment surpassed Indian FDI since 2014 and at present, it is three times that of Indian investment in both projects and amounts. In Nepal investment summit held in 2017, Indian firms pledged investment of 317 million dollar whereas commitment of Chinese firms was 8.36 billion out of 13.52 billion total investment pledges (Jha, 2020).

Nepal also needs to be cautious in FDI because it might come in both the forms of boon or bone. If FDI are accepted without properly analyzing terms, conditions and transparency details of the project, the country may enter into debt trap or may have to face unnecessary interference in country's internal decision making process as well (Jha, 2020).

Indian Aid to Nepal

Nepal is the one of the largest recipient of foreign aid from India. It has been receiving the aid in the form of concessional loan, grant aid, budget support, technical assistance, revenue mobilization by support in upgrading administration and others. Development programs like schools, campuses, health posts, hospitals, hydro projects, roads, bridges, rural drinking water projects are undergoing in India's assistance. Nepal is the fifth largest Indian aid receiving country in South Asia except Pakistan.

India first provided aid to Nepal in 1954 through Indian Aid Mission. India provided financial assistance to construct Tribhuvan highway which was the first road to link Kathmandu with Terai. India provided aid for large projects like Koshi Barrage, Bir Hospital, Janakpur Railway, major parts of Mahendra highway, Devighat hydropower, key sections of Tribhuvan University, B.P. Koirala Institute of Health Sciences (BPKIHS) and many other projects (Embassy of India, 2008). Since 1980s, India has been providing aid through Economic Cooperation Wing of Embassy of India (Embassy of India).

MOU has been renewed in 2011 for the project costing nearly \$ 0.7 million as an aid for education, health, community Development. Also 389 small development programs of approximately \$ 94.34 million have been ongoing since 2011. Similar other program of total outlay of \$ 858 million has been on the progress (Embassy of India, 2020). India is providing more than 3000 scholarships annually to Nepalese students to pursue their higher studies.

According to Jaiswal (2016, pp.93-94), Indian aids come in Nepal in a haphazard and unplanned way without much homework for fulfilling Nepal's larger development needs but they are centralized to mark the visit of high level dignitaries

and as gifts in the special days of India. Indian aids have diverse objectives, lack of proper coordination and exaggerated sense of its influence. India has been providing huge amount of assistance in grass root level in its own way without coordinating with government agencies because of which Nepal government put on hold to small Indian grants and urged India to provide assistance only by signing deals with Ministry of Finance (Goyal, 2019, p.19).

Only 50 percent construction of Postal Highway (1,792 km) being constructed with Indian aid has been completed by its deadline in 2017-18. At first, an agreement to give construction contracts to only Indian contractors was made and most of those Indian contractors fled away without working on their contract section which is the reason behind delay in the project (Shrestha, 2020).

As most of the Indian aided larger projects are not completed in time and India has been engaging in grass root level without coordinating with government agencies, Indian aids are not generally taken as medium to support Nepal but are perceived as a means of India to fulfill its hidden motive.

4.3 Nepal's Defense and Strategic Relations with India

Nepal-India shares historic and deep rooted military relations with each other. Their military relation is so unique that Army chief of one country is given the honorary army chief of other country through government decision. Although Nepal fought a major war with British India from 1814 to 1816 A.D., Junga Bahadur himself led 8,000 Nepali troops to suppress anti-British revolt in Lucknow in 1957 (Rose, 1971, p. 131). Rana maintained so close relations with British India that they sent many troops of Nepalese army to fight in favor of Britain in both the world wars and also provided financial support to Britain during the world wars.

After seeing bravery and fighting skills of Gorkhas in Anglo-Nepal war, British India started recruiting Gorkhas in their army by forming four battalions of British Gurkha in 1815. After India's independence in 1947, tripartite agreement was made between British, Indian and Nepali governments by which India got six and Britain got four battalions out of 10 total Gorkha battalions (Rathaur, 2001, pp. 22-23). Among more than 80,000 Nepalese serving in military, Paramilitary and police forces in India, half of them are working in Indian army (Benerjee, 2004, p. 1). Nepalese Gurkhas have fought all the operations like India-Pak war, Hyderabad war, Chola war, etc. undertaken by Indian army since its independence.

Nepal's defense relations with independent India is mainly guided by 'Peace and Friendship Treaty of 1950' and Arms Assistance Agreement of 1965. The treaty of 1950 affects the Nepal in the two aspects; Security and Economic Khatri (2001). In security aspects, article two requires both the government undertakes to inform each other of any serious friction and misunderstanding with any others neighboring states. Article five has a provision that government of Nepal acting in consultation shall be free to import arm, ammunition or warlike material and equipment necessary for security of Nepal.

Disclosure of 'Letter of exchange' which reinforced the "Treaty of Peace and Friendship between Nepal and India, 1950", secret 'Arm and Assistance Agreement' in 1965, agreement of supplying 'Arm and Ammunition and equipment' for the entire Nepal Army are some of the agreements that raised the concern for Nepal (Paudel & Karki, 2015, p.406).

When Chinese People's Liberation Army entered into Tibet in 1951, then Indian Prime Minister Jawaharlal Nehru said in Indian parliament that Himalayas

were India's de-facto northern frontier and that an attack on Nepal would be viewed as an attack on India (as cited in Kattel, 2020).

1950's treaty of Peace and Friendship was the continuation of British policy of considering Himalayas as the second security frontier (Subedi, 1994, p.274). British India always tried to maintain Nepal as its friendly buffer state between India and China acknowledging the strategic importance of Nepal's geographical position. Nepal also allowed establishing Indian military mission in 1952 and Nepal signed MOU with India for coordination in foreign and security policy in 1954 through which Indian security posts were formed along Nepal's northern border (Armstrong, 1959). The mission returned back only after Nepal's request in 1969.

India is the largest provider of arms and military equipment to Nepal as per the treaty of 1950. Arms Assistance Agreement of 1965 provides monopoly to India to supply arms and warfare materials for the modernization of Nepali army. These two treaties and economic dependency of Nepal kept Nepal under India's security umbrella and prevent it from engaging with other powers like China. Jaiswal states that out of the total weapons supplied by India to Nepali army, 70 per cent of them were from Indian grants (2016, p. 98).

Nepal for the first time tried to diversity its arms trade by signing an agreement to buy arms and weapons from China in 1988. India considered Nepal's decision to buy arms and ammunition from China as the violation of treaty of 1950, Arms Assistance Agreement of 1965 and against exchange of secret letters with them due to which it imposed economic blockade to Nepal by closing 13 out of 15 trade routes in 1989 (Prys, 2012, p. 133).

India along with other influential nation's decision to stop the supply of arms, ammunitions to Nepal when king Gyanendra started direct rule in 2005, resumed after completion of peace process. India played a major role for signing 12 points agreement between SPA and Maoists in New Delhi in 2005 which restored peace ending ten years long Maoist insurgency in Nepal. India never entertains third country's engagement in Nepal's security sector which can be verified by India seizing supply of arms with the entry of UNMIN in Nepal and again resuming the supply with the departure of UNMIN from Nepal in 2011 (Gupta, 2011).

Besides strategic interest of India in Nepal, open border poses security concerns for both nations. Trans-boundary crimes like arms, human and gold trafficking, counterfeit currencies exchange, terrorists' entry, smuggling, etc. are the security concerns of both countries (Gupta, 2010). MOFA (n.d.) mentions the formation of bilateral institutions like Joint Working Group (JWG) on Border Management and Border District Coordination Committee (BDCC) to deal with the security concerns of both India and Nepal.

Both the countries are the members of SAARC, BIMSTEC, Non-Alignment Movement and AIIB where they have common agenda of promoting and supporting each other in the economic and security dimensions. SAARC is the pivot as it is substantial to enhance cooperation between both the countries along with other members. SAFTA has been crucial forum to magnify trade across the SAARC. BIMSTEC, Non-Alignment Movement, SCO and AIIB are imperative forum for Nepal and India to build amiable relations with various nations and gain economic, security and strategic advantage.

Nepal's Prime Minister Sushil Koirala facilitated for a talk between Indian and Pakistani Prime Ministers during 18th SAARC summit held in Kathmandu. But due to increasing tension between India and Pakistan after 2014, India is giving priority to alternative regional institution like BIMSTEC for regional cooperation by excluding Pakistan (Xavier, 2018, p.11). Since 2014, SAARC summits could not be held but the fourth BIMSTEC summit was held in Kathmandu in 2018.

Nepal and India has been doing joint military drills since long time. According to Press Information Bureau (2019), 300 soldiers from Nepali and Indian army participated in joint military exercise named Surya Kiran XIV conducted in Saljhandi, Rupendehi district of Nepal. It is an annual joint military drill which is conducted alternatively in India and Nepal with the aim to boost their counter insurgency, counter terrorism and disaster relief capacity. Such joint military exercises have enhanced bilateral defense cooperation and also fostered the bilateral relations between India and Nepal.

Nepal's geo-strategic positioning has enhanced its importance to both India and China for their security interests (Kumar, 2017, p.31). As India shares open border with Nepal, it is cautious of its rival forces like Pakistan, China and other Islamic terrorist organizations using Nepali route for adversely effecting India's peace (p.76). China is trying to increase its influence in Nepal whereas India is trying to check China's entry in its area of influence.

