Geo-economics in Nepal: Examining its Influence on Economic Resilience and Security

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Abstract

Geo-economics integrates economic policies with political and geographical strategies to achieve national objectives. This study aims to evaluate Nepal's geo-economics dynamics compared to India, the USA, China, SAARC, East Asia and Pacific, and Europe and Central Asia regions by using independent sample t-test to compare the selected geo-economics variables like external debt, foreign direct investment, personal remittances, economic growth, and per capita income. Countries use economic tools as carrots and sticks to get others do what they want, signifying the role of geo-economics for national economic security. Based on secondary data since 1995, the analysis reveals the significant differences in Nepal's economic performance, especially in gross fixed capital formation and economic growth, leading to increased dependency on trade and remittance inflows. The study highlights the growing external debt and its potential to limit economic freedom and undermine national sovereignty. Nepal's weaker economic growth and current account balance are similar to India, but its per capita GDP growth lags behind neighboring economies due to historical macroeconomic challenges. The research concludes *that economic strength directly influences national economic security, with international politics and geography shaping Nepal's geo-economics sovereignty.*

Introduction

Geo-economics refers to the use of economic tools by governments and agencies to achieve not just economic, but also political, security, and strategic goals. It emphasizes policy execution over mere policy analysis. As Guterres (2023) notes, rising geopolitical tensions are deepening global divisions, with smaller nations often caught in the crossfire. Nepal, located between India and China, has long struggled to preserve its independence and sovereignty in such a complex global context. Geo-economics integrates economics, geography, and geopolitics, reflecting the interplay of state power in international relations. Historically, colonial powers and shifts from unipolar to multipolar dynamics have significantly shaped geo-economics power balances. Events like the Great Depression and the 2008 global financial crisis have further altered global geo-economics. These economic shocks have triggered shifts in global confidence and brought forth new visions for world order (Shahzad, 2022).

The relationship between economic power and national power is central to geo-economics. Nations strive to maintain competitiveness in a global landscape where trade, security, and influence are interconnected. As trade plays a critical role in national security and geopolitical stability, the saying "when goods don't cross borders, troops likely will" encapsulates the relationship between trade and peace. Economic and military strategies often reinforce one another, highlighting the dual nature of geo-economics statecraft in today's complex global relations, especially in the era of artificial intelligence (Gyula, 2017). Sovereignty, a nation's autonomy, is deeply tied to geo-economics, as a country's ability to pursue its economic policies determines its national security. Economic security, in turn, impacts a country's defense capabilities, making geo-economics strength vital for overall national stability. Nepal, with its strategic location between India and China, has long held geopolitical and geo-economics significance. Both of these rising global powers have vested interests in Nepal, leading to deeper economic collaboration, especially in trade and regional connectivity (Atique, 1983).

Nepal's history reflects its delicate balancing act between its powerful neighbors. Historically, Nepal maintained trade relations with both India and China, serving as a key trade route between South and Southeast Asia. In recent years, Nepal has also become a focal point for global powers like the U.S., as evidenced by the competing influence of the Millennium Challenge Corporation (MCC) and China's Belt and Road Initiative (BRI). This competition underscores the ongoing geo-economics and geopolitical significance of Nepal for major power rivals. Prithvi Narayan Shah, the founder of modern Nepal, famously described Nepal as a "yam between two boulders," a metaphor that still holds relevance today. Nepal continues to navigate the competing interests of China and India while aspiring to serve as a bridge between the two nations. Both India and China aim to establish a positive image in Nepal to further their own national interests.

In understanding Nepal's geopolitical and geo-economics situation, theories of neorealism, particularly structural realism, offer valuable insights. These theories explain how states interact based on the structure of the international system, with some states seeking to maximize power while others focus on maintaining security. This context is critical for analyzing the dynamics of geo-economics in Nepal from 1995 to 2023, emphasizing the role of economic security in shaping national security. There are no comprehensive studies on Nepal's geo-economics, particularly the dynamic relationships between economy, politics, and security. Issues like Nepal's economic dependence on its southern neighbor and the challenges faced during India's demonetization and blockades highlight the need for research on this topic. Previous studies have focused only on national or economic security, lacking an integrated approach through the lens of international relations and diplomacy. This study fills that gap by linking geo-economics with national and economic security using structural realism. It aims to analyze the geo-economics variables for Nepal and evaluate geo-economics trends in Nepal and other countries through comparative analysis of key variables.

