

**STUDY OF NEPAL'S ECONOMIC OPPORTUNITY FROM ECONOMIC  
GROWTH OF INDIA AND CHINA**

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## LETTER OF RECOMMENDATION

I certify that this dissertation entitled “STUDY OF NEPAL’S ECONOMIC OPPORTUNITY FROM ECONOMIC GROWTH OF INDIA AND CHINA” was prepared by SUBHASH PANTHI 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 MASTERS IN INTERNATIONAL RELATIONS AND DIPLOMACY.

.....

Dr. Santosh Sharma Poudel

Supervisor

Date: 08 August 2019

## **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 any other degree. Where other authors' source of information have been used, they have been acknowledged.

Signature:.....

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## **Abstract**

This thesis entitled “STUDY OF NEPAL’S ECONOMIC OPPORTUNITY FROM ECONOMIC GROWTH OF INDIA AND CHINA” is an analytical research to explore how Nepal can be properly put in the chain of India-China growth in the neighborhood. The thesis dealt with two questions in main; first, how Nepalese political economy is connected with India and China? And second, how Nepal may benefit from the economic growth of India and China?

The research progressed as an opportunity to review historic, social, political and economic relations, the countries; Nepal, China and India are having in triangle. The study has been carried with the reference of different books, statistical and institutional reports, articles and analysis; published in the websites, newspapers, blogs and journals. The thesis tries to figure out geo-strategic and economic opportunities Nepal has in hand which then require serious effort to advance and enhance its diplomatic efficiency winning confidence of both neighbors in India and China.

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## LIST OF ACRONYMS

AD:	Anno- Domini
ADB:	Asian Development Bank
AIIB:	Asian Infrastructure Development Bank
BBIN:	Bangladesh, Bhutan India and Nepal
BIMSTEC:	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BRI:	Belt and Road Initiatives
BRICS:	Brazil, Russia, India, China and South Africa
CIA:	Central Intelligence Agency
CNI:	Confederation of Nepalese Industries
CPA:	Comprehensive Peace Agreement
CPAFFC:	Chinese People's Association for Friendship with Foreign Countries
DCP:	Development Cooperation Policy
DIPP:	Department of Industrial Policy and Promotion
FDI:	Foreign Direct Investment
FNCCI:	Federation of Nepalese Chambers of Commerce and Industries
GDP:	Gross Domestic Product



GNI:	Gross National Income
GPP:	Green Public Procurement
HIV:	Human Immunodeficiency Virus
HLTF:	High Level task Force
IFA:	Institute of Foreign Affairs
IMF:	International Monetary Fund
IT:	Information Technology
KM:	Kilo-meters
LDC:	Least Developed Countries
LLDC:	Landlocked Least Developed Countries
MEAD:	Multilateral Economic Affairs Division
MOF:	Ministry of Finance
MTOE:	Million Tonne of Oil Equivalent
MW:	Mega-Watt
NAM:	Non-aligned Movement
NCEC:	Nepal China Executive Council
NCP:	Nepal Communist Party
NPC:	Nepal Planning Commission
ODI:	Official Development Investment

PCI:	Per-Capita Income
PPP:	Purchasing Power Parity
SDG:	Sustainable Development Goals
SEZ:	Special Economic Zone
TAR:	Tibet Autonomous Region
THECA:	Trans-Himalayan Economic Cooperation Agreement
UN:	United Nations
UNO:	United Nations Organization
USA:	United States of America
WB:	World Bank
WTO:	World Trade Organization

# CHAPTER 1

## INTRODUCTION

### 1.1 General Background

Nepal is a landlocked sovereign state located in the Himalayas and bordered in the north by People's Republic of China, and the rest by the Republic of India. Dahal and Inoue, (1994) on Nepal's location notes:

A Himalayan nation wedged between two emerging global economic powers, India in the east, west and south with an open border and China in the north, Nepal is least developed, landlocked, geographically disadvantageously placed and economically vulnerable nation of enormous ecological diversity.

Between these two giant economies lies the Nepalese state with all its risks and opportunities. Nepal has a strong and unique identity as a sovereign state but it holds a shaky balance between its neighbors. Long after most other regions have largely hit their aspirations, it is now South Asia including China taking their turn on the way to development. Besieged between the huge land mass of India and China, beside augmented by the internal twists and turns in socio-economic and political horizon, Nepal seems obliged to go for substantial development process right now.

At the time when the two Asian giants are aspiring to make the twenty first century, as the Asian century, Nepal can toil in the direction of a tripartite strategic partnership with India and China. Their improved bilateral relations with themselves as well as Nepal involved in

towing that relation ahead can open wider possibilities for Nepal to participate into the growth chain, the countries have achieved in the recent past.

The concept of 'Silk Road' which passes through Nepal and connects Asia, Africa and Europe is being revived for materialization now. China and India both are the elements of this esteemed growth trajectory which shortens the global trade link by manifolds. If Nepal could perceive these phenomenal changes, and work out for the same, it is of course a historic point of time to overcome long hangover of our landlockedness and move ahead.

Given the context of significant growth and dynamism in both Indian and Chinese economy, despite exceptions caused by regional as well as global economic slump occasionally, it is natural for Nepal to be cautious of, and seek ways to, getting aligned with their motion. Timely estimate of such implications, particularly politico-economic implications and exercise practical steps to maximize advantages and minimize challenges can prove a boom to Nepal's development.

## **1.2 Statement of Problem**

This is the age of globalization. No country in the world can think of operating itself in pure isolation. In this context, how could Nepal remain unaffected by the static as well as dynamic factors in India and China-the countries that lock from around by land? Moreover, these two nations are the leading growth cells in the entire body of the contemporary world economy.

Nepal bears wider potentials for development and growth with its immense human and physical resources. The abundance of resources have been underutilized be it water resource, ecological niche, arable land, raw materials and essentially human and technological resource which would in fact induce productivity of all the sectors of economy. At these circumstances

even a thin ray of positive externality favoring trade and investment creeping in across the border help realize a lot out of grand possibility. At the same time, India and China have grown and are growing at spectacular rates reaching new height in terms of economy and development. The economic growth of India and China matter much to Nepal to exploit the raw potential for growth and in the meantime these neighbors are extending cordial interest on Nepal's resources. So, it seems urgent from Nepalese perspective to become somewhat calculative and design its own path that ensures maximum advantage from what is going on at the immediate borders.

Hence, this study feels the need to explore how Nepal can be properly put in the chain of India-China growth and promote itself to a better status worldwide.

### **1.3 Objectives of the Study**

This study has the following prime objectives:

- a. To observe Nepal's economy and its politico-economic tie with India and China.
- b. To access prevailing economy of Nepal.
- c. To explore the possibility of economic benefit to Nepal from the Economic Growth of India and China.

### **1.4 Research Question:**

The whole research concentrates on finding:

- a. How Nepalese political economy is connected with India and China?
- b. What opportunity prevail in the economy of Nepal?
- c. How Nepal may benefit from the economic growth of India and China?

### **1.5 Significance of the study**

China and India are the rising stars of the contemporary world. It is interesting to note that Nepal is a landlocked, one of the least developed countries between these great powers. When China is already a permanent member of the UN Security Council and has a strong say on world affairs and India is coming up with equal vigor since a few decades, their position is unquestioned.

At this juncture, we cannot turn deaf ears to their rise, movement and approaches particularly by neighbors like Nepal. Beside sovereignty, territorial integrity and independence, Nepal aspires to raise itself to a more solid political setup, higher economic profile and greater social harmony. So, the first quarter of the twenty first century is, of course, a high time to judge politico-economic implications to Nepal of the burgeoning China and India.

### **1.6 Organization of the study**

The study has five chapters, in main.

Chapter I: Introduction. The chapter deals with the overview of study topic, statement of the problem around which the study will concentrate, objectives of carrying out research work, rationale of this particular study and methodology including major data sources. It also incorporates ethical considerations, limitations and organization of the overall study.

Chapter II: Literature Review. This chapter reviews shortly on theoretical literature and extensively on various pertinent empirical literatures on Nepal, China and India, their bilateral as well as trilateral engagements.

Chapter III: Conceptual Framework. The chapter deals with the research methodology, research design and analysis of data as appropriate to the fulfillment of research objectives.

Chapter IV: Analysis. In this chapter is analyzed how the geo-economy of Nepal, India and China is connected. Economy of Nepal is discussed. Prospect of economic cooperation between Nepal, India and China are analyzed and economic opportunities of Nepal are studied.

Chapter V: Conclusions. Conclusions are drawn. Considerations are made.

Preliminaries are before Chapter 1 and References immediately follow the conclusions

## CHAPTER 2

### LITERATURE REVIEW

#### 2.1 Globalization and Nepal

Globalization is the process of de-bordering the nations of the world. It integrates economies, culture, politics etc. among the individual states in a more meaningful manner over time. Globalization is not a phenomenon. It is not just passing trend. Rather it is an overarching international system shaping the foreign relations and domestic politics virtually to every country, and we need to understand as such.

Friedman (2005) defines globalization as the inexorable integration of markets, nation states, and technologies to a degree never witnessed before in a way that is enabling individuals, corporations and nation-states to reach around the world farther, faster, deeper, and cheaper than ever before and in a way that is enabling the world to reach into individuals, corporations, and nation states farther, faster, deeper, and cheaper than ever before.

Bayne Nicholas and Woolcock Stephen were discussing in their book *'The New Economic Diplomacy: Decision Making and Negotiation in International Economic relations'* that economic relation need to create new institutions, adopt various policy measures, establish new mechanisms to face the challenges posed by the globalization and minimize its impact. The advance of globalization thus has made heavy demands on governments in economic diplomacy. (Nicholas & Stephen, 2002)

In fact, globalization is for competition, which ultimately aims for the quality, efficiency, and greater good of the humanity. Opposed to common understanding, globalization is not merely as external process. Rather it calls for the internal preparation to adapt the external



engagement. This internalization of globalization is called localization. The constitution of Nepal (2015) acknowledges, such localization need state policies (Art. 51).

The globalization poses both benefits and threats simultaneously. It's through foreign policy measures, Nepal, like all other nations, attempts to maximize gains and minimize losses accruing from the wave of globalization.

## **2.2 Foreign policy and Nepal**

Foreign policy is the framework that governs the country's external behavior. It exerts serious implications in determining the scale of benefit a country may reap from the diverse opportunities available in the global economy or the world society.

*The constitution of Nepal (2015)* presents the declared foreign policy of the country; both in principle and its policy objectives. The directive principles in Article (50) of the constitution states:

State shall direct its international relations towards enhancing the dignity of the nation in the world community by maintaining international relations on the basis of sovereign equality, while safeguarding the freedom, sovereignty, territorial integrity and independence and national interest of Nepal. (Constitutional Assembly Secretariat, 2015)

To achieve economic development of the country through effective promotion of its policies has been identified as always the primary interest of the country. The essence of economic growth of the country that has went past a long period of underdevelopment throughout the rule of autocracy (Monarch and Rana regime) and plagued by Maoist insurgency in recent past, remained the long lived aspiration of the people. The intent is made clear including economic goals as key national interest of the country in the constitution itself. The

article five of *The Constitution of Nepal 2015* defines national interest as “Safeguarding of the freedom, sovereignty, territorial integrity, nationality, independence and dignity of Nepal, the rights of the Nepalese people, border security, economic wellbeing and prosperity shall be the basic elements of the national interest of Nepal”. (Constitutional Assembly Secretariat, 2015)

Since politics is a purposeful activity to deliver betterment, foreign policy as a nuclear issue of international politics is designed and formed purposefully to enhance various dimensions of a state. Foreign policy is a game played among international players. Each player in the game has their own roles to play and own objectives to fulfill which is inconceivable without national interest. Foreign policy has many constituents. Most important out of them are defensive diplomatic and economic interests.

Each and every country in the existence has foreign policy in one form or the other. Foreign policy of the countries differs from one another given their location, strength and power, economic condition and historical background. Despite these differences, some objectives happen to be common. The common objectives of foreign policy include: maintaining the integrity of the nation, providing the national security, promoting economic interest, protecting national prestige and developing national power and maintaining law and order of the country.

In lieu with the common objectives, the Ministry of Foreign Affairs Nepal writes in its official website, "The fundamental objective of Nepal's foreign policy is to enhance the dignity of the nation by safeguarding sovereignty, territorial integrity, independence, and promoting economic wellbeing and prosperity of Nepal. It is also aimed at contributing to global peace, harmony and security". (Ministry Of Foreign Affairs)

The Nepal's foreign policy is guided by following basic principle;

Nonalignment; which is the product of the aftermath milieu of the Second World War. The United States and the USSR emerged as superpowers after the end of the Great War. These superpowers had different ideological backgrounds. They propagated ideology to the maximum extent. The world divided into two blocks. The communist nations united under the leadership of USSR and formed the Warsaw pact, on the other hand the western countries, mainly western Europeans formed the NATO under the leadership of USA. Many newly independent countries could not align with both blocks. These countries mainly from Asia, Africa and Latin America united under the umbrella of NAM. The NATO and Warsaw pacts were totally politically aligned, NATO favoring the western democracy and Warsaw uploading the red flag of communism. NAM is quite different from these pacts in content and matter. The non-alignment movement was to preserve and strengthen the independence and security of its members. Since, NATO and Warsaw were like military alliances, NAM is not. Its something created to strengthen the economic interest of poor, backwards and independent countries. In another sense, NAM was created to bring the two blocs into the negotiating table directly and indirectly. Nepal is the least developed country situated in between the communist China and democratic India. Nepal cannot ignore one nation at the cost of another. By history and by experience, it should frame foreign policy on the basis of national interest. Nepal can strengthen its national interest by maintaining good relations with other nations. NAM is the brainchild of cold war. The end of cold war cannot justify the end of NAM. NAM is still essential in the contemporary world order. Nepal should determine its foreign policy taking the importance of the non-alignment movement into consideration.