Not only India and China but also U.S. and western nations have strategic interest in Nepal. Chinese scholars suspect strong presence of Western powers in Nepal as to support pro-Tibetan forces and for disturbing China's rise (Poudel, 2016, p.147). Anti-China protest in Kathmandu during Beijing Olympics of 2008 made

China more cautious of Tibet's insecurity through Nepal due to which China prioritized its assistance to the security sector of Nepal (Jaiswal, 2016, p.96).

Peaceful, prosperous and stable Nepal can serve the security interest of both India and China.

CHAPTER 5. CONSEQUENCES OF ASYMMETRIC DEPENDENCY

5.1 Political Interference

India is accused of playing in the internal affairs of Nepal through its interventionist acts during the very sensitive time of political changes in Nepal. Various instances of the history which are discussed in the this chapter prove that India tries to fulfill its interest by fishing in the troubled water during the difficult time of transitions in Nepal. India's activities and behaviors towards Nepal are always guided by realist notion either before or after its independence. Although British India had upper hands in Nepal's trade and foreign relations, the cases of political interference in Nepal were more visible after India's independence in 1947.

When Rana regime was in extreme pressure due to anti-Rana movement of Nepali people from Indian soil, India drafted 'Treaty of Peace and Friendship' which Rana signed in 1950 with an intention to get Indian support to sustain their regime (Mishra, 2004, p. 629-630). But Rana regime collapsed in less than one year whereas the same treaty is guiding Nepal-India relations till today.

Though India always claims its position in favor of democracy and human rights in Nepal, it plays in the Nepal's internal matters only to fulfill its vested interests. This can be proved by India's disinterest to support B.P Koirala and other leaders who want to revolt against partyless Panchyat system after being released from jail in 1968. India did not support them because it had already signed a secret Arms Assistance Agreement with Panchyat regime in 1965 by agreeing not to allow anti-panchayat political activities in India. Arms Assistance Agreement gave India priority in supplying arms and ammunitions to Nepal and it also required Nepal to

consult with India while purchasing such materials from India or transporting them through Indian territory (Muni, pp.196-198).

In 1990 March 31 during the time when mass movement I was on-going in Nepal, India sent a draft treaty proposal to King of Nepal (Kumar, 1992, p. 144). If signed by King, the Panchyat system could have survived but the treaty clauses were against Nepal's sovereignty. India proposed Nepal to come under its security umbrella by preventing Nepal to enter in any military alliances without India's agreement and requirement to have advance level consultation with India before importing arms and ammunitions. Also the draft treaty has provision to give first priority to India in Nepal's projects and water resource exploitation as per India's interest (pp. 144-147). If the then Panchyat regime accepted India's proposal for new treaty, the regime could survive in the cost of Nepal's sovereignty and independent foreign and security policies. India had an intention to establish 'Patron-Client relationship' with Nepal by bringing her under its own security umbrella like it had been doing with Bhutan. As king Birendra refused to accept the proposal, India supported pro-democratic forces in Mass Movement I through economic blockade for about a year in 1989 which created huge pressure to the Panchyat regime. Finally, Panchyat system collapsed and multiparty democracy was restored in early 1990s.

The armed revolution of Maoist that began in 1996 with small group of people from four remote districts (Rolpa, Rukum, Gorkha and Sindhuli) got huge success in affecting all the 75 districts of Nepal only in a short span of time (Mishra, 2004). Experts consider the trans-boundary support to Maoists as the underlying reason for their rapid success. Mishra (2004, pp. 627-646) states that India was playing significant role for advancing Maoist Insurgency in Nepal. Presenting the evidences from history, Mishra shows the pattern by which India first support to ignite

movements and finally resolves them by its mediation so that its interests also can be fulfilled.

India adopted two pillar policy of supporting monarchy and democracy in Nepal till early 2000s. From 2002 to 2006, at the informal level India actively contributed for the dismissal of monarchy from Nepal due to which India facilitated talks between Maoist leaders and SPA against King Gyanendra whereas in formal level it enlisted Maoists as terrorist and also provided military support to monarchy to combat with Maoists (Destradi, 2010, p.17). It shows India's double standard – in formal level showing like supporting the establishment whereas in informal level facilitating the anti-monarchical forces. King Gyanendra's rigid stand to provide SAARC membership to China also disappointed India. Destradi argues that Karan Singh's visit to Nepal during the popular Mass Movement-II contributed to stir up popular sentiment (p.23). India facilitated and supported an anti-monarchy parties which is one of the reason because of which Mass movement II ignited and got victory in 2006.

Due to all those past activities and behaviors of India, even though India has been providing support in many projects like roads, hydro projects, hospitals, schools, etc. , there is prevailing perception in Nepal to consider Indian projects coming with many hidden political interests and conditions along with the non-punctuality in their delivery (Jaiswal, 2014, p.7).

Karki and KC (2020, p. 87) claiming the Nepal's ignorance to draft new constitution as per India's interest as the main reason behind India's economic blockade in 2015 and argues that India claims its share during and after every sensitive political changes through its hegemonic and interventionists acts. Statement

released by Indian Embassy in Nepal (2015) just after promulgation of new constitution verifies India's interference in Nepal's domestic affairs as following:

Nepal's second Constituent Assembly promulgated a Constitution on 20 September 2015 amid protests by Madhes-based parties and other groups. The Government of India has expressed grave concern regarding the ongoing protests and has urged the Government of Nepal to make efforts to resolve all issues through a credible political dialogue.

As Nepal is a sovereign nation, there should not be any external interferences in its internal decision making process. Every bilateral agreements as well as multilateral institutions like UN, SAARC, BIMSTEC, NAM, etc. have a primary principle of non-interference in the internal affairs of any countries. But India's attempt to guide Nepal's people elected sovereign institution like Constituent Assembly is an interventionist act against Nepal's sovereignty.

If India do not stop its micro management in Nepal's internal political, economic, social and bureaucratic levels, anti-Indian sentiments keep growing in Nepal and India keep on losing its influence (Sharma, 2014, p.390).

Though India was in favor of giving continuity to the old treaties with Nepal, the high pressure of Nepal compelled it to agree on forming Eminent Persons' Group (EPG) which was given responsibility to review and to recommend the both governments for the amendment on the controversial provisions of existing Nepal-India bilateral treaties (Timalsina, 2019, p.732). EPG, formed in 2016, consisting of four experts from each countries had aim to provide necessary expert suggestions on solving existing bilateral problems for creating base for improvised Nepal-India relations in modern context. The EPG had prepared its final report in 2018 and Nepal

government is ready to accept the report whereas Indian government has not accepted the report yet. It is primarily due to India's perception that some recommendations of EPG report like 'smart border management' are in Nepal's favor. As Nepal-India relations is on the historic low level and anti-India sentiment is growing in Nepal, India should accept the report for improving bilateral ties by addressing genuine issues (p.734)

India which is in a race to become a global power through its membership in Nuclear Suppliers Group (NSG) and permanent membership in UN Security Council, cannot win confidence, trust and support of even its neighbors if it continue such kinds of interventionist acts in other countries' internal affairs.

5.2 Repercussion of the Asymmetric Economic Dependency: Economic Blockades

Despite the economic, social and cultural bonding between the two countries the relation has been gone through the critical junctures. India having the deep socio-cultural interconnection and being largest trading partner tries to pursue its national interest. Nepal being small and having an aspiration of magnifying its strength economically seek to extend the partnership globally. During the pursuit of the respective objectives, Nepal has endured the heavy price along with instilling the prospective of looming challenges entails in future endeavors. Following instances reflected that good relation also fraught with the contentious issues.

The Treaty of Trade and Commerce, 1950 was a foundation to establish the economic relation between Indian and Nepal and ensured India's market monopoly in Nepal. However, the clauses in the treaty raised the concern on Nepal, especially provision on article 5 has been regularly invoked unless it was amended. The article

had stipulated Nepal to levy duty on the export to and import from third world not lower or higher than those in India, a measure to prevent competitiveness to Indian manufacturer. After the consistent appeal, India and Nepal in 1957 agreed for the freedom to levy duty on goods exported beyond India and allowed to maintain foreign exchange. The treaty further amended in 1960 by providing Nepal the control over its foreign exchange account and allowed to regulating import and export to third world country according to its own law.

Following the agreement of Nepal and India of scale down bond surety in 1963, as per Indian scholars, the political situation deteriorated with King Mahendra alleged India deliberately creating disturbance in transit of goods in border in complicit with the Nepali Congress workers. The treaty of trade and transit has become the excuse to raise the issues to manipulate political agenda for the both sides.

In 1969-70 AD, India unilaterally impeded the transit facilities in resentment of withdrawn of its armed personnel which had a traumatic impact on Nepalese economy during the following period. The crisis lasted till Nepal and India reached in a fresh agreement on the treaty in August 1971 (Singh, 1997, p.30).