Review of Literature

Geo-economics is about how economic instruments are used to control specific geo-economics areas such as the sphere of influence of a regional hegemon (Scholvin & Wigell, 2018). Nations would use all of their resources, including engineers, physicians, cotton, and iron ore, in addition to firearms to fight battles. Diplomacy is a less coercive tool than the military, which is more so. Military tactics are being replaced by commercial ones: market penetration is taking the place of bases and garrisons, civilian innovation is replacing military technological advances, and disposable capital is replacing weaponry (Barnhart, 1987).

The economic prosperity (full employment, high levels of investment, improvements in productivity, economic growth, and low inflation) will contribute to economic security. Economic security reduces uncertainty about continued economic well-being (Neu & Charles, 1994). Economic statecraft involves the use of economic instruments by a government to influence the behavior of another state including economic sanctions, favors and inducements (Jean-Marc et al., 1999). If there is an unequal distribution of costs and benefits in an interdependent relationship, economic interdependence can also lead to conflict. The peaceful effects of interdependence can be undermined if governments' reliance on one another is not equally balanced, as this can lead to asymmetric interdependence being exploited as a source of power (Keohane & Nye, 1977).

The logic of conflict is zero-sum since the gain of one side is the loss of the other, and vice versa. This holds true for oligopolistic competition (where one oligopolist's market share can only rise at the expense of another's), war, and geopolitical conflicts short of war; however, it does not hold true for many-sided perfect competition, in which any two sides can both gain (or lose) market shares simultaneously. It is true that a significant part of international life has always been geo-economics. In the past, strategic modalities and priorities have eclipsed other people's achievements in the field of commerce (Luttwak, 1990).

The segregation lines between international economic and security concerns are becoming uncertain (Cable, 1995). By assuming that nations want to maximize their security, neorealism changes classical realism from a positional competition game to a cooperative game with many goals (Schweller, 1997).The recent intense growth of international trade and capital flows will foster political cooperation among states. Furthermore, the particularly widespread use of economic tools of statecraft since the end of the cold war has prompted rising interest in the effectiveness of these instruments (Jean Marc, et al., 1999).

Economics sees mutual benefit in competitive exchanges such as trade. Conditions in the fields of military policy and national security are more like those in politics (Klinger, 2008). National security comprises the soundness of a nation’s infrastructure, the basis upon which the ongoing growth of our civilization happens. The rule of law, social codes, stable government, social, political, and economic institutions, and leadership constitute some underlying infrastructure. A strong economy is an essential component of a global power (Ronis, 2011). The nation's overall economic security is thought to be at risk from economic espionage, which is defined as unlawful, coercive action by a foreign government to obtain unauthorized access to economic intelligence, such as private information or technology, for economic advantage (Mankiw, 2012). A nation's foreign and strategic policy is shaped by its economic competence, capability, and capacity as much as by its economic self-interest. The state's ability to fund its operations should not be the exclusive measure of the treasury's strength. The more basic components of national power and capability—production, income, enterprise, productivity, and institutional capacity and capability have an impact on the fiscal capacity (Baru, 2013).

Prime Minister of India Jawaharlal Nehru highlights 'Talking about foreign policies, the House must remember that these are not empty struggles on a chessboard, foreign policy is the outcome of economic policy.' The trade follows the flag and flag follows trade. The metaphor of trade and flag does represent national economics and national power of the state. Prime Minister of India Manmohan Singh said that the foreign policy pursued by a country must reflect its national priorities and concerns. There cannot be disconnect between national aspirations, domestic capabilities, and external policies (Baru, 2013).China has been using economic tools to sway the policy of the surrounding nations away from warfare and toward economic growth. Geo-economics constraints should be thoroughly understood because their conflictual tendencies have the potential to disrupt steadily strengthening economic ties (Faisal, 2018).