Adherence to the UN Charter; Nepal is the member of the United Nation Organization obtained membership in 14<sup>th</sup> December 1955 hence, adheres its belief to the UN Charter. The UN charter clearly says:

we the people of the United Nations determined to save succeeding generations from the scourge of war, which twice in our life time has brought untold sorrow to mankind, and reaffirm faith in fundamental human rights, in the dignity and worth of the human person, in the equal rights of men and women and of the nation's surge and to establish conditions under which justice and respect for the obligations arising from treaties and other source of international law can be maintained and to promote social progress and better standards of life in the larger freedom.

The purposes of the United Nations are to maintain international peace and security develop friendly relations based on respect on the principles of equal rights and self-determinations of the peoples. The UNO takes appropriate measures to strengthen universal peace to achieve international cooperation in solving the international problems of an economic, local, cultural and humanitarian character and in promoting and encouraging respect for the human rights and for fundamental freedom for all without distraction as to race, sex, language or religion and to be a center for harmonizing the actions of nations in the attainment of these common needs.

The objectives envisaged by the UNO are extremely relevant and necessary for the progress of human beings in the world. Nepal is a peace loving country. The UNO wants to promote world peace. Peace is the matter of life and death for small states like Nepal.

Respect for the Principles of Panchasheel; The principles of Panchasheel were propounded by the Afro-Asian conference held in Bandung in 1955. It was practically used in relations between India and China". (Ibid, p136) Nepal also has unshakable faith in the principles of Panchasheel. These five principles are:

- a. Non-interference
- b. Non-aggression
- c. Respect for the integrity, sovereignty and independence of each other
- d. Mutual equality and good will
- e. Peaceful co-existence

*The constitution of Nepal ( 2072 )* has even incorporated these principles into the sections of directives as," The foreign policy of Nepal shall be based on the principles of the United Nations Charter, nonalignment, the principles of Panchsheel, international law and the norms of world peace". (Clause 35.21 Constitution of Nepal, 2072)

Faith in international law and world peace; the international relations are conducted and regulated by certain rules and regulations. Many international relations have been enacted to conduct and maintain international relations. Nepal has firm beliefs in these international laws, customs and treaties. The constitution of Nepal 2072 says," The state shall adopt foreign policy affirming faith in international laws and the value of world peace."

Equidistance in neighborhood relations; Nepal is framing her foreign policy on the basis of equidistance. Particularly in the neighborhood, given the geopolitical situation of the country and the significances of building such relations, Nepal thus aspires to maintain close and cordial relations in the region. Equi-proximity is often suggested to use in place of equidistance. No

matter what, Nepal wants to determine foreign policy by bringing immediate neighbors close. It lacks capability to distance these large countries adjoining and thus circumscribing the whole territorial landscape.

Advocacy to the cause of Small Nations; Nepal is always in favor of small nations. After the devastating world war, the UNO came into existence to ward off every war. Unfortunately, the world entered into the war of ideology namely cold war. The cold war proved more fatal and nuisance because it was the war fought by a particular ideological mind upon the anti-ideological mind. At the same time, the world divided into the irreconcilable opposition of nuclear proliferation. The United States and the USSR (then) took the lead in the front ahead. The U.K., France and later red China followed the same path. Nuclear war if it takes place can be a thousand times more dangerous than the two world wars which maimed and butchered billions of innocent people throughout the world. The small states lack capability to develop nuclear weapons. They should oppose war threats because the small states especially from Asia, Africa and Latin America are still fighting for the bread and butter. They need to invest in the areas of productive fields to feed their people. Nepal is always an advocate to the cause of small states. Its size, geopolitical reality, economic situation all directs its foreign policy towards this trend.

Emphasis on a New International Economic Order; the economic order in the past was western centric. It mainly catered an advantage of the western nations. Many countries of the third world have been left out. It relied on east west divisions and is marked by confrontation between the North and the South. It had then safeguarded the interest of the North and was governed by economic interaction based on the principle of non-discriminatory liberal. It was nationalist and irrational. In that economic system, the trade was so regulated that the developed countries gained access to the developing countries on favorable terms. It had encouraged inflow

of foreign private capital from developed countries to the developing countries and consequent increase in the action program of multinational corporations. This economic system had lots of shortcomings. In that system which was established after 1945, a large part of the world including the south and the east had been left unrepresented. Furthermore, the system ensued on an implicit assumption of stability but this stability was disturbed from within due to the internationalization of capital, lack of sanctions or non-compliance with accepted rules and the rise of new institutions whose behavior rules are not fully understood. Thus, the countries demanded and worked for new international economic order. The rich countries in the west and the north tried to make minor adjustments to silence the voice but the disadvantaged states put up efforts to create a 'New International Economic Order'. The UN General Assembly at its sixth special session in 1974 declared its determination to establish New International Economic Order. By another resolution the General Assembly adopted a program of action for the establishment of the NIEO, which included the following aspects:

- a. Fundamental problems of raw materials and primary commodities as related to trade development.
- b. International monetary system and financing of the development of the developing countries.
- c. Industrialization of the developing countries
- d. Transfer of technology
- e. Regulation and control over the activities of transnational corporations
- f. Charter of economic rights and duties of states
- g. Promotion of cooperation among developing countries
- h. Assistance in the exercise of permanent sovereignty of states over natural resources

- i. Strengthening the role of United Nations system in the field of international economic cooperation.
- j. Special program for the most seriously affected developing countries.

These things are vitally important for small and least developing countries of the south. Thus, Nepal always gives first hand preference for New International Economic Order, North-South Dialogue and South-South cooperation in its foreign policy.

Economic development; which is the process that not only effect economic relations but also social, political and cultural relations of the Society. Economic development means increase in national income or increase in Per-Capita Income. Economic development is an attack on the chief evils of the world today i.e. disease, illiteracy, unemployment and inequality. Economic development is one of the most important objectives of Foreign Policy. As the status of a state in International Sphere is determined by the economic condition of a state thus Nepal pursues the policy to contribute to economic prosperity.

### **2.3 Economic Diplomacy:**

The country's foreign policy objective is achieved mainly through the effective practice of diplomacy. The well-defined policy objective alongside guidelines and instruments is the framework but it is the art of diplomacy crucial to advance the country's national interest.

Kishan Singh Rana and Bipul Chatterjee in the book '*Introduction: Role of Embassies, Economic Diplomacy: Indian Experience*' have tried to explain in detail the changes in foreign policy priorities of the countries especially in the aftermath of wave of globalization. The authors in the book argues that:



Traditionally, the diplomacy focused on maintaining or improving good political relations with other countries. Now along with fast integration of global economy with increased economic competition among nations, the importance of economic diplomacy has increased immensely. It is regarded to be crucial to those countries which are in the early stage of economic development with resource, technology and market constraints among others and at the same time are yet to tap their huge domestic potentials for rapid economic advancement and prosperity. Economic diplomacy is a plural set of practices with a view of advancing the home country's external economic interests. (Rana & Chatterjee, 2003)

With the end of cold war the world order witnessed the wave of globalization, began with its ambition to integrate the economies of the world including both developed and developing countries in an increasingly mutually supportive and distributed pattern. Conventional diplomacy has undergone a paradigm shift in view of the growing relevance of trade, investment and other economic activities in the developing countries like Nepal to uplift the standards of living. Hence aroused the diplomacy aimed at achieving specific economic goals. Economic diplomacy, in particular is the pick of foreign policy to achieve economic objectives.

Economic diplomacy is concerned with economic policy issues in home or any foreign land. Economic diplomats monitor and report on economic policies in foreign countries and offer advice to the home government on how best to influence them. Economic diplomacy employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective. This is sometimes called 'economic statecraft'. Economic diplomacy is the decision-making, policy-making and advocating business interests of the sending state. Economic diplomacy requires application of technical expertise that analyzes the effects of a country's

economic situation on its political climate and on the sending state's economic interests. Versatility, flexibility, sound judgment and strong business skills are all needed in the execution of economic diplomacy. Economic diplomacy engages contacts with foreign and sending states' institutions, businesses and international organizations to advance the sending state's economic interests; seeks to resolve bilateral trade disputes and negotiate with trading partners to liberalize world trade; seeks to formulate official policy for development and formulate recommendations for sending state; facilitates negotiation on trade-related agreements and treaties; and identifies and coordinates financial assistance to troubled areas. Economic diplomacy also engages development partners to raise standard of living in both sending and receiving states; co-ordinate trade policy, promote open markets, and promote sending states policies and interests in international and bilateral scientific, environmental, and technological arena.

There is no exact definition of economic diplomacy, but it can be described as formulation and advancing policies relating to production, movement or exchange of goods, services, labor and investment in other countries (Dahal, Sainju, Lohani, Sharma, & Parajuli, 2008).

After the restoration of democracy in 1990, Government of Nepal adopted policies of open market economy with necessary legal and administrative measures and gave high priority to integration of Nepalese economy into regional and global economies. In this context, the Government emphasized economic diplomacy in order to mainstream objectives of socio-economic development into foreign policy objectives (Nepal's Economic Diplomacy). Multilateral Economic Affairs Division (MEAD) was formed within Ministry of Foreign Affairs to undertake the following functions:

- a. Formulation, implementation and monitoring of programs relating to economic diplomacy.
- b. Promotion of Nepal's interest in economic affairs of multilateral international institutions.
- c. Promotion of national interests in WTO as well as the issues of LDCs & LLDCs.
- d. Formulation of programs in consultation with different agencies of Government of Nepal & private sectors.
- e. Coordinate on, and communicate with, Nepalese missions abroad.

Similarly, the High Level Economic Diplomacy Implementation and Monitoring Committee under the chairmanship of Foreign Minister, which can give direction to other mechanisms responsible for economic diplomacy, is the highest monitoring mechanism (Ministry of Foreign Affairs). Focal Points consisting of senior officials of the sectoral ministries more often meet to prepare for the meeting of the high level committee. MEAD acts as the secretariat of these mechanisms. As the private sectors are included in the mechanisms, their role in economic diplomacy is also crucial. The following areas have been identified in economic diplomacy:

- a. Development Cooperation
- b. Foreign Direct Investment
- c. Promotion of Tourism
- d. Promotion of Export Trade
- e. Promotion of Foreign Employment.

Institutional framework include embassies, Offices of Consulate General and Permanent Missions of Nepal to the United Nations, which form the group of Nepali missions representing Nepal in the foreign land. Ministry of Foreign Affairs through its missions plays a catalytic role in mobilization of foreign direct investment in the country, enhancement of foreign employment for Nepali citizens, expansion of volume and value of exports, promotion of tourism, and expansion of business contacts. There is also a need for constant coordination between the missions and Ministry. Ministry of Foreign Affairs is the focal point for coordination and the missions are the implementing agencies. Knowing the purpose the country has even established four out of five offices of the consulate General in India and China only.

A distinctive feature of economic diplomacy is that private sectors are involved in the decision-making process to influence negotiating position and to remain in the global or regional competitive market. This is because market developments are rigorously monitored by private sectors and they know where and how to invest and sell goods and services in the interests of a country. Economic diplomacy refers to the use of our political influence and relationships to: promote international trade and investments; improve the functioning of markets; reduce the cost and risks of cross-border transactions; achieve internationally accepted standards; secure private property rights; develop international telecommunications, energy and transport networks; and of course consolidate the right political climate to facilitate and institute all of these objectives. The functioning of effective economic diplomacy requires active involvement of FNCCI, Chamber of Commerce, CNI, Nepal Tourism Board and even NRA's., in preparation and execution of guidelines and strategies pertaining to the country's multifaceted economic issues.

But the major challenge to economic diplomacy are to integrate the domestic economy with regional and global economy and maximize the benefits from globalization. However,

against this backdrop there exists a vast potential for robust growth with poverty reduction through efficiently utilizing available domestic and international capital, technology, natural resources, raw materials and entrepreneurship to make a breakthrough in the economic front and to move towards a great leap forward by the end of first quarter of twenty-first century. Nepal's strategic location, amidst two neighboring economic giants India and China, provides huge scope for generating spillover effects on Nepalese economy.

Multilateral cooperation is also highly productive initiating mega projects in developing infrastructure especially road and hydropower. Since, Nepal is bonafide member of WTO, SAFTA and BIMSTEC; revisions have been made compatible with globalization and liberalization in the Acts and Regulations pertaining to these priority areas. The membership of WTO would not only enhance our effectiveness and efficiency in trading capacity but would also result in expansion of trade leading to higher levels of growth and enhancement of quality of life of the people. Among others, Nepal has made conditional commitments to open up sectors like legal service, engineering, architecture, advertising, market research, courier, telecom, musical products, higher education, financial service, hotels and restaurants. Foreign investment in these sectors is safe, secure and most profitable in Nepal. With the accession to WTO, Nepal has honed its technical and financial capabilities to increase competitiveness, and able to gain from the rule based trading regime.

#### **2.4 Empirical Review:**

Nepal until the turn of the century was ruled by autocracies in monarchs and Rana regimes. The long journey to democracy and open society excluding the short stint in 1960's is evident only in 1990's. Following the paradigm shift in the international relations and domestic political changes in 1990, Nepal started reorientation of the priorities in the foreign policy. The

first High Level Task Force (HLTF) on the foreign policy and all successive reports of committees on foreign policy have emphasized on integration of economic interest with high priority in Nepalese foreign policy.

Accordingly, Nepal has been adjusting its inward looking, import-substituting and controlled economic set up into an open, more liberal and market driven economy. Enticing and promoting private sector as a responsible partner in the investment and service delivery, successive privatization of public enterprises, initiatives for SAFTA, joining the WTO and BIMSTIC, redrawing the standards of foreign aid for acceptability along with associated legal and institutional reforms substantiate these phenomenal changes in Nepal's international priorities in recent years. Moreover, the higher aspirations of the people envisaged by the new constitution for socio-economic development urge for external engagement of the country in a more prudent and meaningful way.

The two emerging economies in the neighborhood would be both opportunity and challenge to Nepal. For this, Nepal need to ponder over linkages of growing economies with national economy. Where it has to identify infrastructural linkages, economic linkages and linkages in the ideas and thoughts.

Dr. Rishi Raj Adhikari, Executive Director of IFA, stresses that we do have great potentials that can be utilized in our cooperation with the neighbors: such as Hydro Power, Tourism, Labor, eco and Bio- Diversity, our Geo-positions, positive attitude changes amongst us etc. He reminds the possibility of becoming, "Bridge between Two Neighbors" rather than remaining "Yam between Two boulders" and "India locked" to tap the maximum from the booming economies of China and India (IFA, 2014).