Blockade had created a problem in the supply of commodities like salt, spices, products which Nepal was the most essentially and completely dependent on India (Subedi, 2016, p. 3). However, the magnitude of the impact was mildly significant in 1969 as the Nepalese economy was dependent on the traditional domestic economic activities, means of transportations were very limited, few institutions such as banks, schools, various other service companies had limited implication on the cost. Scholar states King Mahendra's introduction of Panchyat system in Nepal, linking Kathmandu with China by Araniko highway and returning back Indian Military's Liaison Group

from Nepal as the reasons behind India's blockade to Nepal in 1969 (Shakya and Bhattarai, 2016, p. 5).

India and Nepal confronted in 1989 as India wanted to tie trade with transit treaty in a single band while Nepal wished for separate transit with trade treaty. Dispute precipitated as Nepal decouple Indian Rupees that was circulated freely over the market. Nepal argued that transit privilege were a fundamental and permanent right of landlocked country. The expiration of the trade and transit treaty and suspect of buying Chinese weapons was the pretext for India to put restrictions.

1989 was the another episode where India imposed blockade for about 15 months that had created shortages of essential commodities like food products, salt, oil, spices, including the supply of petroleum products (Subedi, 2016, p. 5). Finally, outcome of the rigorous negotiation lasted with an agreement on discontinued preferential and transit duties along with consent on oil processing and warehouse space in Kolkata. The blockade aligned with political movement consequently ended the Panchayat System and finally reinstated the multiparty democracy (Singh, 1997).

In the latest squabble, India replicated the old strategy of tightened the transit route right after the months of devastating earthquake, which created panic across the country. Although the previous blockades were due to India's dissatisfaction regarding Nepal's dealing with third countries, the latest unofficial blockade was due to India's support for Madhesh based parties' demands for greater inclusiveness, citizenship issue and agenda of federal demarcations (Shakya and Bhattarai, 2016, p. 6). Nepal had no choice but to face dire straits of economy as two third of the total trade comprises of essential products such as petroleum, vehicles, electrical appliances and agriculture products are dependent on it. The incidence took place soon after India

expressed its displeasure by putting the seven points demand for the amendment in the constitution of Nepal in 2015.

Socio-Economic Impacts of Tension in 2015

The upheavals of 2015 had severe impacts on the poorest section of society, academic sector, health sectors and business enterprises. Nepal Economic Forum's report estimated that the blockade had NPR 212.1 to 279.6 billion losses for private sector during the four and half months' long embargo (INSEC & DFHRI, 2016). Health sector had been affected with shortage of oxygen, medicine, cylinder of oxygen in the span of blockade. The National Federation of Transport Entrepreneurs reported a loss of NPR 200 to 250 million rupees a day which is tantamount to 7500 million in blockade periods (INSEC & DFHRI).

Multifaceted problem created by shortages of food supplies, lack of supply seeds, fertilizers, and fuel-intensive water pumps dented rural areas whereas the shortages of fuel supply, Liquefied Petroleum Gas (LPG), decrease in tourists had created austerity in urban areas. The exchange rate witnessed sharp spike in exchange rate as it touched Rs 200 otherwise stood at Rs 164-165 per IRs 100 in normal time (The Kathmandu Post, 2016).

In addition to economic consequences, social relation between two countries after the promulgation of constitution of Nepal has been critical. The impact has been deeply penetrated substantially among the people of Nepal and resentment is growing with unfolding incidents. Political party soliciting the support on the issue of nationalism and intelligentsias debating the foreign relation are the outcomes of stressful situation bearing between the two nations. Increment in the exchanges

words doing round in social media among between people and TV debates in last few years is ubiquitous.

King Mahendra's 'Terai settlement policy' by people of hills area was less prioritized after his death. So, the 'Roti-Beti' and 'people to people' relations were much hyped by Indian establishment to exert pressure to Nepal socially.

The political developments showed that India has always been attempting to steer political transition and looking for larger role. Amid the tension that arises sporadically, the two neighbors try to portray its relation a special above other neighbors which is socially, politically, economically inherent. However, to serve multifaceted interests, India has been accused by various regimes of Nepal for mediating contentious issues often at micro level.

5.3 Increasing Trade Deficit and Economic Dependency with India

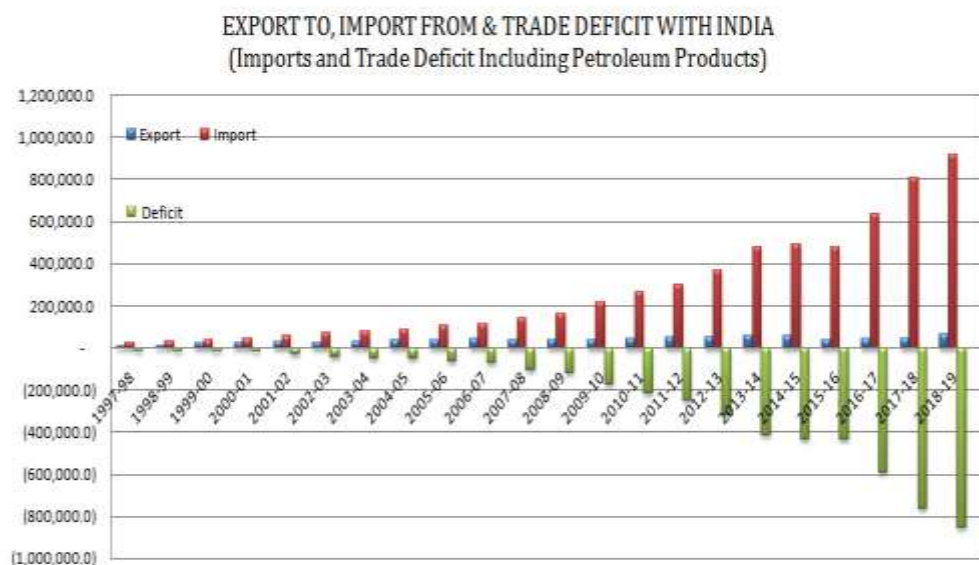
Nepal is largely dependent on India in different goods like petroleum products, motors and their parts, cement clinkers, fertilizers and so on. With the increment in the flow of remittance in Nepal, the domestic consumption have been raised up which is fulfilled mostly by importing products from India. As a result, the imports from India have increased excessively. But the export from Nepal has been steeping down particularly due to low production and manufacturing capacity in the country. This has created a huge trade imbalance between Nepal and India.

Nepal's trade dependency with India was decreasing till fiscal year 1996/97 but it heightened rapidly in the subsequent years (Acharya, 2019, p.95). Out of Nepal's total imports, only oil and petroleum products imported from India accounted for 14 percent in the FY 2015/16. Nepal's import has increased by 18 percent in the

decade of 2000s and the same report claims that Nepal is dependent over India in 64 percent of its total import and 66 percent of its total exports (Ghimire, 2016, p.3).

Due to lack of access to sea, 15 percent of transit cost gets added in the price of Nepal's products compared to the other countries having access to sea because of which competitiveness of Nepal's commodities decreases in international market (Ghimire, 2016, p.6). High costs of production, low competitive capacity of Nepali commodities in Indian market and poor access to international market are the major problems to enhance Nepal's export base. This bitter reality of trade imbalance suggests the need of import substitution and diversification of both products and trade partners.

Fig.(ii). Export to, Import from and Trade Deficit with India



(Ministry of Finance as cited in Nepal-India Chamber of Commerce and Industries, 2020)

The graph from 1997-98 to 2018-19, provided clear picture of the enormity of trade deficit Nepal is facing against India. Further, the deficit has been staggeringly rising at increasing after 2009/10 as Nepal has been complying WTO trade policy. It is indicated that the deficit gap has been exponentially increasing after 2009/10. The main reason is the improving economy of both the countries. In the span of time, India enhanced its export potential and Nepal has also made significant improvement in the level of income hence purchasing capacity.

Trade deficit post National Trade Integration strategy 2016

Favorable balance of trade is crucial in determining diplomatic advantage. In case of Nepal, two third of its global trade is deeply interlinked with India. However, it has been struggling due to ever widening trade deficits over the long period of time. Nepal has enacted National Trade Integration Strategy 2016 to alleviate the perpetual problem. But, Economic Survey (2019) reported that trade deficit of Nepal with India reached NPR 855.19 billion. During the review period, it has imported goods worth NPR 917.92 billion from India in the meantime exported goods just over NPR 62.73 billion (economic survey). The outcome showed that reducing deficit is a challenging issue despite taking strategic measures.