From a standard of living perspective (gauged by GDP at purchasing power parity) countries have been doing well in recent decades, despite sluggish economic growth. But when it comes to geopolitical power, how well people lives do not matter but the relative size of the economy does. The economy is a source of power rather than guaranteeing the population's well-being (Gros, 2024). Norrlof (2024) finds that America and its allies must comprehend the intricate interaction of factors that is increasing global adversary and danger. Recent events have demonstrated how geopolitics can have a significant impact on the world economy, often changing trade, investment patterns, and policy virtually overnight.

Clayton et al. (2023) finds that the governments employ the economic power of their nations derived from current trade and financial ties to accomplish geopolitical and economic objectives, a practice known as geo-economics. Hegemons can be found in the form of tariffs and import restrictions, as well as markups on goods or higher loan rates.

Mearsheimer and Walt (2006) remarks that any state in its right mind would object to the presence of other strong states in the area. The majority of Chinese people undoubtedly recall the events of the previous century, when China was weak and Japan was strong. In the chaotic realm of global politics, being Godzilla is preferable to being Bambi. A state's best chance of success is to rule its own backyard. States are always searching for ways to improve their position relative to other great powers.

Ahn et al. (2023) finds that the hazards, possible rewards, and expenses of geo-economics fragmentation have been brought about by supply-chain interruptions and escalating geopolitical conflicts. In both times of peace and conflict, economic warfare was used against nations to undermine their economies and lessen their ability to sway political and military decisions and influence a particular state's conduct. Trade embargoes, boycotts, sanctions, tariff discrimination, freezing of financial assets, suspension of aid, bans on investment and other capital movements, expropriation, and obstructing access to natural resources are a few examples of economic warfare tactics. Economic rivalries have frequently led to geopolitical rivalry and a variety of wars, including military ones (Gyula, 2017).

Foreign investment, which is crucial for the growth of new sectors, is lacking since no business owner wants to put their money in risky ventures. It is further deterred by Asians' apprehension about regaining their hard-won liberties by joining the heavily promoted economic spheres of influence (Tayyeb, 1952). For decades, Nepal deftly maintained a delicate diplomatic position between the Indian and Chinese reigning dynasties, offering unique relations to China as a guarantee of Nepal's independence from India (Kissinger, 2014; cited in Silwal, 2021). Small countries may be particularly vulnerable to external threats and acts of interference in their internal affair (General Assembly Resolution A/RES/46/43).

India need not match a Chinese dollar for Indian rupees in Nepal. Nepal has also been encouraged to take advantage of India's economic growth and integrate its economy with that of India (Muni, 2016). India's policy that contributed to its diplomatic breakdowns in Nepal was poor use of India's soft power, particularly economic support for strategic objectives (Muni, 2016). When Rajiv Gandhi withdrew special trading arrangements between India and Nepal during 1989 after expiry of the bilateral trade treaty, those who made strong representation to him were India's then army chief, Shankarcharyas, business lobbies, and Congress leaders belonging to the former princely order (Muni, 2016).

Nehru wrote on July 6, 1954 to Indian Ambassador in Kathmandu, B.K. Gokhale: People in Nepal forget that India is on three sides of the country and the fourth is Tibet, these people in Nepal, who think and talk mischief are cowards. They should be made to realize, politely but firmly, that there are something we will not tolerate and we will take necessary actions if people misbehave against India... I am opposed to any withdrawal from our check-posts, or our military mission, or our Trade Agent or our wireless instruments or in any other way. They will have to put up with us even if they do not like us. If we decide to leave any time in future, it will be with dignity and not under threats (Bhasin 2004; cited in Muni, 2016). Nehru also wrote on September 2, 1956 to Indian Ambassador in Kathmandu, Bhagwan Sahay: I wish to emphasize that, as I once pointed out to you previously, we must reconsider our attitude towards Nepal. They have not only bypassed us and practically ignored us, but have done so with discourtesy. This is obviously a deliberate attitude to emphasize their own complete independence from us (Bhasin 2004; cited in Muni, 2016).

Geoeconomical element also plays a vital role in the relations between Nepal and China. 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 (Adhikari, et al. 2013). Nepal faces challenges in managing diplomacy on three levels-global, regional and bilateral.