Simkhada (2014) notes that, Nepal today stands at the new threshold of fundamental and far reaching transformation. In this context, managing relations with India and China by remaining well aware of India's security sensitivities, and fully committed to the one China policy and strengthening and widening the natural relations with the two large and friendly neighbors on the basis of mutual trust, confidence and cooperation and mutuality of interest is the top most foreign policy priority of republican Nepal. Nepal's ability to strengthen a vital link with shining India and rising China can contribute to the political stability and security at home, provide unlimited potential in trade, tourism, investment, infrastructure development and employment as well as strengthening Nepal's position in the international arena. (Simkhada, Defending national Interest in the Emerging Internal, Regional and International Challenges, 2014)

Maintenance of balanced relation with neighboring India and China on the basis of mutual trust and confidence as the objectives of foreign policy is daunting task to perform requiring sheer resilience on part of smaller nation like Nepal. The importance of having such relations present opportunities in many ways. As former prime minister of Nepal Kriti Nidhi Bista writes in *setopati* (2014), Nepal was approached by the Nixon government in sixties to act as a bridge between China and the US, who were in talks over normalization of relations. Due to Nepal's lack of ingenuity at that time, the US sought Pakistan's help instead. Learning from this event, Nepal should now look forward to use its close relations with neighboring giants to help smooth communication between them in issues of strategic importance. It will not only help Nepal gain international prestige and goodwill, but is also important for regional security. (Poudel & Kam, 2014)

In the absence of viable and credible governance in Nepal, changes underway in its neighborhood risk becoming irrelevant. On the contrary, a disturbed and unpredictable neighbor would be a matter of serious concern to its neighbors. Diplomacy buttressed by development and the people's confidence will alone guarantee Nepal's security. At a time when Nepal's two immediate neighbors share in common their policies in Nepal, it is imperative that Nepal should seize such an opportunity to preserve its assurance. But, for making it reality, political parties, irrespective of their hues and predilections, should try to free themselves from their old mindset, prejudices and self-centered approaches to end the unpredictable political environment (Baral, 2012)

## **2.5 The Prospect of Trilateral Cooperation**

Nepal's geo-political location on the southern side of Himalayas thus separating the Tibetan plateau from the plains of India has largely conditioned the foreign policy of the country. (Rose, 2005 p.3) Nepal sharing boundary to the north with China and to the south, east and west with India is thus land locked between two of the largest economies of the world. This lockedness is considered the stumbling block for the socio-economic development of the country in most of present day discourses. Notwithstanding the geography, Nepal in the past had evidences of entrepot trade between Tibet and the plains of south Asia. It was during seventh century with the emergence of powerful kingdom in Tibet, with its capital at Lhasa, Kathmandu valley was transformed from an isolated sub-Himalayan backwater into the intellectual and commercial entrepôt between India and Central Asia (Rose: 1971, p. 10).

The framework of trans-Himalayan trade between Nepal and Tibet was entirely based on natural setting and mutual benefit that lasted up to the half of the 17th century. (Adhikari, Chaulagain, Dhakal, & Subedi, 2013) During this period the great trade route from India to Tibet



passed through the valley and on to Tibet through the passes at Rasuwa and Kodari. The valley thus enjoyed a strategic position on this trade route. In the late eighteenth century Nepal- Tibet relation worsened and war between the countries erupted on questions of currency, trade and such other reasons. The event shut all the trans-Himalayan activities and transactions happening with the Tibet. The entrepôt status of Nepal ended forever particularly after 1904, when British-India entered into a trade agreement with Tibet under which India carried out the idea of its trade with Tibet through Gyantse and Chumbi valley near Kalimpong (Amatya, 1986). The development of railway links and easy access later on increased Nepal's dependence on southern neighbor. The treaty with the British India in 1923 AD facilitated unrestricted import of British goods deteriorating the competitive strength of Nepal in trading. (Adhikari, Chaulagain, Dhakal, & Subedi, 2013)

Post World War- II political upheavals in the neighbor soon after shook the political establishment of Nepal as well. Nepal in the meantime signed a treaty with India. Simultaneously signed (1950) treaty between Nepal and India was the treaty of Trade and Commerce which caused much controversy in Nepal from the very beginning. While Nepal gained the right to import and export through India without the payment of Indian excise or import duties, Nepali businessmen strongly objected to article five, which stated:

The Government of Nepal agrees to levy at rates not lower than those leviable for the time being in India customs duties on imports from and export to countries outside India. The Government of Nepal also agrees to levy on goods produced or manufactured in Nepal which are exported to India, export duty at rates sufficient to prevent their sale in India at prices more favorable than those goods produced or manufactured in India which are subject to central excise duty (Adhikari, Chaulagain, Dhakal, & Subedi, 2013).

Unlike India, Nepal's bilateral relations with China, despite some fluctuations, flourished well. In August 1955, a joint communiqué on the establishment of diplomatic relations was concluded between Nepal and China. In 1956, Nepal and China signed friendship treaty having trade as the major aspect. As an attempt of strengthening bilateral relationship, Nepal's Prime Minister B.P Koirala paid a visit to China in April 1960. During this visit, a Treaty of Peace and Friendship was signed. The trading agreement of 1974 and 1981 between Nepal and China further opened new avenues boosting Nepal-China-Tibet overland trade (Sigdel: 2003, p.25).

Advancements of technology during the late twentieth century and the wave of globalizations thus growing the integration of economies and societies in the name of globalization shifted the political agenda towards strengthening economic power in order to influence other countries through international trade and financial regime. Adhikari et al. (2013, p.12) in their book, *From Buffer towards the Bridge* argue that, China's move towards state capitalism since 1970s and Indian economic development since 1990s marked their shifting of priorities from politics to economy. Pursuing the economic interest soon become the dynamics of foreign policy implying with greater opportunities lopsided the political dimension. Since then the volume of trade between India and China have increased dramatically, that changed the socio-political landscape in the region. India and China despite occasional disputes and brief war in 1962 normalized relations through bilateral trade and economic cooperation. So, it can serve the interests of both India and China to consider their smaller neighboring countries as a land of opportunity rather than a platform for rivalry. Both countries are, in fact, already forging various individual bilateral economic linkages with the smaller South Asian neighbors (Bohara, 2010). Nepal in between the massive economies of the twenty first century has to identify policy measures in addition to forge better cooperation with both India and China that would only serve

the interest of economic interconnectedness and political independence. Mongolia, a landlocked state between China and Russia, is exemplary in this case. It is moving towards economic independence by balancing cooperative relations with Russia and China, simultaneously diversifying relations with United States and International Institutions. Nepal can march towards economic independence by incorporating economic agenda in its geo-politics limited foreign relations.

Dr. Alok Bohara, professor at the University of New Mexico, opines that a proposal from a transit corridor country like Nepal for a trilateral economic cooperation with India and China should be welcomed as a natural economic reality made possible by the unprecedented growth trajectories of the two rising economic giants. Tough and negligible overland trade through Nathu La Pass opens up a further possibility of bringing the two countries through Nepal since there is no other viable option of the land trade. Former Indian ambassador to Nepal, Shyam Sharan's remarks on Nepal's possibility to be a transit state between India and China reflects Indian interest to develop its economic relations with china through Nepal route.

From the economic point of view, Former Chinese ambassador Yang Houlan in *The Republica*, stated, 'Nepal links China (1.3 billion) with south Asia (1.5 billion)'. (Singh T. , 2013) Developing trade routes from China to India through Nepal would significantly reduce cost and time spent on shipment and transportation for both India and China. Above all, Nepal's position as a land-locked country would transform into land-linked country developing its entire economic wellbeing.

Former foreign minister Ramesh Nath Pandey opines that Nepal as a transit state has an important socio-cultural dimension beside economic benefits. Greater flow of goods and

materials will inevitably entail greater flow of people and ideas. Tourism in this sense is an interconnected phenomenon with greater flow of trade and economic activities. Environment friendly highways, railways and tunnels further enhance the flow of visitors between India and China. So, the concept of linking the two giants will turn into a civilization bridge, bringing ever closer the two ancient civilizations. (Pandey, 2014)

Nonetheless, for the Chinese, Nepal is part of the "New Silk Road" project that aims to connect Asia with Europe, and a key ally in China's crackdown on the Tibetan independence movement. And India on many occasions allied to an old school mindset of security umbrella towards small neighboring states in the region. Referring basically to overwhelming support during earthquake crisis Balachandran & Timmons (2015) wrote in, *the Quartz* 'Although the current focus is firmly on helping the survivors get medical attentions and necessities, eventually India and China are expected to play crucial roles in the long and expensive job of helping reconstruct the country itself'. That's when the geopolitical wrangling over this strategically important nation intensifies. Since for both nations, there's more behind the aid than just humanitarianism and closer ties with Nepal. China and India are also eager to demonstrate their goodwill and influence as major powers, said Joseph Cheng, a professor of political science at City University in Hong Kong. They want the world to know, "they are major powers with increasing economic resources, and are ready to behave like a friendly regional power".

Strategic competition yet burgeoning trade between India and China puts Nepal in a unique position with potential risk and benefits. A major risk is that Nepal will get caught in the competition between China and India. It is a fact that India looms larger in the Nepali political sphere than any other foreign actor, including China. India sees Nepal within its sphere of influence. Therefore, any sign that Nepal is leaning away from India or seeking third country

support is viewed with suspicion by India. The good news for Nepal is that Chinese and Indian influences in Nepal are not always competitive. Some interests are common, portending towards cooperation. Given that both countries' interest converge on having stable government in Nepal and making sure that Nepali territory is not used by any third country against them, Nepal should work with its two neighbors to maximize development activities building connectivity across borders. Meanwhile, the 1,000 km open border is a big concern for India. At the same time, China is interested in making certain that Tibetan refugees do not create any nuisance from Kathmandu. The success of Nepali diplomacy will depend upon identifying where these interests converge and diverge, and engaging appropriately with both New Delhi and Beijing as the nature of their interests demands. However shedding light on the complexity of Nepal's geo-political relation prominent scholar on Nepal's Geopolitik Dr. Shambhu Ram Simkhada notes that:

Nepal's location between India and China is a fact of geography. China and India are both changing, and Nepal too is experiencing far-reaching changes. This is also a reality.

Historically, Nepal has been the meeting point of two great civilizations, and today the central Himalaya is one of the epicenters of an impending global paradigm shift. A small nation between two big powers is considered to be 'revenge of geography.' Translating revenge into reward requires political skill and diplomatic ability to manage relations with emerging and current superpowers. (Simkhada, Nepal China India Relations in the 21th Century, 2018)

## **2.6 Research Gap:**

After analyzing the above literatures, scholars seems to have time and again stressed on maintaining the balanced foreign policy approach towards India and China for self-help as well as for economic better-off. Nepal as well adopted an independent foreign policy through its firm

beliefs on non-alignment, principle of panchasheel, adherence to the UN Charter, and world peace, which would only cater for friendly relations in the neighbor. The approach succeeded to some extent in maintaining the independence and protecting and maintaining the territorial integrity of a nation. But the country lagged far behind on terms of economic growth and development.

It is not to say that economic interactions are never tried in relation with India and China. The country having enjoyed the entrepot trade between Tibet in the north and plain of India in the south in the history has nevertheless has friendlier diplomatic relations with treaties for bilateral trade, transit and commerce. The economic interactions are there, though having disparities in proportion of exchanges. The country never benefitted of the bilateral engagements in raising domestic productivity, inducing the economic growth and for overall development of the country. Occasional discussions on trilateral cooperation are made but never materialized.

The overall trade balance of Nepal with India and China has been far from satisfactory. China has attained a double-digit economic growth in recent years. India too is growing at a similar rate. But Nepal; as the neighbor lying in between has been facing a persistent deficit in the merchandise trade balance due to the rapid growth of imports and lagging growth in exports. The plausible spillover of the economy has never seemed to have happened. The raw potential for growth have been underutilized. The flow of investments have not been achieved as expected. So the research progresses in finding how the economy of Nepal is connected to that of India's and Chinese? Discuss the causes and consequences of Nepal's underachievement, and to explore the avenues of economic opportunities?

## CHAPTER 3

### CONCEPTUAL FRAMEWORK

#### **3.1 Research Methodology:**

The specific research methodology and relevant research approaches guide the way through to carry out research works. To achieve the objective of study, Kothari (1990) states that research should help the reader to discover the truth that is hidden through the application of scientific procedures. C. R. Kothari (1990, p.8) notes that:

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them. It is necessary for the researcher to know not only the research methods/techniques but also the methodology

Thus, methodology produces the outcomes of any studies and it is important to choose appropriate way to conduct the research methods in effective way in order to meet the aims and objectives of the research.

#### **Research Philosophy:**

According to Proctor (2005, p.224), the academic research should be developed in a philosophical way. Burrell and Morgan (1979), in their seminal book *Sociological Paradigms and Organizational Analysis*, suggested that:

The way social science researcher's view and study social phenomena is shaped by two fundamental sets of philosophical assumptions: ontology and epistemology. Ontology refers to our assumptions about how we see the world, e.g., does the world consist mostly

of social order or constant change. Epistemology refers to our assumptions about the best way to study the world, e.g., should we use an objective or subjective approach to study social reality. Using these two sets of assumptions, we can define social science research.

The research should be followed with method of study elaborated to better explain and facilitate the analysis of subject. Looking at this context, the philosophical approach gives framework of the research according to its configuration, necessary evidence, gathering the data and the way of its interpretation to provide the right answers to the research questions.

The research starts with its first step which is definition of the philosophical method of research that ought to be examined. There are several different approaches of research philosophy, such as the positivism, phenomenology and realism. (Saunders et. al., 2003) Positivism, according to Currie (2003), the approach means development of general rules and principles using the different systematic techniques of scientific method. The positivist approach begins with dilemma, idea or observation as it is the first step associated with this philosophy. Following this way of approach, the researcher analyzes the fact and objectives of the study in order to create the logic way of thinking to explain subject of the study.