Table (ii). Trade between Nepal and India

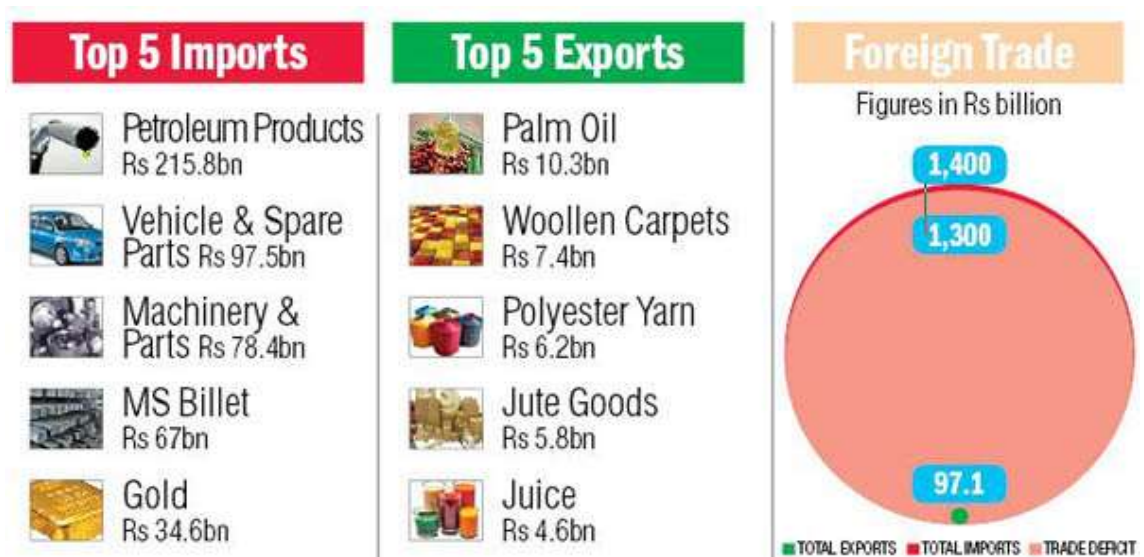
Rs. in ten million

| Year | 2072/73 | 2073/74 | 2074/75 | 2075/76 |
|-------------------------|---------|---------|---------|---------|
| Import | 47721.3 | 63367 | 81410.2 | 91790 |
| Export | 3949.4 | 4144.9 | 4672 | 6273.2 |
| Balance of Trade | 43771.9 | 59222 | 76738.2 | 85517.8 |

(Economic Survey, 2019)

The five years data of trade between India and Nepal showed that the both export and import are increasing. But the amount of import from India is far greater than the export from Nepal. Further, the import comprises of essential products such as petroleum products, vehicles, electrical appliances and agricultural products.

Fig. (iii). Major Imports and Exports of Nepal

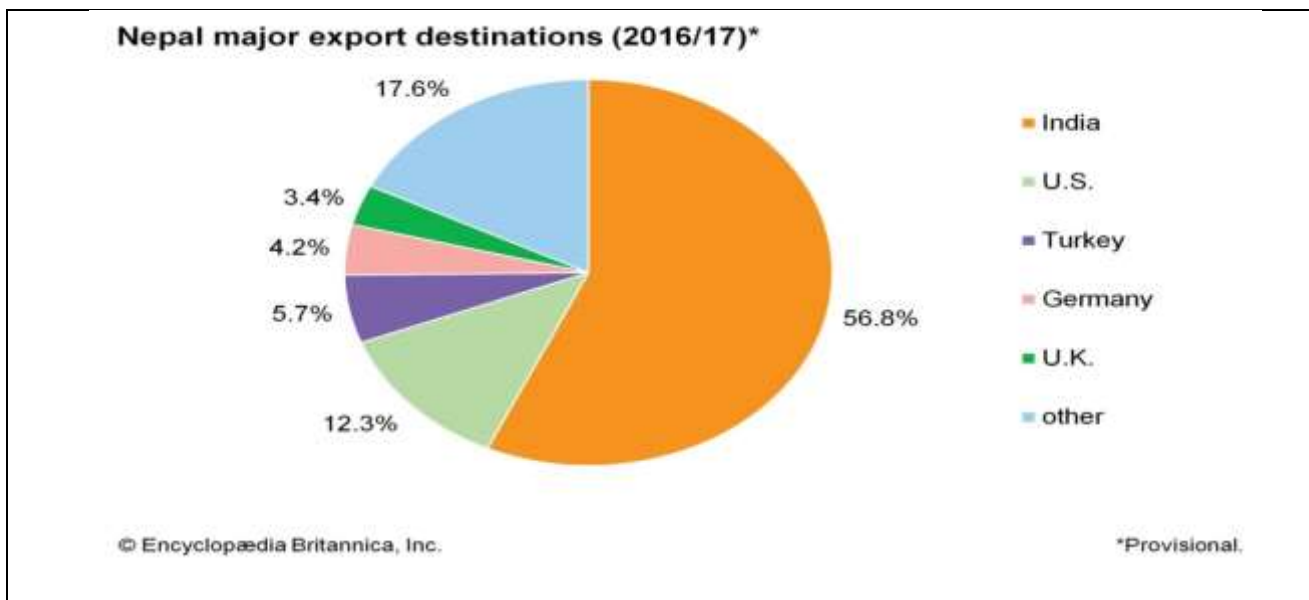


(Nepal Rastra Bank, 2019)

Nepal Rastra Bank (NRB) data showed that Petroleum products, Vehicles and Spare, Machinery, MS Billet and Gold are the top five imports of Nepal in the fiscal

year 2018-19. These products are higher in value and volume as well as essential for the economic activities. However, Palm Oil, Carpets, Polyester Yarn, Jute Goods and Juice are the main five export of Nepal. It is lower in value and volume. The given figure reflects the magnitude of amount of export versus import. So, comparatively large amount of import but small amount of export is the main cause of higher trade deficit.

Fig. (iv). Major International Market Destination of Nepal



(Encyclopedia Britannica, 2017)

The Pie Chart showed that India is the biggest export destination of Nepal. Nepal has exported nearly about 56.8 percent of merchandizes in India and followed by US, Turkey, Germany, U.K and others. It's not only imports but export of Nepal is also highly dependent on Indian market.

Fig. (v). Nepal's Import from India, China and other countries



(NRB, 2019)

The continuity of India as a largest trading partner has been persistent thus far. As the figure in the chart of the fiscal year 2018/19 showed the import from India is NPR 917.9 billion meanwhile import from China is only 205.5 billion. So, import from China comprised of only 22.35 percent of Indian import in 2018/19 in spite of the expansion of trade with the former in last few years. The proportion of import from India in comparison to China is far greater. The relentless expanding trade deficit graph- seems harder to bounce back- signaling the impending dire straits of the economy.

As Nepal and India have family like relations of 'Roti-Beti', India must give its top priority to address Nepal's genuine concern of huge trade deficit in order to continue good bilateral relations between them (Kharel, 2021, p.7).

As stated by Liberal reformer, Prebisch-Singer's dependency theory, the term of trade of underdeveloped peripheral countries like Nepal keep on deteriorating as it export primary products and raw materials of low value whereas it imports

manufactured products of high value. So, their value to exports becomes insignificant in comparison to their imports which increases trade deficit of small state. 200 percent increment in Nepal's trade deficit with India in the time period of three decades from 1981 to 2011 verifies this theory. The crux of the matter is, Nepal has been daunted by growing trade deficit with India over the years. Frank's Marxist thinking considers persistent poverty of peripheral country- Nepal as a by-product of Nepal's continuous engagement with core country-India from historical time period. This theory views Nepal's negative balance of trade as the capitalist exploitation of India.

Table (iii). SWOT Analysis of the Indo-Nepal Trade Prospective

| Strengths | Weakness |
|---|--|
| <ul style="list-style-type: none"> • Nepal and India share historical, cultural and economic ties • The signing of the revised trade treaty in 2009 between the two countries is expected to provide further boost to the growing trade • India is the largest trade partner of Nepal • Both are the members of SAARC, SAPTA, BIMSTEC • The cheap labor cost, liberal trade, BIPPA, and economic policy resulting in lower structure is vital in attracting Indian FDI • India is the biggest FDI investor in Nepal | <ul style="list-style-type: none"> • Nepal has been suffering some of the major constraints like poor infrastructure, lack of competitive industries, nascent capital and money market, developing phase of private sector, ineffective policy and regulatory framework, low level of skilled human capital and challenging business environment(internal as well as external) • Poor infrastructure like road, power, telecommunication, airports, mismanaged custom points which enhanced the cost and hinder sufficient |

| | |
|---|--|
| <p>focused on infrastructure project and hydro project such as Pancheshowr, Arun III</p> | <p>supply</p> <ul style="list-style-type: none"> • Various non-tariff measures directly affecting trade of agri-based product such as Ginger • Unfavorable balance of trade |
| <p>Opportunities</p> <ul style="list-style-type: none"> • Convenient border can be utilized for extension of trade • The trade treaty provides MFN access to the Indian market for Nepalese products • Nepal because of LDC enjoys special provisions, benefit, concessions and facilities of WTO. Similarly, Nepal can obtain technical assistance from developed countries to enhance its competitiveness with Indian market • Huge herbal market is envisaged to Indian market • Nepal has huge potential of exporting hydroelectricity in North India | <p>Threats</p> <ul style="list-style-type: none"> • Tough competition among SAARC countries • Non-tariff measures creating additional hindrance in trade with Indian market • Nepal has challenges to compete with other LDCs regarding maintaining standardization issues and negotiation capabilities. • SAFTA is bound to enhance competitiveness within SAARC • Geography of Nepal is challenging to create opportunities in half of the countries |

CHAPTER 6. STRATEGIES OF SMALL STATES: NEPAL'S STRATEGIES IN COMPARISON WITH SWISS POLICIES

Small states having limited capabilities have devised many ways to tackle with other states and actors in order to protect their own existence. Strategy is a plan of action which has ends (goals), resources and ways to achieve those objectives. Small states also have some action plans for enhancing their power and significance in international level.

Small states exhibit the behaviours like low participation in the matter of international affairs, high engagements in Intergovernmental organizations (IGOs), high support for international laws, no use of force, do not participate in activities which alienate power nations, a narrow concern in foreign policy activities and taking moral stands in international issues (East, 1973, p.557).

Strategies for military build-up and economic independence as some of the internal efforts whereas neutrality, alliance building, non-alignment and collective security as some of the external efforts of small states to cope with the threats from international actors (Chikovani, 2010, p. 19).

Switzerland is a small land locked European state located in between great powers like Italy, Germany, France, Austria and Liechtenstein. It occupies area of 41,285 square kilometres and has population of 7.9 million. Although having quite similar geographical, demographic and topographic situation like that of Nepal, Switzerland has been very successful in dealing with external threats due to its effective foreign policy strategies. Nepal's foreign policy strategies for coping with threats and enhancing power in international system are discussed with brief comparison with successful Swiss policies below:

6.1 Military Build Up

Small states must build minimum military which can be prevent surprise attacks from external powers and also make a nation independent militarily during crisis. Small states can learn lesson from Kuwait which was captured in some hours by Iraq in 1990 due to negligible military build-up whereas when Arab nations initiated war against Israel in 1973, Israel powerfully defended them due to its well-developed internal military capability (Chikovani, 2010).

European states like Sweden and Switzerland have made provision of reserve army system which can be built- up without expensing much resources. Reserve army can be called in emergency in very short notice but they are given quality training as that of permanent military personnel (Handel, 1981, p. 79).

Case of Swiss Military

There are only five percent of professional military whereas rest are volunteers of age 19 years to 34 years in Switzerland. There is provision that soldiers can keep their personal military equipment except ammunition with themselves so that they can come quickly with their arms during emergency situation (Greenberg, 2017, p. 97). Male have to give compulsory military service whereas it's voluntary for female. Annually, basic training of 18 weeks is provided to 20,000 citizens. Swiss government made military reform in 2003 by which military of four lakhs is reduced to two lakhs among which 1.2 lakhs receives periodic military training whereas 80,000 are reservists (p. 98).

Nepal's Military Strategy

Nepal has total military personnel of 95,000 and has no system of reserve military force. Nepal is located between two large neighbors- India and China. China

has standing military of around 2200,000 whereas that of India is around 1400,000 (Armedforces.eu, 2018). Both the Nepal's neighbours possess great military power in terms of standing military and military technologies as well. The defense budget of China is 228 billion US dollar whereas that of India is 55.9 billion (Armedforces.eu). But total military budget of Nepal in 2017 was less than 400 million US dollar.

Therefore, Nepal's military posture is incomparably less with that of its neighbours. It also shows that Nepal can neither wage nor can defend in case any wars is initiated with its neighbours. Similarly, other nations in the world also cannot invade Nepal because their attack to Nepal poses security threats to India and China which may result in counter attack from these two giants. So, Nepal should maintain minimum military force only to solve its internal crisis.

6.2 Economic Independence

Since Economic dependency leads to political dependency, small states should try to be self-reliant in economic affairs to prevent external interference. Autarky (having political significance) of North Korea has given it strength to preserve its national pride and autonomy.

Swiss Economy

Till 18th Century, Swiss economy was characterized by Alps, cows and sheep. The country is not rich in natural resources like that of Nepal. But the country has developed a very sound, diversified and independent economy in 19th and 20th Century. Innovations, agriculture, tourism, service sectors are the major economic areas of Switzerland. In the year 2014, 43000 patent right applications were registered from Switzerland which shows its proficient R and D (Guo & Woo, 2016). Skilled professionals like professors were migrated from Germany which helped in R & D

and innovations in Switzerland. Low taxes, open trade and diversified economy are the major are the fundamental factors for Switzerland's economic development (Guo & Woo, 2016, p. XXV).

Swiss government has focused on promotion and establishment of Small and Medium Enterprises (SMEs) due to which 99 percent of Swiss firms are SMEs. Switzerland stands as the 20th largest exporter and the 18th largest importer in the world. Switzerland's total amount from export of services and goods is half of its GDP. Swiss International trade is highly innovative and diversified ranging from financial, banking and insurance services to manufacturing sector (Jordan, 2015, p.5). Although being a small state, Switzerland is keeping itself free from interference and dominance of larger nations due to its robust and independent economy.

Nepal's Economy and Approach to Cope with External Threats

With Nepal's geography divided into mountainous and plains, the goods and services flow southern neighbours towards northern. Having large and developed market, they export finished goods greater in amounts than what Nepal export to them. Thus, outward-bound economy of Nepal creates political economy that emphasizes on commercial activities rather than primary and secondary activities like agriculture and manufacturing. These political-economic combinations are playing a significant role in Nepal's underdevelopment (Mishra, 1987, p.111).

Due to the underdeveloped country, the economic activities constitutes of export of the available primary products and the massive import of the finished goods. There is low level of domestic production as all the imports are directly consumable. So the import of finished goods encourages the retailing business instead adding value by manufacturing further. In addition, traditional business relation results into creation

of monopoly of mercantile business. Exports of primary products like Jute, Rice are the main features of underdeveloped economy (Bhattarai, 2003). The study supported the Prebisch & Singer thesis of dependency theory.

How the Structural Scarcity entails Dependency

Infrastructures: It is facilities and service system. Lack of infrastructure hampers the domestic economic growth due to low industrialization, communication and services. Consequently, low production and information indulges a country to import from abroad.

Insufficient Financial Accessibility: In underdeveloped country struggles to get the sufficient finance to build its economic foundation. Low income level together with lack of financial market hampers the development financing. Therefore, Nepal depends upon foreign countries to finance its development projects. It estimated to receive about 20percent of loan and 4percent of grants to finance its budget expenditure (GONMOF, 2020). It is dependent on FDI to develop its infrastructure.

Scarcity of Human Resources: Skill and qualified human resource is the main pillar of developed country. The developed country is accommodated with well qualified human resource that results in leverage in production and innovation. Nepal has adult population of age of 15 or above more than 64.9 percent. However, most of them still are not qualified to advance the research, science and technology. So, Nepal is dependent on foreign countries to on advance technology.

Large Industries: large Industry is essential in furnishing state treasure. In Nepal only 5.7percent of GDP is contributed by industrial sector in fiscal year

2075/767(MOF, 2019). It depends on India on most of the manufacturing products like vehicles, electrical appliances, and machinery.

Foreign Trade: India is the Nepal's largest trade partner and only the transit country for third country trade of Nepal. Nepal is dependent over India in two third of Nepal's merchandise trade, one third of service trade, one-third of Nepal's FDI and 100 percent of petroleum supplies (Embassy of India, 2020).

It's Implication on Foreign Policy

Effective foreign policy is vital to enhance nation power and prestige to serve national interest. For this, size of economy and its dynamics is one of the major sources. But due to lack industrial base and inaccessible infrastructure, economy of Nepal is basically dependent on India. Therefore, foreign policy of Nepal is explicitly or implicitly influence by it. The stressful episode of 1969, 1989 and 2015 AD and desperate contentious treaty reflected the consequences of Nepal's deep reliance on Indian economy. Further, direction of Indian economic and foreign policies has direct and significant impact on Nepal in comparison to China and other countries.

Therefore, Nepal can learn from Swiss strategy and try to build robust, independent and diversified economy for safeguarding its sovereignty and autonomy in its domestic and foreign affairs. Indian domination to Nepal is due to asymmetric dependency of Nepal. So, if Nepal could increase its exports by only 10percent, then India will be forced to change its dominating attitude (Adhikari, 2016, p.7). Nepal should focus on economic diplomacy to attract more FDI for enhancing its internal production bases and taking more benefit from global and regional economic arrangements like WTO, BIMSTEC, SAFTA, etc.

6.3 Policy of Diversification of Relations

Foreign policy of Nepal began with the era of Prithivi Narayan Shah. Acknowledging Nepal's inability to mess with large neighbours, he practiced 'equidistance' foreign policy as the best strategy to protect its independence and sovereignty.

But Sugauli treaty signed after loss in Anglo-Nepal war (1814-1816) marked the beginning of Nepal's dependency over British India and decreasing relations with Tibet (Baral, 2016, p.17). Moreover, Nepal fighting three wars with Tibet in 1788, 1792 and 1855 slowly increased distance between Nepal and Tibet.

China's loss in 'Opium war' in 1820 and emerging British power in South and South East Asia could have impressed Ranas to incline towards British. Rana rulers alienated themselves with Tibet establishing closer ties with British India and signed a treaty of peace and friendship with British India in 1923 which further centralized Nepal's economic and foreign relations only with British India (Malla, 1983, p.40).

As per Jesse and Dreyer (2016, p. 25), Nepal avoided fate of Sikkim and Bhutan due to King Mahendra's hawkish policy to diversify its relations after 1950s. Nepal established diplomatic relations with People's Republic of China in 1955 and also signed 'China-Nepal Peace and Friendship Treaty' in 1960 by making commitment in 'one China policy'. One of the important balancing steps of King Mahendra was his decision to build Araniko highway which connects Nepal's capital with China. Nepal also became member of UN and other multilateral institutions along with expanding its bilateral diplomatic relations with 168 countries till today.