Phenomenology is also called non-positivist, interpretivist, and naturalistic approach. The followers of this approach contend the observation of phenomenon should be key of obtaining the comprehensive explanation and description of the problem. Through the subjective interpretation reality can be fully analyzed. This approach present that the objective truth is less important because the reality is socially created, hence it holds subjective truth. The key element of the non-positivist philosophy is the study of the natural environment followed with effects on those phenomena. Scientists believe the reality is relative part to various variable such as



situation, time, location, culture, value of society, etc. Thus researchers of this approach go further to realize how things occur in reality and how people react on its occurrence rather than to generalize things based on standards laws. (Fisher & Stenner, 2011)

Realism research philosophy lies on philosophical views of positivism and it is based on the statement that the objective reality exists and it is independent part of human beings' beliefs and behavior. Realism also states that humans are not considered as objects in the studies of natural science, but social influence is taken into account. Further, realism gives main importance to those social influences in order to better understand the way of people's behavior and thinking and their awareness of these social forces. (Saunders, Lewis, & Thornhill, 2003)

Based on the three different type of research philosophies, this research follows positivist approach, phenomenology and realism with the objectives of research project. Usage of phenomenology approach provided a comprehensive description of the main aim of the research.

### **Research Methods:**

According to Saunders et al. there are two major research approaches namely, deductive and inductive methods.

The deductive approach means testing theories on effective way where researcher is able to develop a theory or hypothesis creating strategy for testing the theory. In the view of Saunders (2003) it is appropriate scientific research method for the organization so called top-down method. There are three steps when conducting research based on deductive forms of reasoning: Firstly, researcher states the hypothesis examined with theory or research literature. Secondly, collecting data in order to researcher test the hypothesis. The final step leads to building the right decision when researcher is accepting or rejecting the hypothesis based on conclusion.

In contrast, the inductive method, well known as bottom-up scientific method suitable when researcher's aim is to generate theories and hypothesis in order to understand why something happens in reality. Inductive approach of reasoning is usually basic way for building the theories, when researcher by collecting data employs scientific way to develop theory as a result of data analysis. The inductive method involves three steps in its process referring to researcher's ability to observe the environment, find a pattern for observed element and provide generalization about final result of analysis. (Essays UK, 2018)

Therefore, the Inductive approach was adopted to create a path for this particular research.

### **3.2 Research Design**

The research design is used to address the research questions which were taken into consideration in this study. The research design appears from questions directly determining the main objectives being examined in this thesis.

In the view of Saunders et al. (2003), there are three various types of research design followed for qualitative analysis as, Exploratory, Descriptive and Explanatory. Exploratory research is constructed to answer 'what' questions. Saunders et. al (2003) states:

The usage of exploratory approach is especially for understanding the problem expressing the main steps to conduct an exploratory research: searching and studying the literature and talking to experts in the subject through interviews. This concept is characterized as flexible and adaptable to daily changes as result of new information upcoming or new hypothesis appearing.

Descriptive concept tends to answer on questions such as who, where, how many, how much. However, 'what' question can be included in situation if the research wants to have a clue about the details of some specific topic or issue. The concept is useful and crucial when the researcher achievement focuses on details and description of phenomena or when it should show prediction about specific findings. Unlike exploratory approach which is based on qualitative research, descriptive concept implies qualitative way of analysis using archival records, questionnaire, secondary data, etc. (Saunders, Lewis, & Thornhill, 2003)

Explanatory research is known as casual research and is conducted for answering the 'how' and 'why' questions. This concept of approach use qualitative way of research such as case studies, histories, experiments aiming to describe relationships expressing the cause and effect of particular incident. Explanatory research design allows using qualitative approach to answer on question 'how' and 'why' depends on sources of relationship between cause and effect. In that way, operational links required implication of secondary data, statistics. (Saunders, Lewis, & Thornhill, 2003)

According to Saunders et. al. (2003), descriptive research design is the most suitable and useful for new studies giving the significant contribution for understanding of the findings of the main subject. Therefore, this research involves explorative, descriptive as well as explanatory together for qualitative analysis.

### **3.3 Data collection and Analysis**

This research is based on secondary source of data. Secondary data are second hand data which already are presented and collected by other researchers for the purpose of previous researches and giving hypothesis on other issues.

According to Saunders et. al. ( 2003 ), the advantages of secondary data leads to saving both money and time, having fewer resource requirements for specific issue, creating easier way for longitudinal studies, providing comparative and contextual data and may result in unforeseen discoveries of particular subject. On the other hand, disadvantages can be expressed through some of negative aspects of its collection. Sometimes its purpose does not match the goal of researcher and its access may be costly for commercial reasons. Thus, those data can lead to unsuitable definition for the required subject affecting the quality of data presented.

The study mainly relies on the secondary sources of information from relevant Books, Journals, Publications, Reports and writings and reviews of scholars in political science, international relations and economics.

Qualitative data from secondary source is implied for the purpose of the research. So the data analysis is done to find response to research questions and achieve research objectives. The study progresses on its own in finding the nature and scope of Nepal's relations with India and China both political and economic. This analytical study is consistent with finding the state of political and economic interactions happening bilaterally between Nepal and India and Nepal and China and trilaterally involving Nepal, India and China. The focus of the study is to highlight the standing of relations and to uncover the challenges and opportunities of geo-political location and geo- economic interactions.

### **3.4 Concept:**

#### **Concept of economic opportunity:**

Economic development can be defined as those activities that lead to greater resource productivity, a wider range of real choice for consumers and producers, and broader clientele participation in policy formulation (related to the economy) (Blakely & Bradshaw, 2002). And opportunity for economic development is provided by the amount of trade and investment happen in the favor of country's economy. Trade in the market economy contribute to promote economic growth, raises household incomes, support jobs, provide with greater choice to consumers and businesses, open up the market, and encourage innovation. While investment provide capital and technology necessary for the development of economy, foster growth, supplement domestic savings, create jobs, increase trade opportunities, encourage competition and drive productivity growth. Both trade and investment stimulate the technology transfer between the home and the host country.

Speaking to the Convention on trade and Investment Herbert (2016) says that, "There can be no denying that trade and investment are the engines of growth for any economy and convention on trade and investment provides opportunities for the creation of pathways through which trade and investment flourishes". Both trade and investment in the economy of Nepal in the modern history is besieged by its landlocked geographic location, persistent shortage of power and underdeveloped physical infrastructure. This has hindered both connectivity and impetus to productivity of the country. Now, with the turn of the century both China and India in the neighbor have grown to become the largest economies in the world. The two densely populous countries in the neighbor are largest by measure of occupancy of land mass and possess

the huge market for economic activity. Food and Agriculture Organization (2006) in its report writes:

The two countries are by their sheer size the economic giants and while they grow at the rates observed in recent years it is obvious that their transformation will have profound effects, not just internally but for the rest of the world. The continued growth of these two populous countries will therefore significantly affect the balance and direction of trade, trading opportunities and level playing field for smaller countries in the region. It calls for timely diagnosis of the growth pattern in these emerging economies in order to put policies in place to optimize gains and minimize losses and marginalization.

Nepal bordering all of its territory either with India or China has the opportunity to benefit of both market and investment. Nepal possess multiple points across the stretch of country's territory to support trade link with India and China and the raw potential of historically underutilized resource base that can support productivity. Possessing passes that can serve the all season, shortest access to link Tibetan Autonomous Region of China to the northern and north-eastern states of India, Nepal also bears the potential of serving a transit state. With these opportunities in place it will be advantageous for Nepal only if countries in the North and South, cooperate in building infrastructure that will enhance connectivity in the region. This will become possible by the pressure created by market preferences. As United Nations study points out that, "China and India have a combined population of 2.3 billion people, about 37 percent of world's total. A 100 dollar increase in the per capita income of these two countries would translate into about 230 billion dollars in additional demand for commodities" (Food and Agriculture Organization, 2006). This increased demand will create opportunity for connectivity

and increase the volume of trade and investment. This instead is an opportunity if managed carefully by the country like Nepal.

**Measuring opportunity:**

Measurement of economic opportunity basically deals with the observation and analysis of economic data and factors affecting the orientation of such data. The changes in data are observed to build a cause and effect relationship between the variables. Opportunity is the presence of relative gain which would otherwise may not exist in the absence of particular situation or circumstance. Improved performance of trade, increased flow of foreign direct investment, resource sharing, partnership for economic development, lowering of barriers on trade and investment, enhanced level of cooperation on technology transfer etc. between countries indicate the state of opportunity on economic terms. Similarly the presence of opportunity can be predicted through study of principles governing state behavior, human behavior, market behavior and other dynamics. Existence if any of such opportunity to Nepal from economic growth of India and China are analyzed in this research.

## CHAPTER 4

### ANALYSIS

#### 4.1 Nepal, China and India Geo-economy:

Nepal has a bilateral political and economic relations with India and China. The historical, cultural and geographical as well as economic ties between Nepal and India are time immemorial. Already a sixth largest industrial nations in the world, India is one of the fastest growing major economies in the contemporary world with growth rate averaging 7 percent in the last 25 years, India is already the third largest economy (after China and USA) of the world in Purchasing Power Parity terms with its GDP being \$9.459 Trillion (World Bank, 2016). Having shared easily accessible boundary in the plains of Terai the economic relation between Nepal and India have been similarly developed. India is one of the biggest development partners of Nepal over the last fifty years sharing common religion, culture, philosophy and long territorial boundary between the two countries. India's cooperation to Nepal especially in the field of bilateral trade, investment and transfer of technology has been instrumental in defining the pace of economic development in country. The economy of Nepal leaned south since the immediate aftermath of closure of entrepot trade link has been dependent on India but deprived of the opportunity of maximizing the benefits from the economic size as well as economic growth of India (Adhikari, Chaulagain, Dhakal, & Subedi, 2013).

Nepal's proximity with India lacked expediting the policy of resource sharing for the mutual benefits of the two countries. Nepal is rich in bio- diversity, while India has tremendous potential for investment outside the country attributing to its huge market of more than one billion population. Although overall economic status of Nepal is far below India, there are vast areas of economic cooperation that could be identified particularly in the field of investment in



joint ventures and transfer of technology ensuring the benefits to both the countries what is best known as “win-win” effect. India’s cooperation to Nepal is essential in a greater scale in future not only to sustain its development activities but also for the poverty alleviation. India’s cooperation in comparison to other overseas assistance especially in the field of investments in the joint ventures would have significant bearing on Nepal’s economic development.

Similarly, Nepal and China are close neighbors bound by strong historical, cultural, religious and social relations dating back to two millennia. The new chapter in Nepal-China relations began in 1950s when the glorious history of cultural ties in the past was reinstated. Chinese premier Zhou Enlai, on 23<sup>rd</sup> September 1954, inaugurated the formal diplomatic relation between Nepal and New China, thus avowing a new era begin in two countries historical ties. (Sangroula, 2019) The broader framework for cooperation and friendly relations between Nepal and China was than facilitated by the *Treaty of Peace and Friendship* signed in April 28, 1960.

China is already the largest economy of the world in terms of purchasing power parity which is greater than that of United States of America’s (Bird). Until 2015, China was the world's fastest-growing major economy, with growth averaging over 10 percent for over 30 years. Nepal- China relations unlike Nepal-India relations in the modern history flourished less with weaker bases of transactions and links of connectivity. It was partly because of more complex and inaccessible terrain sharing in the boundary. Nepal- China bilateral relations though has opened up many prospects for Nepal's economic development after the turn of the century. Evidences from the Chinese investment and tourism sectors show positive growth and better hope for Nepal’s future. While at the same time the *Belt and Road Initiative* proposed by China and Nepal’s alignment to the same, could be the one Nepal could embrace for long for its

economic development. In support to Nepal's participation in the *Belt and Road Initiative* Yuvraj Sangroula (2019) in his Book *South Asia China Geo-Economics* notes that:

BRI proposed by China as an international development mechanism must be embraced by Nepal as a boon for its economic development, in the given context of massive transition and critical political crisis. Lifting people from poverty by launching massive infrastructure building projects pushing the economic growth high is the only safest launching pad for getting rid of protracted political transition and ensuing chaos.

In order to rejuvenate from the narrow perspectives of being landlocked to wider perspectives of being land linked, Nepal should at first focus on strengthening its bilateral relations with both India and China. Only a diplomatically sound Nepal can pave the way for economic development and progress. Prem Raj Upreti, discussed in his article, '*Treaties between Nepal and her Neighbors: a Historical Perspective*' that economic diplomacy has its old roots in Nepal. Nepal had established business ties and trading arrangements with Tibet at around 646 AD during the Licchavi reign. The country enjoyed the monopoly of the trade passing between Nepal and Tibet and also of the transit trade between Tibet and India. During the period of Licchavi Nepal was considered as a bridge for trade between Tibet and India. Nepal had unofficial external relations to the south, North and north east during the ancient and medieval period when popularity of Buddhism was heightening. The social and cultural relationships were converted into formal political treaties in the seventeenth century. (Upreti, 1996) Anything the Nepalese state is in need in the meantime is to revive that old memory of diplomacy back.

## **4.2 Nepal's Economy:**

Economy of the country is expressed either in growth parameters and/or development parameters. Economic growth of the country is always a major concern worldwide since rise in GDP is one of the major human welfare indicators. Direct correlation is found between increased real output and income, with improvements in development factors in the history (Welker, 2012). Higher GDP growth not only provides better opportunities to improve access over basic requirements for the livelihood, but also provides more saving and revenue to the government. Nevertheless, economic transformation from rural agricultural to modern industrial or service sectors is the fundamental requirement to achieve high and sustainable growth. This can be said as the rapid and sustainable economic development in most of the developed as well as emerging economies has been achieved with the permanent shifts in their economic structure over the long-run. They have experienced a gradual transformation of the economy from rural subsistent agriculture to the modern industrial and then ultimately to the service dominant.