About 65 percent of Nepal's total export and 63 percent of total import is with India. Nepal imports more than 60 percent of its goods from India through the Birgunj border point alone, which was completely blocked during the 2015 Indian blockade. But with the signing of the Transit and Transportation agreement with China in 2016, Nepal has now access to Chinese port of Tianjin. Still, diversification of trade and economy hasn't expedited quickly. Diversification is a gradual process, which entails policy coordination, good connectivity, financial cooperation and good transport networks (KC and Bhattarai, 2018, p.79).

Due to over dependency in one country, Nepal also faced economic embargo and blockade time and again from its Southern neighbour. So, Nepal's then foreign Minister, Prakash Sharan Mahat signing BRI framework agreement with China in 2017 is viewed as a milestone to enhance connectivity facilities with China. Nepal will not only have easy access to the world's second largest economy but also can be connected with more than 65 countries of South Asia, East Asia, Middle East, Europe and Africa through this mega project. These steps were taken as Nepal's attempt to diversify its economic engagement with neighbours ending India's hegemonic monopoly (Bhattarai, 2018). Nepal's departure from Indo-centrism to globalism is the best strategy to cope with the threat posed due to over dependency to one great neighbour.

6.4 Neutrality

Though neutrality is not the best foreign policy option for buffer states, neutrality achieved by other small states through tolerance and agreement of great powers can save small state during the time of transnational wars. For small states located in close proximity to hostile countries, neutrality may be the most conceivable

option to alleviate tensions and ensure their own security for protecting their sovereignty and autonomy.

Swiss Policy of Neutrality

The main Swiss foreign policy is not to wage or engage in any wars or armed conflicts. Neutrality of Switzerland has been established by the Treaty of Paris in 1815. Since then, it never took part in wars including two world wars. Swiss Neutral policy helped to protect it from devastations and destructions due to war in Europe.

Nepal's Neutrality

Nepal maintained 'committed neutrality' position during the Sino-Indian border war in 1962. If any war breaks between India and China, India wants Nepal's back up as per 1950 treaty whereas China seeks Nepal's support due to BRI membership. In this situation, easy out way for Nepal is to continue its policy of neutrality (Baral, 2020). Nepal also took 'silent neutrality' during Indo-Pak war and has been taking independent stand in global issues in international forums. Like that of Switzerland, Nepal can protect itself from devastations due to war only through neutral foreign policy. But Neutrality has to be approved and tolerated by the great states in the vicinity. Nazi Germany did not honour the neutrality of Belgium in 1914 which was maintained through the treaty of London. The best strategy of Nepal can be to convince its great neighbours and other great powers to endorse its policy of neutrality.

6.5 Proposal for Zone of Peace

Since Nepal is located in the strategic position between India and China, its recognition as a zone of peace could be an effective deterrent during future wars.

Nepal's land could not be used by either of the parties for war purpose in case war breaks between India and China. So, the proposal for Zone of Peace was mooted by King Birendra in 1975 in his coronation ceremony with an aim to escape from any regional rivalries and conflicts by institutionalizing the peace (Shah, 1975, p. 167).

Then king of Nepal considered that effort as one of the best steps to keep Nepal's sovereignty, independence and territorial integrity intact liberating Nepal from its worries. If accepted, along with UN, India and China would also recognize Nepal as the zone of peace which would guarantee Nepal's sovereign status forever.

India did not accept King Birendra's Proposal for Zone of Peace whereas along with other 115 members of UN, China also endorsed the proposal. Nepal's ultimate aim behind bringing proposal for Zone of Peace was to have comprehensive treaty with India and China by which they would recognize Nepal as the peace zone. India also wanted entire 'Indian Ocean' to be ZOP which was impossible.

The treaty would also replace the old treaties of peace and friendship with India and China. Endorsement of the proposal also could alter mutual security treaty of 1950 and tripartite treaty of 1947 by which India is recruiting Gorkha soldiers for Indian Army. India also did not give up its old Nehruvian Himalayan Frontier policy of considering Himalayas as its natural defense due to which it has to engage other countries including Nepal if future war breaks with China (Malla, 1983, pp. 77-79).

6.6 Alliance and Non-Alignment

Small state makes alliance with other small states to achieve temporary goal or in any issue like ASEAN (Handel, 1981, p. 153). They have bilateral alliance with big

power to prevent regional threats like US-Israel alliance. The best strategy to be visible internationally is through multilateral alliance.

Baltic States in Europe joining NATO signifies that the multilateral security alliance is the best defence strategy to cope with security threats. Switzerland is focusing on maintaining stronger bilateral relations with extra European power centres particularly for economic benefits and civilian peace building efforts as niche strategies (Mokil, 2008, p. 1). Switzerland has not joined any security alliances like NATO and European Union.

Small states can keep them aside from rivalries of power blocks through non-alignment foreign policy. Sometimes confusion arises between neutrality and non-alignment. (Maniruzzaman, 1982, p. 32) opines neutrality as remaining out of international power politics with an aim to avoid engagement in any future wars whereas non-alignment refers to avoidance of any military power alliances. Non-alignment is the by-product of cold war between Capitalist and Socialist blocks in post second world war situation. Newly independent Asian and African countries which do not want to engage in any further military competition declared to remain aloof from two power blocks in Afro-Asian Conference held in Bandung in 1955. King Mahendra participation in the first Non-aligned Movement (NAM) conference held in Belgrade in 1961 shows Nepal's priority to non-aligned foreign policy.

Due to non-aligned foreign policy, third world countries received financial aid from both the power blocks, became able to influence global politics and supported to maintain peace during the cold war period (Budhraj, 1966, p. 49).

State policies in article 51 (m) of the Constitution of Nepal (2015) obliges state "To conduct an independent foreign policy based on the Charter of the UN, non-alignment, principle of *Panchasheel*, international law and the norms of world peace."

Third world countries like Nepal which do not have capabilities to engage in international power politics can avoid military competition and focus on their internal development through non –aligned foreign policy.

6.7 Balance or Bandwagon?

According to Walt (1987, p. 17), balancing is the strategy to align against the potential threat whereas bandwagon is the act of aligning with the source of potential danger. Savada (1991, p. 231) views Nepal's foreign policy being directed to maintain balanced, close and friendly relations with its neighbours with an aim to safeguard its independence and national security.

The founder of modern Nepal, Prithivi Narayan Shah described Nepal as 'a yam between two boulders' and maintained the equidistance policy between two large neighbours which he considered necessary to protect its independence and sovereignty. But after loss in Anglo Nepal war (1814-1816), Rana rulers of Nepal maintained relations with British India only which can be seen as strategy to align with potential threat(bandwagon). By this approach, Rana supported British India to suppress Army Revolt and became able to regain the four districts –Banke, Bardiya, Kailali and Kanchanpur which Nepal lost through Sugauli treaty. Rana also supported British during both world wars.

After establishment of democracy in Nepal in 1950s, Nepal realized the need of diversification of relations and also tried to balance its' relations with two large neighbours. If a small state is situated between two confronting great powers than balancing behaviour can be the effective strategy (Chikovani, 2010, p.24).

Sometimes Nepal seems tilting towards India and sometimes closer to China. Perfect diplomatic balance seems impossible in practice due to which Nepal faced

blockade by India in 1989 when Nepal purchased arms and ammunitions from China. Adhikari (2018, p.60) characterizes Nepal's policy as the strategies of balancing in peace and neutrality during war.

6.8 Multilateralism

Small states are more dependent on multilateral organizations than large states and they get the most benefits from such organizations (Neumann & Gstöhl, 2006, p. 17). From multilateral forums, small states get opportunities for gathering, analyzing and dissemination data; platform for exchanging views and decision-making; the defining of norms; the creation of rules; the monitoring and enforcing of rules; the settling of disputes; and the allocation of resources, provision of assistance, and deployment of forces (Karns & Mingst, 2004, pp 20-35).

Shah (1975, p.170) states that Nepal cannot copy the Swiss model which has been exporting neutrality through the medium of diplomacy but can have different approach of active participation in international affairs as a responsible member of United Nations. Multilateralism is one of the best choices of Nepal for its survival and security due to its structural constraints and vulnerabilities. Nepal is in favour of strong multilateral order to overcome vulnerabilities, enhance its dignity and to promote its national interests.

For Nepal's security if it remains neutral in global affairs, it cannot have chance to influence strategic environment. So, Nepal's participation in multilateral arrangements gives it opportunity to expand its influence in institution which can protect it from threat. Transnational problems like climate change, transnational crimes, money laundering, terrorism, etc. can best be addressed through multilateral

forums as small state like Nepal do not possess capabilities and resources to solve them through single efforts.

Nepal's geographical position between two great powers urges the Nepal's need to give priority to multilateralism. Nepal's voices are heard in international level due to its engagement in regional and global institutions like SAARC, BIMSTEC, NAM, IMF, WB, ADB, UN, WTO, etc.