Economic growth in Nepal remained low and erratic. Economy of Nepal has been predominantly determined by the performance of agricultural sector in Nepal. This sector contributed more than one third to the country's gross domestic product (GDP) and employs about two-thirds of the total labor force inferring a low productivity. (Acharya & Bhatta, 2013). Low levels of productivity have inhibited meaningful structural economic transformation where labor moves from low productivity activities to those with higher productivity and returns. With the manufacturing sector in stagnation, and with limited absorption capacity within the services sector, many Nepalese exit the national labor market to find employment abroad. Moreover, Nepal continues to lag behind comparable countries in foreign investment, industrial growth and investments in productive assets.

In overall indices Nepal is still among the poorest countries in the world as the latest human development index ranked the country 157th out of 187 and the rank for per capita income is 207th out of 229 countries (based on purchasing power parity). Nevertheless, ranks 35th in labor force availability and 46th in percentage of arable land. Likewise, Nepal is ranked fifth in employees per hectare, requiring 3.6 people to cultivate one hectare of land. (CIA, 2013)

However Nepal is blessed with ample resources as possessing sufficient arable land, natural resources and labor force. But the lower yield of agricultural production, high cost of transport and energy, coupled with an adverse business environment that discourages the productive enterprises is sapping growth and hindered development potential of the country.

Agriculture sector that purely rest on subsistence level production. Poor quality of produce prevents producers from accessing markets with higher returns, and farmers forego making productive investments, even where credit is not constrained. The top-level constraints to growth in agriculture are similar to those that limit economy-wide growth. Political uncertainty prevents risk-taking and investment in agricultural production, and the poor state of Nepal's transport infrastructure constrains growth in all agricultural subsectors keeping transport costs high, and making farmers' involvement in markets expensive.

Low quality and limited transport infrastructure, and the resulting high cost and low reliability of it, are identified as critical constraints to economic growth and the expansion of productive capacity in Nepal. Moreover, this has undermined the political, administrative and social integration of the country, the delivery of basic services, and the competitiveness of the economy. The cost of exporting and importing a container is approximately twenty percent more than the South Asian average, and almost double the costs in developed countries (Yurendra

Basnett, 2014). In addition, the high cost of freight transport in Nepal is further increased by the unavailability of alternative transport modes, as well as routes. For example, the railway network for mass transport of goods and people is almost non-existent.

In Nepal, exist a huge discrepancy between electricity supply and demand. Energy in the peak demand is twice the amount available in the supply. The reality is that limited generative capacity (such as insufficient power plants, limited electricity transmission lines, and low levels of rural grid connectivity) hit the country with limited access to power. Highlighting the prospect of clean energy development in the country Shrestha et al. (2016) notes in the journal article published in Hydro Nepal as:

Dr HM Shrestha estimated in 1966 that Nepal has a theoretical hydropower potential of 83,000 MW of which 43,000 MW was found economically and technically feasible. The total hydropower capacity of the grid, operated by Nepal Electricity Authority (NEA), currently is 802 MW installed capacity. It is a paradox thus, that in a country endowed with so much potential, and a history of having the knowledge of hydropower for over 100 years, local demand for electricity from the national grid far exceeds the supply from the national grid at the current consumer tariff.

The potential for development of clean energy not only overcomes the energy demand of the country but also fosters sustainable development of economy with lesser reliance on carbon based energy. The country can generate foreign currency if produced in excess of its demand.

Data shows that tourism industry contributes up to four percent to the total gross domestic product of the country, thanks to an established niche with a wide variety of assets and activities, stable source markets, and growth from neighboring countries. However, despite

having seen the world tourism double in the decade the number of tourist arrivals in Nepal is erratically low. In addition tourist visitors in the recent years have seen a worrying shift towards a ‘high-volume, low-value’ model that would not be sustainable. The value captured per tourist has halved in the past five years, cancelling out potential benefits from steadily increasing tourist arrivals, thus threatening the sustainability of the sector. (Jones, 2013)

There have been a few observable improvements in social development in Nepal. These observed changes are a combination of improvements on both the supply-side (provision and expansion of better basic services) and demand side (increased household income from remittance inflows that improve access to basic services). Many improvements in the supply-side have been externally supported, and in the absence of sustained economic growth, it is unclear if the Government will have the resources to maintain current improvements. Second, demand-side improvements (primarily household income) are the outcome of continued absorption of Nepali workers in foreign labor markets in the Middle East and South- and North-East Asia. Changes in demand for Nepali workers in those labor markets can have devastating impacts on the country.

Switching the focus to more long-term sustainable sources of growth, employment and inclusive development in Nepal will require structurally transforming the economy from lower to higher levels of productivity. Pervasive market undermine the development and growth of productive capacity in Nepal. Addressing these will require an effective and strategic industrial policy. Basnet et al. (2014) also argues as,

The manufacturing sector has been allowed to languish, in the assumption that Nepal cannot manufacture, but it also presents a real opportunity for achieving economic transformation. The factors that constrain manufacturing pervade all productive sectors,

and therefore addressing these constraints is likely to trigger the sustained economic growth of productive sectors. (Yurendra Basnett, Howell, Jones, Lemma, & Pandey, 2014)

The government policy instrument be it an economic or developmental policies or policy for international transaction require coherent actions to confront with the constraints, achieve the productivity potential and ensure structural transformation of economy. The government of Nepal in its more recent *Periodic Plan (FY2016/17 - FY2018/19)* places special focus on the importance of foreign investment in its need to meet the gap on savings and investments, introduce modern technologies, introducing managerial and technical skills and hence promoting the production of goods and services that can be produced in quantities domestically but are under import lists from the countries outside. (Ministry of Finance, 2017) The same plan projects as:

The investment friendly environment induced in the country with the promulgation of newer constitution, existing abundance of natural resources, ecological and cultural diversities, relatively lower wage rate, the presence of Nepalese communities abroad and the possibilities to employ their skill, strength and experiences at most, the multilateral, regional and bilateral agreements made on foreign investment, trade and development that would ease an access into the international market and finally the economic growth in the neighbor along with growing middle income population in the region, opportunities can be drawn in favor of better scopes of trade and investments.

In lieu of the declared policy on development government of Nepal has set some goals to perform during the course of periodic plan. Some of those policy goals identified for the three year plan from FY2016/17 to FY2018/19, retrieved from Economic survey report are as follows:

a. To graduate the country at the middle income status by 2030 and achieve the sustainable development goals through high, sustained and broad-based inclusive growth by ending poverty, inequality, unemployment and dependency.

b. To develop a socialistic oriented economy as envisioned in the constitution through formulation and implementation of economic policy including the optimum utilization and management of the means of production along with their distribution and redistribution for a robust and sustainable economic development.

c. Attaining economic prosperity by addressing plethora of economic issues, inter alia poverty, inequality, unemployment, weak infrastructure and domestic production, low domestic savings and investment, weak investment friendly environment, informal economic sector, low capital expenditure, high trade deficit, brain drain and remittance oriented economy.

d. Achieve a goal of economic development including macroeconomic stability by creating bases for availability and assurance, equitable distribution, and mobilization of means and resources at federal, provincial, and local levels in line with federal system.

e. Achieving high and sustained economic growth with a focus on investment in key drivers of economic growth including agriculture, tourism, hydro-electricity and infrastructures.

f. Build an exploitation-free society by achieving sustainable development goals, economic growth and employment creation thorough maximum utilization of available natural



resources, mobilization of domestic and foreign capital through participation of public, private, and cooperative sectors and their growth.

g. Modernization and commercialization of agriculture by raising production and productivity of agriculture through an adequate provision of means and resources like improved seeds, fertilizer, agricultural credit, technology and equipment, and skilled human resources.

h. Carrying out environment friendly development works by minimizing the risks of climate change and natural calamities.

To achieve the performance of targeted goals demand the investment capital resource in scale. Basically due to the smaller size of Nepal's economy, weak productivity link, and larger import-export gap, savings-investment gap and a technology gap, the country has been relying on international finance for socio-economic development. International financing through foreign aid or investment in the form of foreign direct investment (FDI) plays a pivotal role in development financing. International economic cooperation is normally mobilized in the form of development finance in Nepal.

All development activities in Nepal, small or big, have largely been influenced by foreign aid. Aid in the form of grants played an important role in the construction of infrastructure projects and in the establishment of some of the key basic industries in the beginning. In the past, major source of development expenditure used to be foreign aid, which currently occupies nearly twenty percent of the national budget.

Foreign Direct investment on the other hand is necessary for overall development of the country by importing modern technology together with managerial technical skills for development and extension of infrastructure while meeting the deficiency in capital formation

resulting from low domestic savings. Ample opportunities for foreign investments in the areas of hydroelectricity, tourism, services, physical infrastructure, and production and processing of herbs exist in Nepal with availability of abundant natural resources, bio-diversity and cultural heritages. It is necessary to create foreign investment environment since more investment is required for development and construction works particularly in federal governance structure.

To this effect, the statistics of last ten years according to *Economic Survey (2017)* report of the country reveals that foreign investment of Rs. 3,186 million was approved for 188 industries in FY 2006/07 while in the first eight months of the fiscal year 2016/17, Rs. 10151.0 million has been sanctioned for 213 industries. A total of 3,905 industries from 90 different countries have been registered by the first eight months of the fiscal year 2016/17 securing approval for foreign investment of Rs. 208.04 billion. This clearly shows that the value of FDI previously very low has gradually increased and doubled in the last ten years. In the context of global flow of FDI especially due to the effect of globalization and adoption of liberal principles by the country the value of FDI obtained is far below global average despite having ample opportunities to invest. On the good note the attraction of investment here is manifested by significant growth in number of industrial registry. So it can be assumed that the attraction of FDI may be affected by other non-economic barriers and because of that in spite of having significant registry of industries the actual investment remained far low.

On the other hand they are India and China share the dominant proportion of investment as well as industrial registry in Nepal. By the first eight months of the fiscal year 2017, India, on the basis of project cost, comes first with its shares of 39.12 percent to the total foreign investment among the licensed industries operating with foreign investment, while China stood second to India with 16.23 percent followed by Hong Kong China with 13.06 percent The share

of other 80 countries to the total foreign investment stood at 11.92 percent. By number of industries, China topped the table with 1,093 followed by India with 662 and USA with 344 industries (Economic Survey, 2017).

To the lesser attraction of investment and weaker mobilization of resources it was the turbulent history of un-development of the country in the past partly because of poor absorption capacity, incompetency of leadership, political instability and lately the country immersed into the conflict itself. This has further led to weak and incompetent institutions of government, bad governance and corruption, violence and insecurity of investment among others. Which is why Nepal ranks 105<sup>th</sup> among 109 countries on *Doing Business*, (2018) that measures the favorability for doing businesses. Nepal scored at 59.95 percent. (Doing business 2018). The time and cost required for registration and operation of industry business in Nepal need to be reduced further while enhancing the competency and quality to facilitate in doing such businesses. In addition to this, investment environment needs to be improved through single window service and insurance of greater security of the investment.

Off the late the foreign policy guidelines of the country have been explicitly expressed through incorporation in the newly promulgated *constitution of Nepal 2015*. The foreign relation has been diversified through establishment of permanent missions, consular missions, technical scoping missions and several bilateral engagements and meetings. National interests of the country is defined and priorities determined. The treaties relating to trade and commerce with both India and China are in place. Most importantly the political commitment from political institutions can be embraced shifting focus from normative political objectives to economic objectives.

The political parties including ruling Communist party of Nepal in their election manifesto 2074 has promised ambitious programs in social security, health, education, economic development, infrastructure and sports among other sectors. Government of Nepal per se political commitments has set the target of graduating Nepal to the status of developing nation within next five years and to that of a middle-income country in next ten years. Construction of physical infrastructures including railway lines parallel to the East-West Highway and the Mid-Hill Highway, connecting Rasuwagadhi, Kathmandu, Pokhara and Lumbini through railways and forming wider railway network for mass transportation has been on the political agenda as well as government plans of the country. Plans include the construction of all form of infrastructures supporting tourism and hospitality, connectivity, information technology, power generation industrialization and many more. (Onlinekhabar, 2017)

In lieu with the promises political parties have expressly sought foreign investment in productive sector that can potentially transform the economy from rural subsistence and dependent level to entrepreneurial, productive and dynamic. The political commitments of 'economic growth and prosperity', dominating the electoral campaigns and the pick of ambitious programs and policies, made it clear the direction the Himalayan Republic is heading towards.

### **4.3 Prospect of Economic Cooperation**

#### **Nepal-China-India Triangular Development Plan:**

Over the past decade, Nepal seems to have been grappling for means to transform its traditional buffer state mentality towards the definition of a new economic corridor- a vibrant bridge- between its two immediate neighbors through Nepal-China-India triangular development plan.

In January 2012, Nepal's Prime Minister Dr. Baburam Bhattarai reintroduced in the discourse a long overdue Nepalese aspiration-Nepal can and should act as a bridge between India and China and take advantage from the rapid economic development of the two biggest and fast growing economies (Chaulagain, 2013). The concept might have aroused simply because Nepal can act as a transit route to and from both India and China and has historically been connecting the Tibet through valley to the southern plains. The concept is basically to make the history alive though not realized of late.

Nepal's shift towards acting as a bridge seems to have emerged in 2001 with King Birendra's visit to China, which succeeded in forging an agreement between Nepal and China to expedite construction of the Syaprubeshi Rasuwa road—a second road linking Sino-Nepal to the Tibet Autonomous Region of China (Chaulagain, *ibid*).

Expressing his views on Nepal-India relations the then Finance minister, Dr. Prakash Chandra Lohani wrote in *The Kathmandu post*:

For Nepal, land-lockedness should no longer be viewed as a constraint. In fact, Nepal is not a landlocked nation, but a link nation a country that has direct land link with two of the most dynamic economies of the world. There is no way that this can be a disadvantage. It may have been in the past but certainly not in the future given the fact that both our countries are moving towards a more liberal trade regime. The point to emphasize is that our economic interests are not in conflict. A strong and prosperous Nepal is in India's interest and vice versa. (Lohani D. P., 2004)

Likewise, former King Gyanendra's formal declaration of developing Nepal as a transit point between China and India at Afro-Asian Summit -2005 in Jakarta revived Nepal's bridge

ambition once again. He reiterated the fact that the concept of building an electric railway linking Birgunj to Kathmandu and Kathmandu to Tatopani should be brought into implementation for developing Nepal as a transit point between two neighboring countries (Dahal, 2006).

Delivering speech at a talk program on “India, Nepal and China: An Emerging Trilateral Relations in the 21st Century.” former Chinese Ambassador HE Yang Houlan, articulated that:

China and India had realized rapid development, which brought a good opportunity for Nepal. The leaders of Nepal have said many times that they hoped to be the dynamic bridge between China and India as well as between China and South Asia. China agreed with this point. In his opinion, the China-India, China-Nepal and Nepal-India relations were all undergoing through an active development, which lay the foundation for good interaction for the three countries. He further argues, strengthening the interaction and exchanges among our three countries and realizing the win-win benefit is our common interests, and is also conducive to the stable development in the region (Houlan, 2012).

The book *From Buffer towards the Bridge* by Adhikari et al. (2013) further quotes Dr. Hu Shisheng, Deputy Director of the Institute of South, South Asian and Oceanic Studies in the China Institutes of Contemporary International Relations (CICIR) where he said:

Nepal shares border with China’s Tibet. Apart from that, geo-economical element also plays a vital role. Nepal could play the role of a ‘golden bridge’ between the two emerging economic giants (India and China). In the future if South Asia is linked to China through Nepal, the entire population inhabiting the region will be immensely benefitted. In this scenario, Chinese and Indian population will be highly obliged to Nepal.

Meanwhile, both India and China have cemented their global posture with greater roles to play at the world stage. There are no two views that China is reinforcing its position in the South Asian region, with the new leadership in India, china is also attempting to explore new prospects for cooperation with India in the south Asian region. It may be argued that given India's growing stature at the international forum; none of the South Asian countries, except Pakistan would give preference to China over India. Nepal and other South Asian countries are aware of the fact that prosperity lies in cooperating with India. China seems to have realized that without India's support and willingness, it would be a futile exercise to get into South Asia. Therefore, proposing China-Nepal-India trilateral mechanism could be a step in this direction.

The Chinese foreign minister Wang Yi, made his remarks after meeting his counterpart of Nepal Mr. Pradeep Kumar Gyawali in April 2018 saying, Beijing and New Delhi should support the Himalayan country's development, and the three are 'natural friends and partners' (South China Morning Post, 2018). He also called on China and Nepal to speed up their connectivity projects – from rail and road to aviation, communications and electricity – to create conditions that would be favourable for eventually building an economic corridor among China, Nepal and India. Thus we can conclude that, India-China-Nepal triangle certainly has the potential to shape the evolving security and economic architecture of the region. To what extent this triangle materializes remains to be seen, and would depend on China's balanced and well diplomacy and relations with India and Nepal's sustained interest and domestic peace and tranquility. (Singh, 2004)

### **Becoming a Transit state:**

At present, trade liberalization in the modern world has created opportunities for trade integration and search for efficient and effective supply chain and wide connectivity. The

growing trade between these two giant economies in the absence of permanent and feasible trade corridor on their side seems to have necessitated them to opt Nepal as their transit partner. That's the reason our transitional trade routes, through which Indo-Chinese trade used to be conducted in the past, are to be reevaluated by both our neighboring countries.

Road transportation started in Nepal in the early 1950. A major highway connecting Kathmandu with India via Birgunj border was built in early 1950s with the assistance of India. Another major highway, connecting Kathmandu with Lhasa in Tibet via Tatopani border, was built in the 1960s with the assistance of China (Bhattarai: 2005, p.21). Our borders with India are open and geographically comfortable while border region with China are a major handicap because of terrain and accessibility issues. There are 27 routes for mutual trade, six immigration points between Nepal and India that are connected by road. India has extensive highway and railway system. Several bordering cities-Birgunj, Janakpur, Nepalgunj, Bhairahawa Biratnagar and kakarvitta- are connected to Indian towns which inturn are connected to Indian railways. India in addition has pledged to build a crucial cross border railway from Kathmandu in Nepal to Raxaul in Bihar connecting Nepal to Indian railway system (Acharya S. , 2018). Project presently on anvil for cross-border rail links at five locations at the Indo-Nepal border (Jalpaiguri-Kakarbhitta, Jogbani-Biratnagar, Jaynagar-Bardibas, Nautanwa-Bhairahwa, Nepalgunj Road-Nepalgunj) will significantly boost cross-border linkage and will be of immense value in promoting trade and commerce between the two countries. To further enhance road transportation the government of Nepal is building six lane road infrastructure connecting Pathlaiya-Birgung road (25 km), Butwal-Bhairahawa road (25 km) and Kohalpur-Nepalgunj section (20 km) under the assistance of ADB which are about to complete within this fiscal year.



On the other hand, Nepal and TAR (Tibet Autonomous Region) have 1414 kilometers long common international boarder. The transportation facilities in the northern part of Nepal compared to the south are not satisfactory, which along the border Nepal's access to China through road transportation link is operating with immigration facility at two points in Tatopani of Sindhupalchowk and Kerung of Rasuwa. However number of other points and passes exist across the borderline where travel and trade between the countries exists. Over the past decade several developments happened in building infrastructure and enhancing connectivity between Nepal and China. Ending the sole dependence on Indian ports for overseas trade, Nepal- China transit and Transportation Agreement has been reached under the leadership of incumbent Prime Minister K. P. Sharma Oli in 2018. (Giri, 2019) On 26 April 2019 Nepal and China signed the Protocol on Implementing Agreement on Transit and Transport and six other agreements in Beijing after delegation level talks between President Bidya Devi Bhandari and her Chinese counterpart Xi Jinping at the Great Hall of the People. The signing of the protocol makes it possible for Nepal to use four Chinese sea ports--in Tianjin, Shenzhen, Lianyungang and Zhanjiang--and three land ports--in Lanzhou, Lhasa and Shigatse for third-country import. It will also allow Nepal to carry out exports through six dedicated transit points between Nepal and China. (Giri, Ibid)

Of the latest developments Nepal has participated to an ambitious Chinese project of *Belt and Road Initiative*. BRI is not only a bilateral agreement but the shortest route to facilitate trade: both export and import. China hosted the Belt and Road Forum for International Cooperation in Beijing in mid-May 2017 where Nepal signed in the Initiative on May 12, 2017 (Regmi, 2017). Under the project China is expected to aid Nepal in a number of infrastructure projects including roads, power grids, bridges and industrial parks, all of which will become important channels to

strengthen China-South Asia trade, where Tibet is an important gateway. The Second Belt and Road Forum concluded in Beijing with the release of a Joint Communiqué titled Belt and Road Co-operation: Shaping a Brighter Shared Future. In the Joint Communiqué, the leaders from participating countries expressed their support to build on the progress already made in developing economic corridors and economic and trade co-operation zones in various countries, including the Nepal-China Trans-Himalayan Multi-Dimensional Connectivity Network and Nepal-China cross-border railway. (Giri, 2019)

A Nepal-China economic corridor has been proposed under the Belt and Road initiative. China-Nepal-India corridor is another proposed trilateral cooperation project. However, because of India's reluctance, trilateral cooperation has so far been limited to a vision. If China extends the rail links up to Lumbini and India supports the construction of rail links up to Kathmandu from the southern border, trilateral cooperation would definitely take place. India will ultimately have to join in the development of a trilateral corridor i.e. China-Nepal-India Economic Corridor. If rail links from the southern and northern border of Nepal become real, pragmatically, the trilateral cooperation initiated through the bilateral deal between China and Nepal will be shifted towards a Quadrilateral Corridor i.e., China-Nepal-India-Bangladesh (CNIB) Economic corridor under the BRI.

Nepal on the north has a 1414 km border with China and on the East, West and the South shares 1700km border with India. India and China share a 4,500- kilometer long border, most of it between northern India and Tibet, along the Himalayas. Recent growth in trade and the movement of people between China and India and Nepal provides sufficient evidence to support the development of a fixed rail link through the mountains. Over the past decade the volume of bilateral trade between China and India as well as China and Nepal has increased by many folds.

For Sino-Indian bilateral trade as there is no all season trade route to connect their geography. The Nathu La pass, which had been closed after the 1962 Sino-Indian war and was reopened in 2006 following the numerous trade agreements, is the one of the major trading routes between India and China. The other being Shipkila in Himachal Pradesh and Lipulekh (or Lipulech) in Uttarakhand. The passes are not operational in all season as they stand at the height of above 4400 meter, snowbound, risky, costly, and far from India's major industrial cities. (Chhetri, 2018) In addition India has yet another route more advantageous than the three that is TAR-Jelep La- Kalimpong, which is of historical significance to Sino-Indian trade but closed due to political reasons. (Sherpa, 2017)

A long and narrow stretch of Nepal, with multiple transit points, provides an excellent transit buffer to link China's Tibetan territory and its east-west highway network with the densely populated Indian plains of Bihar and Uttar Pradesh (Bohara: 2010). As mentioned above, Currently Nepal has only two highways smoothly connecting Kathmandu with a Tibetan border. One of them from Kathmandu to Tatopani is closed since 2015 due to damages done by the earthquake in Nepal. Several other multi-lane feeder highways linking Kathmandu with Tarai (southern plains), and another land route Rasuwa via Kerong are under construction and upgradation. Given the fact that the travelling distance between the northern and southern borders is not more than 300 km, Nepal can comfortably link two giant neighbor through her land territory. The Lhasa-Shigatse extension of the Qinghai-Tibet Railway project came into operation since 2014, which is encouraging. Since Sino-Indian trade is largely conducted by sea and air transport, and Nathu La Pass through Sikkim has proved unfeasible, the Nepal corridor will be of great economic significance to both India and China as it will link the regional markets of Tibet and Sichuan to India and the entire North Indian prefecture to China (Chaulagain:2013).

Sichuan, particularly, is a huge market for Indian goods and services. Given Chengdu's emergence as a technology hub, there is potential for joint ventures in the development of hardware and software. Tibet's GDP is increasing at a rate of over 10 percent. Similarly in India, the state of Bihar which was considered a problem state has now grown at the rate of around 10 per cent. This means there is tremendous opportunity of trade between these new growth centers of India and China via the land route of Nepal (Lohani: 2011, p. 22).

### **Prospects and challenges of transit state**

For decades, small countries in South Asia have had to rely on India for economic assistance and the trade and transit outlets. Sometimes, it was not uncommon for them to feel Indian leverage in matters related to national politics. For a long time, China had maintained a low key approach to dealing with these small neighbors in South Asia. China's new found prosperity, its natural resources needs, and their pursuit to seek alternate maritime passages have all changed the South Asian dynamics in a significant way. Bohara, (2010) reviews on South Asian dynamics as:

With the enhanced growth and economic clout at the global stage, India and China are both forging various individual bilateral economic linkages with the smaller South Asian neighbors. A newly formed economic alliance between China and Sri Lanka to develop Hambantota port on the southern tip of the island is the latest example. Another SAARC member Bangladesh is collaborating with China to open a transportation outlet into Myanmar. India is also courting Bangladesh for natural gas supplies and looking into its transportation network within Bangladesh as a transit corridor to reach the north-eastern frontier states, and perhaps beyond into Myanmar. Oil explorations, transit rights, hydro development, and seaport access are other examples. So, a proposal from a transit

corridor country like Nepal for a trilateral economic cooperation with India and China should be welcomed as a natural economic reality made possible by the unprecedented growth trajectories of the two rising economic giants.

With Bihar and Uttar Pradesh in the south making strides and China investing like never before for improving Tibet's infrastructure, revival of the bridge theory in Nepal is timely (Dhakal, 2012). If Nepal's transit aspirations are fruitful, it will open up a new landscape of regional cooperation, foster the possibility of direct foreign investment, create job opportunities, strengthen tax and revenue bases and provide a huge market for Nepali products. However, Dr. Nischal Nath Pandey, former Executive Director of the Institute of Foreign Affairs (IFA), argues that prior to this, both Asian giants need to mutually confer, cooperate and collaborate with each other in their respective Nepal policies instead of competing within Nepal (Pandey: 2006).

Nonetheless, Infrastructural development is a pre-requisite to develop Nepal into a transit state. Nepal's northern parts still lacks efficiently operable transport connection. Nepal should think about constructing its domestic infrastructure which are core to building the North-South economic corridor. Additionally, developing institutional capabilities, protecting the economy from cutthroat competition, controlling cross-border smuggling, advancing technology, enhancing diplomatic ties and formulating compatible trade and industrial policies is essential in the new transit regime.

#### **4.5 Economic Opportunity and Political Implication:**

The vision and mission of Nepalese economy is to build a strong economic nation state through active participation of the people by ensuring a high quality of life to each individual and household within the given time frame. The primary objectives of the Nepalese economy are thus to transforming the economy from low to upper middle income by achieving a high,

sustainable, broad based and inclusive economic growth and eliminating the absolute poverty by 2025 and ultimately make Nepal the 'Switzerland' of Asia, especially by penetrating the regional and international markets with exports having comparative and competitive advantages, maximizing benefits from neighborhood economies by strengthening economic relations, attracting considerable degree of FDI in priority sectors comprising infrastructure and hydropower, creating a hub for international tourism, preserving biodiversity with commercial ability, promoting foreign employment and remittances and creating an International Financial Services center by 2025. (Dahal, Sainju, Lohani, Sharma, & Parajuli, 2008).

Dahal et al. contributing to the preparation of handbook on economic diplomacy (2008) further notes that:

The strategic objective of the country would be to substantially increase GNI with two-digit growth rate ensuring a high GNI per capita exceeding US\$ 5,000 (average of low and middle income economies) per annum within the timeframe; provide employment to each economically active population and reduce absolute poverty from around twenty two percent to zero percent by 2025 AD; achieve the targets set forth in Sustainable Development Goals (SDG's); and developing a global partnership for development.

In concurrence to the objective aforementioned, and as envisaged in the fourteenth periodic plan (2016-2019) of the country, foreign investment in the form of joint ventures can be invited for hydropower production, tourism development, agro-based high value products, development of education and health related facilities. Financial services, information technology and biotechnology related industries can be included in the field of such investments. Investors willing to invest in joint venture projects with Nepalese possessing management skills

and technology transfer package can be encouraged. Since Nepal is adhered to the policy of liberalization in trade and investment regime, appropriate policy can be adopted to attract capital, skills, efficiency and technology of the Indian and Chinese companies and experts.