Nepal has successfully utilized multilateral forums and UN to minimize the influence of its neighboring countries in its internal affairs time and again (Nayak: 2014, P. 24). Nepal successfully fulfilled its responsibility as the chair of the Global coordinating Bureau of LDCs from where it constantly raised the voice of LDCs.

6.8.1 Nepal's Involvement in Multilateral Institutions

Nepal has been engaging in regional and global institutions with objectives to safeguard sovereignty, territorial integrity, independence and promotion of national interests. Nepal engagement with NAM, SAARC, the UN, BIMSTEC and WTO are discussed below:

Nepal in the UN

Nepal became the member of United Nations on 1955 when the cold war was on the peak. As the Nepalese ruling classes did not feel fully safe and secure from external intervention despite the 1950 treaty with India, Nepal sought for the UN membership (Nayak: 2014, P.26). UN membership symbolized international recognition of Nepal's sovereignty.

Since 1955 Nepal actively participated in the UN and its subsidiary's bodies. Nepal served as a leader in the policy of eradication of racial discrimination in 1962,

mediator in Indo-Pak war in 1965, member of Human Rights Council (2018-20) and non-permanent UNSC member twice. Since 1958 Nepal started to send Nepalese security forces in peacekeeping operations around the world. Nepal raised voices for disarmament, peace and security, eradication of poverty, good governance, climate change, issue of LDCs, etc. Nepal's request for UNMIN to conclude its peace process signifies Nepal's faith towards UN. Through all these activities Nepal got opportunity to enhance national dignity in the international arena.

Nepal in the Non-Aligned Movement (NAM)

Nepal is the founding member of NAM and incorporated non-aligned policies in its constitution. King Mahendra himself participated in the first NAM conference in Belgrade and emphasized for greater economic cooperation between countries and opposed the idea of military alliances (Adhikari, 2018, p. 59). Nepal served as the Vice Chair of NAM from thirteenth summit. Nepal has been raising the voice of peace, disarmament, non-interference and equality in the world via NAM.

Nepal in the WTO

Nepal got WTO membership in 2004 as a 147th member by which Nepal got chance to integrate to global economy. Nepal got larger market access and export facility in the areas of its comparative advantages. Nepal has always been raising issues of LDCs in WTO but its being unable to promote its production and exports by grabbing technical and other trade facilities provided to the Least Developed Countries by WTO (Acharya: 2016, P.175).

Nepal in the SAARC

Nepal is one of the founding members of the South Asian Association for Regional Cooperation (SAARC). Nepal's seems proactive and fully committed to make it a dynamic regional organization and also trying to reduce Indian influence by advocating to admit extra regional powers as observers (Nayak: 2014, P.25). Nepal is getting regional collaboration for poverty eradication, disaster management, trade and investment promotion, cross border crime control, etc. through SAARC.

Nepal in the BIMSTEC

Since Nepal became a full member of BIMSTEC in 2003, it is actively participating in different regional affairs. Nepal has been raising the voice for special privileges for landlocked countries in the BIMSTEC FTA. Through BIMSTEC platform, Nepal seeks to utilize an intra-regional transportation network, expansion of trade, energy and promotion of tourism. For Nepal, multilateralism is the best platform to raise the concerns of Least Developed Countries (LDCs) on economic issues (Nayak: 2014, P. 26).

6.9 Collective Security

(Schwarzenberger, 1964, p.379) states "Collective Security is machinery for joint action in order to prevent or counter any attack against an established international order."

Foreign policy strategists opine that small and medium power gets protected from Collective Security arrangement only when the interest "big gives" especially the United States are at stake (Ebegebulem, 2011, p. 28). Collective security under UN

became successful to free Kuwait from Iraq in 1990 because Iraq was comparatively weak militarily than big powers of the world.

Swiss Policy

In case of Switzerland, it has never been a part of collective security mechanism. Though most of the European states are the member of NATO, Switzerland refused to join it.

Nepal's Strategy

In case of Nepal's vicinity, China is a permanent member of UN Security Council. Also, both India and China are nuclear powers. The military power of China or India can be more than the sum of military powers of many nations of UN. Due to this, there is negligible chance of UN's support to Nepal through collective security during military conflicts with its neighbours. It can be proved by UN's non action during the economic blockades of India to Nepal.

6.10 Niche Strategy

Small states usually do not possess adequate resources due to which they cannot perform best in every issues. So, a small state should choose limited priority areas in which it possesses enough experience, expertise and proven good track records. Then, state should concentrate its resources and personnel to achieve reputation in that particular foreign policy goal from which small nation also can make great influence in global affairs. This is known as niche diplomacy.

Swiss Niche Policy: Conflict Mediator

Since Switzerland is smaller and less powerful than its neighbours, it refrains from competing with them but adopted a niche foreign policy for protection of its independence. It has created its own identity as a Conflict Mediator in the world (Mokil, 2008, p.2). Through its policy of dialogue, it has been engaged in more than 20 peace negotiations in 15 states in the world since 2000 A.D. The conflict between Algerian National Liberation Front and France came to a cease fire after Switzerland's mediation in 1962. After hostage crisis of 1979 in Iran, Switzerland is handling US affairs in Iran. So, international community always feels the need of Switzerland either while formulating global peace policies or while solving conflict in international level.

Nepal's Niche Strategy: Global Peace Keeper

In the context when Nepal has negligible chance of getting support through collective security during conflict with its neighbours, the best option for Nepal is to make good reputation in global level through great contribution in UN peace keeping operations which is also the part of collective security under UN. According to (Shrestha, 2012, p. 48), more active and larger role in UN Peace keeping operations should be the top priority of Nepal's foreign policy.

More than 1,35,00 Nepalese personnel have served in 40 different mission of UN peace keeping since 1958. Currently, 5,700 peace keepers from Nepal are serving in 11 missions in different parts of the world making Nepal as the fifth largest contributor to UN Peace keeping (peacekeeping.un.org, 2020).

Nepal's niche diplomacy through peacekeeping may give it chance to play mediatory roles in international conflicts. In the same way, other countries in the world may recognize Nepal as a peace loving nation so that our great neighbours and other countries will be morally obliged not to intervene militarily in Nepal.

Regional organizations like CARICOM, Organization of American States (OAS), African Union, etc. have their own security arrangements which are meant to solve regional conflicts in collaboration with United Nations. Nepal and other seven countries are the members of South Asian Association for Regional Cooperation (SAARC). Conflicts and security threats due to terrorism can be observed mostly in Afghanistan, Pakistan, India and Bangladesh but there is no joint security apparatus in SAARC. Therefore, Nepal can push forward the proposal of collective security mechanism under SAARC in order to combat the threats due to terrorism and weapons of mass destruction (WMD) in the region. Likewise, Nepal also can get good role and reputation internationally like that in UN peace keeping by contributing its forces for maintaining peace and security in the region.

In the global level, intense discussions are going on for establishing the permanent military force under UN as a part of collective security mechanism (Sohn, 1958, p.230). If this happens, Nepal should not be back to be one of the largest contributor in that mechanism as well.

Findings on the basis of above discussions are presented on the table below:

Table (iv). Comparison between Swiss and Nepal's Foreign Policy Strategies

| Strategies | Switzerland | Nepal |
|-------------------------------|--|---|
| Military Build Up | Yes (Regular + Reserve Army) | Yes (for internal crisis management) |
| Economic Independence | Yes | Yes (Not achieved yet) |
| Neutrality | First Priority | Yes |
| Non-Alignment | No | Yes |
| Multilateralism | Yes (UN member (2002) for Peace), No EU membership | Yes (UN, SAARC, BIMSTEC, WTO, BRI.....) |
| Special Niche Strategy | Conflict Mediator | Global Peace Keeper |

CHAPTER VII: SUMMARY AND CONCLUSION

Although Nepal and India had been enjoying amiable religious, cultural, socio-economic and people to people relations from the time immemorial, British East India's dominance in Nepal's foreign policy began only after signing Sugauli treaty in 1816. During those days, Nepal was prohibited to maintain relations with other powers without British consent. After India's independence in 1947, Rana regime in Nepal was also in extreme pressure due to democratic movement. During that situation, India proposed "Indo-Nepal Treaty of Peace and Friendship, 1950" and the Rana Prime Minister Mohan Shumsher signed the treaty with a hope to get Indian support to sustain their regime. The treaty produced an unequal and disproportional impact for Nepal as India can use diplomatic, economic, military and political pressure if Nepal breaches the provisions whereas Nepal lacks the capacity to make India oblige it. The treaty which is widely criticized by Nepal's public is guiding Nepal-India relations till today. The treaty enhanced Nepal's economic, political and military dependency over India.

Foreign policy is vital for protecting sovereignty, territorial integrity, independence and economic prosperity of a country. However, it would be relevant in the favor of robust economy, political and military power. Nonetheless, foreign and economic policies are complimentary elements that facilitate mutually to achieve common objectives. Nepalese economy is small in size and two-third of the economy as well as its' access to sea is dependent on India. For the reason, India tries to influence Nepal's economic, security and foreign policies.