The economic growth of India and China can leverage to the economic growth of Nepal. The quest for increased market access to the economy of China and India would create opportunity for both trade and investment in the country. On the other hand multinational companies always tend to find ways for cheaper production of goods and services will diversify their investment, which will create opportunity for mobilization of underutilized resources, create jobs, and transfer technology in the country. But the growing imbalances in the nature of bilateral trade has been the cause of concern for developing countries. The competitive strength of companies inside to the foreign goods has been questioned particularly in the small developing countries. Nepal itself is facing a huge discrepancy of such imbalance. Weak productivity link associated with lack of exportable goods, weaker industrial support in the economy and improper regulation of economy are some of the reason behind. However, the trade is based purely on comparative advantages as propounded by economist David Ricardo. He famously demonstrated how both countries benefit by specializing and trading according to their comparative advantages (Hill and Jain 2009). Depending upon the topography, infrastructure, technology and cross-border resource base, competitive advantages can be created.

Both India and China are showing interest in building infrastructure to support trade and commerce with Nepal. Under the ambitious project named *Belt and Road Initiative* (BRI) China is expected to aid Nepal in a number of infrastructure projects including airports, roads, power grids, bridges and industrial parks, all of which will become important channels to strengthen China-South Asia trade, where Tibet is an important gateway (Giri, 2019). Similarly India has

pledged to build a crucial cross border railway from Kathmandu in Nepal to Raxaul in Bihar connecting Nepal to Indian railway system (Acharya S. , 2018). India in addition is supporting through investments on hydropower, building highways, transmission lines etc. The investment on all of these infrastructures is supporting Nepal to enhancing connectivity, efficiency of trade and transport, power generation and other dynamics of economic growth and development.

The manufacturing sector has been allowed to languish, in the assumption that Nepal cannot manufacture, but it only presents a real opportunity for achieving economic transformation. The manufacturing sector in Nepal support the least to the economy. Foreign direct investment in manufacturing enterprise is the real possibility that can be witnessed form rapidly expanding companies in India and China. However, Multinational activity in high income countries is overwhelmingly ‘horizontal’, involving production for sale to the host country market. In developing countries, a higher proportion of activity is ‘vertical’, involving manufacture of intermediate stages of the production process. (Shatz & Venables, 2000) Whichever tendency can expand the industrial capacity of the country. Similarly Nepal can benefit from the higher tendency of flow of investments in the nearly associating countries accompanying India and China in the neighbor.

Nepal has remarkable prospects for economic development through mobilizing the prime foundation of Nepalese economy which are water resources and Hydropower in Nepal. The theoretical hydropower potential is estimated to be 83,000 MW with commercial potential as high as fifty percent. The hydro-sector has great merit of attracting FDI in Nepal. Investment in hydropower sector in Nepal is safe and cost effective with high return. Harnessing of water resources and developing hydropower will ensure both sustainable high growth and sustainable poverty reduction not only in Nepal but also in South Asia region.



Tourism is other such pillar of the economy with similar potential to contribute to the economic development of the country. Nepal favors more favorably than other tourist destinations in the world in many areas, which include friendly people, good facilities, adventure travel destinations, wildlife destination, adventure tourism, culture, pilgrimage, value for money, and overall experience. The Nepal Tourism Board, that has some key products as, culture, traditions and people, cities and leisure, outdoors and adventure, religion and pilgrimage and nature and wildlife, has played a crucial role in the development of tourism in Nepal since its inception in December in 1998.

Indonesian tourism growth post 2014 when the new president of the country decided to use tourism as a pillar of the economic strategy to achieve faster and more inclusive growth is both exemplary and intuitive as well. Since 2014 AD tourism has become one of the Indonesian government's top priorities. The National Medium-Term Development Plan for 2015-19 AD accompanying tourism strategy, has set policy directions for the sector related to Connectivity, basic services and tourist service infrastructure, Tourism workforce skills development and small micro-enterprise support, tourism services, international marketing and investment promotion, integrated destination master planning, and institutions and mechanisms for program implementation. (Ollivaud & Haxton, 2019) Since then, Indonesia's competitiveness as a tourist destination improved from 70th in 2013 to 42nd in 2017 AD, according to the World Economic Forum's Travel and tourism competitiveness index (WEF, 2017). Ollivaud and Haxton (2019) put some key data in their work on Indonesian tourism where, at the national level the number of foreign tourist arrivals remained around 5 million per year over 1995-2007 AD, despite a near doubling in worldwide tourism. Since 2007 the number of international arrivals has soared, reaching 14 million in 2017 and boosting Indonesia's market share to around 1 percent. The

authorities aim to reach 20 million foreign visitors by 2019. Most of the recent increase has originated from Asian countries. Chinese tourists became the largest source market in 2017, surpassing Malaysia, Singapore and Australia.

The more interesting attribute to Indonesian tourism growth is that the state of islands is attracting both visitors as well as capital investment from China. In the year 2017 AD China outnumbered other countries in foreign tourist arrivals and in 2018 AD it is expected to outinvest Singapore in the country's tourism related infrastructure. Furthermore the Indonesian government's policy to attract 20 million tourist arrivals by 2019, building infrastructure worth US\$ 20 billion has expected Chinese support to back them well. (Yuniar, 2018) According to her both the rise in number of tourist and amount of investment by China to the country has grown by around 40 percent to that of the previous year.

The significance of Indonesian tourism boom brings into fore the underlying opportunity Nepal has in terms of attracting Chinese tourists in the country. Pilgrimage tourism due location of birthplace of Lord Buddha and other tourism assets Nepal has forms the firm bases of tourism growth in specific respect to Chinese visitors. Similar can be expected of Indian visitors as well. The location of holy Pashupatinath, Muktinath and the scenic niche Nepal has are in no part insufficient to allure Indian tourists in the country. The other aspect to flourish tourism is off course infrastructure supporting connectivity, transportation and accommodation. This requires investment in scale. The Indonesian experience could be the premise to look at where change in the country's development priority is executed through effective policy coordination and implementation. The strategic endeavor of the country's foreign policy to look at economic growth of China and Singapore could parallel the geo-strategic position of Nepal and economic growth of China and India.

Nepal well enriched in its biodiversity, with thousands of species of vascular plants, hundreds of species of endemic and medicinal plants, mammals, birds etc. found across territories conserved as national parks, conservation areas, and wildlife reserves, form the rich sources of medicinal wealth. Thus an appropriate mobilization of domestic and foreign investment in building infrastructure, establishment of productive industries and plants, and modernizing and commercialization of agricultural sector in total, through active involvement of private sector would expand economy, induce economic growth in the country and thus harness the development potential of the country.

Though the big opportunities await Nepal but on diplomatic say political front, Nepal face big risks if it chooses to adhere to 'zero sum' logic. However, Nepal has bigger opportunities if it manages the competition between India and China in economic and developmental spheres. It is not about pitting one power against the other. That would be very risky for smaller state like Nepal. It is like balancing the influence not power.

This does not mean that Nepal should view India and China in the same light. Historical, cultural, geographical and political realities mean that New Delhi is likely to loom larger in Nepali politics for a long time to come. Yet, in spite of these kinship ties, Nepal should not be prevented from welcoming a Chinese presence. Both countries should be given similar opportunities to cooperate than compete. This is possible if our leaders just don't go to New Delhi seeking ministerial portfolio's or visit Beijing for a mere exercise to drink wine with Chinese comrades. Unless Nepal has a long- term vision and strong commitment to pursuing that vision, the opportunities that await Nepal will be left wanting. (Poudel & Kam, 2014)

Nepal is strategically located between India and China, which is also a paramount concern for her security and stability. Slightest of stir in Nepal will have the spillover effect on these two fastest growing economies. Apart from the economic and trade interest of both the countries, they also have interest in containing the US interest influences in the region. Both countries consider the other as competitor and the trust deficit between the two is ample after the 1962 war on border disputes. However on economic front involving trade and investment they are cooperating with each other. The relation between the two can be assumed to have twin facets of conflict and cooperation together. After the loss of Tibet as a buffer state in 1950 when China took control over it, Nepal has become strategically important for both of these countries. Nepal is gateway to the sensitive Tibet Autonomous Region (TAR), which plays an important role in China's South Asia Policy. Tibet issue, which is China's major security concern, has become a major determinant of Chinese foreign policy towards Nepal specifically to reiterate a historical fact that the Khampa rebels of Tibet used Nepalese territory in 1959. Both the countries want to keep Nepal under the sphere of their influence.

China is concerned about Nepal being used by other external powers to challenge its strategic interest. Chinese security analysts argue that Nepal is being used by the United States in its larger strategy of encircling China. (Jaiswal, 2014) During the 1960's, there were several demonstrations in Kathmandu as well as in Tibet by Tibetan separatists who had bases in Nepal. This led China to be skeptical on external engagement in Nepal. To conclude, Nepal's position has become strategically more significant with the rise of China as the superpower. Situated between the two regional powers who aspire to be global powers, Nepal can capture the opportunities and become a Centre of geopolitical competitions between the rising China and a defensive India. Chinese influence in Nepal will increase if Nepal remains unstable, internally

vulnerable, and is incapable to resist foreign interference. Similar is the case with India. (Jaswal: 2014) For stability, economy should override the politics in Nepal and both India and China should come forward for economic development of Nepal by investing in hydro-electricity and tourism. Probably, trilateral cooperation between India, China and Nepal can be in the interest of the region. Stable and prosperous Nepal can only serve the security concerns of both the Asian giants.

## CHAPTER 5

### CONCLUSION

So far, most Sino-Indian trade is conducted via the sea. It is because trade through Himalayas was difficult and hence ineffective due to its complex terrain. Now it is due to the advancement of technology it is possible to construct road and rail infrastructure through high terrain which would reduce time, cost and distance, and this particularly has changed the narrative on land transport. Nepal harboring several passes that could potentially be developed as the most economical transit of trade, the country stands to gain in four ways.

First, infrastructure development close to Nepal's borders will provide Nepal with a vital link to trade with these countries. As a response to Chinese rail networks in the west, India is also revamping its infrastructure on the northern front. Such competition will increase Nepal's connectivity, if Nepal can develop infrastructure that links it to its neighbors. Second, Nepal can serve as a transit for goods and services in Sino-Indian trade. In this way, Nepal will be able to benefit indirectly from the spectacular economic growth of neighbors. Third, Nepal can serve as an economic competing ground for China and India. China has been steadily increasing investment in Nepal, especially post-Janaandolan II, in physical infrastructure including roads and airports. Given that Nepal has enough projects to absorb investments from both India and China, investment competition between China and India can only benefit Nepal. Finally, Nepal can take full advantage of the fact that both China and India are competing as well as cooperating to increase their area of influence. Chinese and Indian aided projects can provide a much needed boost to development efforts in Nepal, providing employment, tourism and electricity, particularly at the improvised border regions.

China has already constructed roads in its territory bordering Nepal. Plans are afoot to link Kerung along the Nepal-Tibet border with Lhasa by Chinese rail. Lhasa is already connected with mainland China by rail. China has been keen to Nepal's southern border with India through railway as it wants to tap not only the Nepalese market and its virgin natural resources but also it has a design to capture the market across the Nepal-India border in India. On the other side, India has also started constructing roads, railways and other infrastructure facilities in its territory closer to the Nepalese border.

In view of the fact that both India and China happen to be the fastest growing economies of the world, Nepal should take maximum benefit from them. Towards this end, Nepal should attract its neighbors to maximize its efforts in Nepal's development activities. There is nothing wrong with the Indian or Chinese aided projects in so far as the support to the Nepalese economy. But what is intriguing is that one of the neighbors is aggressive in increasing its area of influence in Nepal, while the other does not want to lose its traditional foothold in the country in view of its social, cultural and economic ties.

Thus Nepal's own geo-political and geo-strategic situation demand more prudence and skill in handling the trilateral relations. But, the domestic politics has been intractable due to the failure of political parties to find a way out for ending the political mess, Nepali political elites have failed to make trilateral relations mutually advantageous. Consequently, it was not only the economy that has stagnated, political and social agendas were also sidelined by the self-seeking politicians.

Baral (2012) referring to the character of Nepali polity notes that, in the absence of viable and credible governance in Nepal, changes underway in its neighborhood risk becoming

irrelevant. On the contrary, a disturbed and unpredictable neighbor would be a matter of serious concern to its neighbors. Diplomacy buttressed by development and the people's confidence will alone guarantee Nepal's security. At a time when Nepal's two immediate neighbors share in common their policies towards Nepal, it is imperative that Nepal should seize such an opportunity to preserve its assurance. But, for making it reality, political parties, irrespective of their hues and predilections, should try to free themselves from their old mindset, prejudices and self-centered approaches to end the unpredictable political environment.

However, on the aftermath of successful promulgation of Constitution of Nepal in 2015 and series of elections conducted in the process of adopting the constitution, the country has got elected representatives at all levels of governance. The coalition government formed winning majority of votes in the House of Representatives and the astute character the Prime minister of the country Mr. K.P. Sharma Oli is believed to carry under his leadership, the country may have got a viable government, long after the end of panchayat regime in 1990's. So it is up to the newly formed government to define its approach, earn the credibility required, formulate policies and handle its relations in the immediate neighborhood.

From the research it is found that, Nepal can benefit from the growing Chinese and Indian economies by getting their resources diverted to Nepal as they are inclined to investing abroad for economic vis-à-vis political gain. It enriches Nepal's prospect of tapping the potentials like hydropower development, tourism promotion and the development of infrastructures. Whenever the perspectives of China and India co-inside, they can cooperate in promoting certain areas of Nepalese economy where all side benefits are immense. For example, developing transport connectivity of roadways and railways, building dry ports, hydropower projects and SEZ's. With fastest growing economies at the border, Nepal can manage cost effective import as



well as quality export as rising incomes there will increase people's purchasing power.