In case of Nepal, low penetration of infrastructure, insufficient financial accessibility, scarcity of educated human resource, insufficient industries are some of

main scarce structures. Structural scarcity coupled with undrawn resources magnifies the dependency on neighboring states. Although Nepal is situated between two great nations – India and China, its geographical constraints like land locked position and poor connectivity with northern neighbor has obstructed it to diversify its relations. Nepal's asymmetric economic dependency over India is verified by India standing as the largest trade partner accounting for 63 percent of Nepal's total foreign trade whereas Nepal is not in the top ten list of India's trader partners. Due to this, any small changes in policies of India create huge impact in Nepal whereas Nepal's policies have minimum impacts to Nepal.

While exploring Nepal's political dependency, the study found out that every political transitions that occurred in Nepal after 1950s has been relying on Indian support. Democracy was established in 1950s with 'Delhi Compromise', Panchyat system sustained with India's silence after Arms Assistance Agreement, democracy was reinstated after India's support through economic embargo in late 1980s, Maoists used Indian soil to expand their insurgency, Maoist insurgency ended and republic system was introduced on the basis of 12 points agreement signed in Delhi.

A unique pattern is observed in India's behavior in relations to Nepal. At first, India provides strong back support for sensitive political changes in Nepal whenever the existing regimes do not act as per its interests. And after successful political transitions, India also claims its share through interventionist and hegemonic acts. This can be verified by India's behavior during the transition phase of monarchy to republic system. Mass movement II abolished monarchy and established republic system on the basis of 12 points agreement signed between SPA and Maoists under Delhi's facilitation. While drafting new constitution, India first tried to give political pressure to incorporate its suggestions by sending its envoy to Kathmandu. But when

Nepali leaders dared to promulgate constitution in an independent way, India imposed unofficial economic blockade to Nepal in 2015. Taking advantage of Nepal's economic and political dependency, India's interference in Nepal's internal affairs is observed.

Incidents of India's economic blockades in 1969, 1989 and 2015 prove that India always displays its serious discontent by using its economic power whenever Nepal's tries to escape out of Indian dependency either in its economic, military, foreign or political affairs. Moreover, the research found out that India is not in the position to use coercive hard military power and official economic embargos whenever Nepal acts against its interests because of its historical people to people, religious, socio-cultural ties and also due to Nepali Gorkhas serving in Indian military by giving their sweat and blood for safeguarding Indian territory. Therefore, India first gives political pressure to act as per its interest. If not obeyed, it uses unofficial hard economic powers like sanctions, blockades or embargos by using proxy forces to block the flow of essential goods and services which creates economic crisis in the country thereby pressurizing the government for compromise.

While analyzing Nepalese military institution, it is also found to be facing structural scarcity. Nepal's inability to produce military technologies in domestic level and compulsion to bring arms/ammunitions from or through the route of India made it dependent on foreign powers especially, India to purchase security materials or receives them as a part of foreign assistance. India which was against King Mahendra's undemocratic action of introducing Panchyat in early 1960s remained silent after signing secret Arms Assistance Agreement which established India's monopoly in the supply of arms and ammunitions for modernization of Nepalese Army. 1950's treaty also requires Indian consultation while importing arms through

the way of Indian territory. When king Birendra tried to diversify Nepal's military relations by purchasing arms from China without consulting India, the later one imposed economic blockade to Nepal in 1989.

It can be inferred that India wanted to establish 'Patron-Client relationship' with Nepal by bringing Nepal under its' security umbrella through India's proposal in 1989 which was denied by then king Birendra. If Nepal accepted that proposal, the Panchyat system perhaps would survive in the cost of Nepal's independent foreign and security policies.

Asymmetric dependency over single country increases vulnerabilities and threats to any nations due to which Nepal has used different strategies in different time frame to cope with those threats for protecting national sovereignty and independence. Prithvi Narayan Shah had maintained balancing strategy known as equidistance foreign policy acknowledging the fact that Nepal cannot withstand outcome from another neighbor if it takes side of one giant neighbor.

But Rana rulers regained some parts of Nepal's lost territory and protected Nepal's independence through their strategy commonly known as 'bandwagon' by which they aligned and supported Nepal's potential threat- British India in major wars including both world wars.

Strategy of diversification and the policy of multilateralism were some of the best approaches chosen by Nepal for its survival after 1950s. It is observed that Nepal's king realizing special relations with India may endanger national sovereignty like that of Sikkim and Bhutan; began to diversify aid, trade and foreign relations of Nepal after 1950s. Efforts for diversification of relations were initiated by establishing diplomatic relations with northern neighbor, China and many other nations. King

Mahendra's decision to connect Kathmandu and Tibet via road facility was a historic and bold move which added one more option for foreign trade to Nepal. India showed its' dissatisfaction towards Nepal's effort of diversification by imposing economic sanction in 1969.

In the same time, Nepal also focused on the policy of active engagements in multilateral institutions through Nepal's membership in United Nations (UN), Non-Aligned Movement (NAM), South Asian Association for Regional Cooperation (SAARC), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and so on. Through Nepal's non-aligned foreign policy, it became successful to involve in global affairs without any power blocks as well as received foreign aid from both the blocks during the cold war period.

Against the backdrop of Nepal's balancing policy between its neighbors during peace and neutrality during war period, King Birendra brought out the proposal to recognize Nepal as a Zone of Peace in 1975 with an aim to ensure territorial integrity, sovereignty and security of Nepal. Through that proposal, Nepal wanted to cancel past unequal treaties and intended to conclude a fresh treaty. Small European state, Switzerland protected itself from devastations due to world wars because of tolerance and acceptance of its neutrality by great powers of Europe through the treaty of Paris. In the same way, the proposal for ZOP was a tactful and novel foreign policy strategy devised to escape regional rivalries by institutionalizing Nepal's peace by gaining acceptance from Nepal's two giant neighbors. The strategy did not work as India refused to accept the proposal even when 116 other countries of the world endorsed it. It shows that India has never been liberal in relations with Nepal, it always views Nepal from its realist Himalayan Frontier policy.

With objectives to alleviate chronic poverty and to achieve economic prosperity via foreign policy, Nepal adopted policy of liberalization along with India and prioritized economic diplomacy as a tool to attract more FDI for increasing infrastructures, industries and employment in post 1990s period. Nepali youths began to move to third countries like Malaysia and gulf nations for the foreign employment. But with the initiation of Maoist insurgency from 1996, most of the international supports are concentrated on controlling the insurgency till 2006. Again, after successful conclusion of peace process and achieving political stability, Nepal is stressing on accumulating foreign capital and technology for building infrastructures and connectivity facilities, industrialization, entrepreneurship development and policy of export promotion in order to lessen the present high trade deficit with neighboring countries.

Albeit, growing influence of China is evolving into a new dynamics in Nepal's foreign policy, it is intended to extend its connectivity to enhance economic activities in Nepal. After learning lesson from economic embargo of India in 2015, Nepal again attempted to break down India's monopoly in the supply of petroleum products and Nepal's third country trade by signing a 'Trade and Transit Treaty' with China in 2016 by which Nepal can access and use four Chinese sea ports and three dry ports for its third country trade.

Nepal determined its' way from Indo-centrism to globalism by joining BRI project under which Nepal will get opportunity to develop better connectivity facilities with not only China but also will get connected with more than 65 countries of South Asia, East Asia, Middle East, Europe and Africa. This step is taken as an attempt to end India's hegemonic monopoly in Nepal's economic and foreign affairs.

Sovereign existence between two powerful nations is challenging to transform into opportunity. European small state Switzerland even with the fewer natural resources has become able to be economically independent due to its focus on innovation, SMEs, agriculture, banking and finance and manufacturing. Nepal also should follow successful good practices and emphasize on enhancing internal production, entrepreneurship development, attracting more FDI, infrastructure building and diversification of its products and trade partners. The concept of import substitution industrialization would be an option for the time to assuage the deficit problem. Maintaining consistency in economic policy and its effective implementation is essential to minimize Nepal's economic dependency.

Nepal can neither wage nor defend if any war breaks with its large neighbors and there is low possibility of third countries' attack over Nepal due to fear of counter attack from Nepal's neighbors as attack over Nepal poses security threat to them as well. In this condition, Nepal should not spend adequate resources on military build-up but pursue a policy to maintain minimum military capability in order to patrol its borders and to solve internal crisis when arises.

Policy of bandwagon with neighbors may not be beneficial for Nepal in the present time. So, it must continue its old policy of balancing in peace and neutrality in war with its two neighbors. It should continue its policy of non-alignment and active engagements in international level through global and regional multilateral institutions like UN, SAARC, BIMSTEC, WTO, BRI, ADB, World Bank, AIIB, etc.

UN's non action during India's economic embargo to Nepal proved that collective security will not be available to protect Nepal from neighbors' military aggression as two nuclear nations are located in Nepal's vicinity. But Nepal should

use its contribution to the UN peace keeping as its niche strategy. As Switzerland is influencing in global level due to its niche policy of conflict mediation, Nepal's foreign policy agenda should continuously give top priority to more active and greater role in UN's peace keeping operations. Nepal's reputation as a global peace maker in one hand gives power to influence international affairs by earning international prestige and fame whereas on the other hand, it obliges other powers to respect Nepal's sovereignty, territorial integrity and independence.

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