Deficiency on the part of Nepalese preparation may merely widen the already existing trade deficit with them, however. Although Nepal is serving as a buffer state between China and India since long, their booming tenet may appeal for greater physical connectivity among themselves, mainly for trade facilitation. If so could happen, Nepal can gain additional north-south mountain overland routes across the country. It will promote tourism beside Nepalese trade with China and India. As China is coming out with bulk of FDI and India is expediting industrialization, Nepal can cash this opportunity to develop mega hydropower projects and supply electricity to India. Nepal can also utilize some portion of power for its own industrial ventures, beside private consumptions. In collaboration with China as well as India, as both of them have marvelously performed, Nepal can enlarge its communication network especially the internet. It will render multifaceted contribution to Nepal's all round development including industries, business, education and health, beside others. Nepal can replicate to some extent the development modules of both China and India as far as practicable. For example, creating conducive environment including better security measures for FDI attraction, concentrating on power generation for self-reliance, managing ample labor force for lower cost and focusing on services that carry low or no cost for supply and consumption. Development of IT sector for reduction in the expense of time and cost is more relevant given that Nepal has rugged topography over larger proportion of its territory where expansion of physical infrastructure is a formidable challenge.

From the study the following considerations are made as well:

- a. The weak institutional framework of the country characterized by instability, corruption, poor and ineffective bureaucracy, bad governance has hit all the processes into mess. No proper plan, policy and measures can be conceived by the state unless the machinery is

adequate, appropriate and functioning. The country needs to fix the all the state artilleries first to cope up to the aspirations of development and prosperity.

- b. The high cost of transport and energy, coupled with an adverse business environment, discourages productive enterprises, saps growth and hinders development potential. While these constraints are not new, they remain unaddressed due to pervasive coordination failures at governmental level. Lessons from countries that have successfully transformed their economies will point to the important role of the government in managing economic transformation.

## **APPENDICES:**

### **1. Treaty of Peace and Friendship between Government of India and Government of Nepal**

**Kathmandu,  
31 July 1950**

The Government of India and the Government of Nepal, recognising the ancient ties which have happily existed between the two countries; Desiring still further to strengthen and develop these ties and to perpetuate peace between the two countries; Have resolved therefore to enter into a Treaty of Peace and Friendship with each other, and have, for this purpose, appointed as their plenipotentiaries the following persons, namely,

#### **1. THE GOVERNMENT OF INDIA**

His EXCELLENCY SHRI CHANDRESHWAR PRASAD NARAIN SINGH,

Ambassador of India in Nepal.

#### **2. THE GOVERNMENT OF NEPAL**

MOHUN SHAMSHER JANG BAHADUR RANA,

Maharaja, Prime Minister and Supreme Commander-in-Chief of Nepal,

Who having examined each other's credentials and found them good and in due form have agreed as follows:-

#### **Article 1**

There shall be everlasting peace and friendship between the Government of India and the Government of Nepal. The two Governments agree mutually to acknowledge and respect the complete sovereignty, territorial integrity and independence of each other.

#### **Article 2**

The two Governments hereby undertake to inform each other of any serious friction or misunderstanding with any neighboring State likely to cause any breach in the friendly relations subsisting between the two Governments.

### **Article 3**

In order to establish and maintain the relations referred to in Article 1 the two Governments agree to continue diplomatic relations with each other by means of representatives with such staff as is necessary for the due performance of their functions. The representatives and such of their staff as may be agreed upon shall enjoy such diplomatic privileges and immunities as are customarily granted by international law on a reciprocal basis: Provided that in no case shall these be less than those granted to persons of a similar status of any other State having diplomatic relations with either Government.

### **Article 4**

The two Governments agree to appoint Consuls-General, Consuls, Vice-Consuls and other consular agents, who shall reside in towns, ports and other places in each other's territory as may be agreed to. Consuls-General, Consuls, Vice-Consuls and consular agents shall be provided with exequaturs or other valid authorization of their appointment. Such exequatur or authorization is liable to be withdrawn by the country which issued it, if considered necessary. The reasons for the withdrawal shall be indicated wherever possible. The persons mentioned above shall enjoy on a reciprocal basis all the rights, privileges, exemptions and immunities that are accorded to persons of corresponding status of any other State.

### **Article 5**

The Government of Nepal shall be free to import, from or through the territory of India, arms, ammunition or warlike material and equipment necessary for the security of Nepal. The procedure for giving effect to this arrangement shall be worked out by the two Governments acting in consultation.

#### **Article 6**

Each Government undertakes, in token of the neighborly friendship between India and Nepal, to give to the nationals of the other, in its territory, national treatment with regard to participation in industrial and economic development of such territory and to the grant of concessions and contracts relating to such development.

#### **Article 7**

The Governments of India and Nepal agree to grant, on reciprocal basis, to the nationals of one country in the territories of the other the same privileges in the matter of residence, ownership of property, participation in trade and commerce, movement and other privileges of a similar nature.

#### **Article 8**

So far as matters dealt with herein are concerned, this Treaty: cancels all previous Treaties, agreements, and engagements entered into on behalf of India between the British Government and the Government of Nepal.

#### **Article 9**

This Treaty shall come into force from the date of signature by both Governments.

**Article 10**

This Treaty shall remain in force until it is terminated by either party by giving one year's notice.

DONE in duplicate at Kathmandu this 31st day of July 1950.

(Signed )

CHANDRESHWAR PRASAD NARAIN SINGH

For the Government of India.

(Signed )

MOHUN SHAMSHER JANG BAHADUR RAN,

For the Government of Nepal

## **2. Press Release on signing ceremony of Memorandum of Understanding (MOU) on Cooperation under the Belt and Road Initiative**

The Government of Nepal and the Government of the People's Republic of China signed the Memorandum of Understanding (MOU) on Cooperation under the Belt and Road Initiative amidst a special Signing Ceremony organized at the Ministry of Foreign Affairs, Singh Durbar, Kathmandu today.

Hon. Mr. Krishna Bahadur Mahara, Deputy Prime Minister and Minister for Finance and Hon. Dr. Prakash Sharan Mahat, Minister for Foreign Affairs jointly witnessed the signing ceremony. Foreign Secretary Mr. Shanker Das Bairagi and Ambassador of China to Nepal Ms. Yu Hong signed the MoU on behalf of their respective governments.

The major thrust of the MoU is to promote mutually beneficial cooperation between Nepal and China in various fields such as economy, environment, technology and culture.

The MoU aims at promoting cooperation on promoting connectivity of facilities, trade connectivity, financial integration and connectivity of people. The MoU seeks to strengthen cooperation in connectivity sectors including transit transport, logistic systems, transport network and related infrastructures development such as railway, road, civil aviation, power grid, information and communication.

Similarly, the MoU also aims to promote people-to-people exchanges of different levels between the two countries.

The MoU contains detailed framework for mutual cooperation in line with the MoU signed between the Governments of Nepal and China in December 2014.

**Ministry of Foreign Affairs,  
Kathmandu  
12 May 2017**

### **3. Joint Statement during the State Visit of Prime Minister of Nepal to India (6-8 April 2018)**

#### **7 April 2018 at 1430 hrs**

1. The Rt. Hon'ble Mr. K.P. Sharma Oli, Prime Minister of Nepal, is on a State visit to India from April 6-8, 2018, at the invitation of the Prime Minister of India, Shri Narendra Modi.
2. On April 7, 2018, the two Prime Ministers comprehensively reviewed the entire spectrum of multifaceted ties between the two countries. They welcomed the growing partnership between the two governments, private sector and at the people's level. The two Prime Ministers resolved to work together to take bilateral relations to newer heights on the basis of equality, mutual trust, respect and benefit.
3. Recalling that the close and friendly India-Nepal relations are built on the strong foundation of shared historical and cultural links and close people to people contacts, the two Prime Ministers underscored the importance of regular high-level political exchanges in cementing bilateral ties.
4. Prime Minister Oli stated that his government attaches high importance to further strengthening friendly relations with India. He expressed the desire of the Government of Nepal to develop bilateral relations in a way so as to benefit from India's progress and prosperity for economic transformation and development. Prime Minister Modi assured Prime Minister Oli that India remains committed to strengthening its partnership with Nepal as per the priorities of the Government of Nepal.
5. Prime Minister Modi stated that Government of India's vision of '*Sabka Saath Sabka Vikas*' is a guiding framework for India's engagement with its neighbours for a shared vision of inclusive development and prosperity. Prime Minister Oli stated that after the



landmark political transformation, his Government has given priority to economic transformation with the motto '*Samriddha Nepal Sukhi Nepali*'. Prime Minister Modi congratulated the people and the Government of Nepal for successful conduct of local level, federal parliament and first-ever provincial elections in Nepal and appreciated their vision for stability, and development.

6. The two Prime Ministers inaugurated the Integrated Check Post at Birgunj in Nepal. They hoped that its early operationalization will enhance cross-border trade and transit of goods and movement of people bringing greater opportunities for shared growth and development.
7. The two Prime Ministers witnessed the ground breaking ceremony of the Motihari-Amlekhgunj cross-border petroleum products pipeline at Motihari, India.
8. The two Prime Ministers underlined the need for expeditious implementation of bilateral projects in Nepal, and to reinvigorate the existing bilateral mechanisms to promote cooperative agenda across diverse spheres.
9. Three separate joint statements on the following key areas of mutual interest were issued today:
  10. India-Nepal: New Partnership in Agriculture
  11. Expanding Rail Linkages: Connecting Raxaul in India to Kathmandu in Nepal
  12. New Connectivity between India and Nepal through Inland Waterways
13. The two Prime Ministers agreed that the visit has imparted new dynamism to the multifaceted partnership between the two countries.
14. Prime Minister Oli thanked Prime Minister Modi for the invitation and warm hospitality extended to him and his delegation.

15. Prime Minister Oli extended an invitation to Prime Minister Modi to pay an early visit to Nepal. Prime Minister Modi accepted the invitation; dates would be finalized through diplomatic channels.

**New Delhi**

**April 7, 2018**

#### 4. Press Release issued by Embassy of Nepal, Beijing on Bilateral Talks

Posted on March 21, 2016

##### Press Release

Prime Minister of Nepal Rt. Hon. K.P. Sharma Oli and Premier of the State Council of the People's Republic of China H.E. Li Keqiang held official bilateral talks at the Great Hall of the People in Beijing today leading their respective delegations.

During the talks, the two Prime Ministers made a comprehensive review of bilateral relations and expressed satisfaction over steadily growing relations between the two countries. The two sides exchanged substantive views on further strengthening and consolidating mutual trust and understanding as well as promoting mutually beneficial cooperation in various fields.

Trade diversification, cross border connectivity and infrastructure development, cooperation on energy, tourism, finance, education and culture were among the matters that figured prominently during the talks.

Following the official talks, the two Prime Ministers witnessed the signing ceremony of the following bilateral Agreements and Memorandum of Understandings concluded between Nepal and China:

S.N.	Agreement/MoUs/LoE	Signatories
1	Agreement on Transit Transport between the Government of the People's Republic of China and the Government of Nepal	Hon. Mr. Kamal Thapa, Deputy Prime Minister and Minister for Foreign Affairs, Nepal
2	Agreement between the Government of the	Hon. Mr. Kamal

	People's Republic of China and the Government of Nepal on the Construction, Management and Maintenance of the Xiarwa Boundary River Bridge, (Hilsa) Humla	Thapa, Deputy Prime Minister and Minister for Foreign Affairs of Nepal
3	Agreement on Economic and Technical Cooperation between the Government of the People's Republic of China and the Government of Nepal to implement Pokhara Regional International Airport Project	Hon. Mr. Bishnu Prasad Paudel, Minister for Finance, Nepal
4	Framework Agreement on the provision of Mixed Loan between the Government of the People's Republic of China and the Government of Nepal to implement Pokhara Regional International Airport Project	Hon. Mr. Bishnu Prasad Paudel, Minister for Finance, Nepal
5	Letters of Exchange on Project Initiation for the Feasibility Study on Chinese Assistance to Nepal for Exploration of Oil and Gas Resources	Hon. Mr. Bishnu Prasad Paudel, Minister for Finance, Nepal
6	Memorandum of Understanding between the Ministry of Population and Environment of Nepal and National Development and Reform Commission of the People's Republic of China concerning the provision of goods for addressing climate change	Hon. Mr. Bishnu Prasad Paudel, Minister for Finance, Nepal
7	Memorandum of Understanding between the	Hon. Mr. Bishnu

	Ministry of Industry of Nepal and State Administration for Industry and Commerce of the People's Republic of China to strengthen intellectual property system	Prasad Paudel, Minister for Finance
8	Memorandum of Understanding between the Ministry of Commerce of the People's Republic of China and the Ministry of Commerce of Nepal on Launching the Joint Feasibility Study of China-Nepal Free Trade Agreement	Hon. Mr. Deepak Bohara Minister for Commerce, Nepal
9	Memorandum of Understanding between China Banking Regulatory Commission and Nepal Rastra Bank	Dr. Chiranjibi Nepal, Governor of Nepal Rastra Bank
10	Concessional Loan Agreement on Pokhara Regional International Airport	Mr. Baikunta Aryal, Joint Secretary, Ministry of

The Chinese Premier also hosted a luncheon in honour of the Prime Minister of Nepal and his delegation at the Great Hall of the People.

Earlier today, Prime Minister of Nepal was accorded a warm welcome with state honour at a special ceremony held at the forecourt of the Great Hall of the People. The two Prime Ministers jointly inspected the Guard of Honour.

The Prime Minister will call on H.E. Mr. Xi Jinping, President of the People's Republic of China later today.

The members of the Nepalese delegations Hon. Mr. Kamal Thapa, Deputy Prime Minister and Minister for Foreign Affairs, Hon. Mr. Bishnu Prasad Paudel, Minister for Finance, Hon. Mr. Deepak Bohara, Minister for Commerce, Hon. Mr. Giriraj Mani Pokharel, Minister for Education, Mr. Bishnu Prasad Rimal, Chief Advisor to the Prime Minister, Members of the Legislature-Parliament, Chief Secretary, Secretaries and senior Government Officials were present during the official talks as well as at the welcome ceremony.

**Embassy of Nepal  
Beijing  
21 March 2016**

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