Despite purported differences over the strategic aspects of relationships, whether between the US and China or between India and China, economic interests will prevail over crude geopolitics (Wagle, 2023).

The nations with large migration and remittance rates, such as Nepal, have long been plagued by growth that stifles the industrial sector, particularly those that are exposed to the outside world, and slows down the pace of economic progress. However, Nepal must discourage itself off of remittances and move toward a healthier and more sustainable growth model since the remittance-reliant growth model is ultimately counter productive, given how detrimental it is to the country's long-term economic prospects (Gajurel, 2024).

Research Methodology

This study aims to explore the dynamics of geo-economics in Nepal and its implications for national economic security, using the rational actor model within the framework of structural realism. The research covers the period from 1995 to 2023, which encompasses significant political transformations, including the shift from a constitutional multiparty system to a federal democratic republic. This time frame allows the study to analyze how political-economic developments have shaped Nepal's geo-economics and foreign policy evolution. The unit of analysis includes Nepal's macroeconomic indicators and geo-economics variables, focusing on their implications for national security. The study also incorporates comparative analysis of geo-economics indicators from developing and developed economies, with data drawn primarily from published statistics by the World Bank.

The secondary data are collected from institutions such as the Nepal Rastra Bank, National Statistics Office, Ministry of Finance, Ministry of Foreign Affairs, International Monetary Fund (IMF), and the World Bank (WB). Qualitative information is gathered from expert opinions, interviews, writings, and other published materials in both print and digital formats. An independent sample t-test is employed to compare geo-economics variables between Nepal and selected economies. This method evaluates whether the differences between two groups are statistically significant. The study uses statistical software, including Stata and Eviews, to conduct quantitative analysis and generate insights into the economic relationships. The quantitative outcomes and linkages among the variables depend on the integrity of the available data from different sources. The dynamics of geo-economics could not have been well reflected by the correlation matrix alone limiting the robustness of methodology of the study.

Findings and Discussion

Geo-economics of Nepal has been measured by different macroeconomic indicators having reflection of geopolitical, geo-economical, foreign policy and international relations of

Nepal. The following trends or state of affairs of geo-economics have been briefly presented and analyzed.

Gross Fixed Capital Formation

Gross Fixed Capital Formation (GFCF) includes investments in buildings, machinery, and other equipment. GFCF to Gross Domestic Product (GDP) in various countries and regions since 1995 shows that it has increased over time and remained stagnant. Investments in the capital is the basis for growth, prosperity and resilience of the national economy that shapes the strength of geo-economics. China appears to have had the highest percentage of gross fixed capital formation to GDP throughout the entire period. Nepal appears to have had the lowest percentage among the developing countries (Nepal Rastra Bank [NRB], 2023). Most countries and regions show an increasing trend in GFCF to GDP over time. Some countries have higher percentages than others, the reasons could be many, such as a country's infrastructure needs, economic policies, or political stability. GFCF refers to the investment in fixed assets like infrastructure, machinery, and equipment, which is crucial for long-term economic growth. Nepal’s GFCF has remained around 25% of GDP for several years, reflecting steady but insufficient investment for its developmental needs. Higher GFCF would indicate a stronger commitment to building productive capacity and improving infrastructure, which would, in turn, enhance Nepal’s geo-economics resilience. An increase in fixed capital formation can help stimulate further growth in areas like remittances, Foreign Direct Investment (FDI), and overall economic stability.

Table 1

Correlation: Gross Fixed Capital Formation to GDP

Countries	Nepal	India	China	USA	South Asia	EAP	ECA
Nepal	1.00						
India	-0.16	1.00					
China	0.57	0.57	1.00				
USA	-0.36	-0.30	-0.67	1.00			
South Asia	-0.07	0.99	0.61	-0.31	1.00		
EAP	0.70	0.43	0.96	-0.73	0.48	1.00	
ECA	0.56	0.53	0.76	-0.52	0.58	0.82	1.00

Source: Calculation based on data available at https://data.worldbank.org

Table 1 shows the correlation between GFCF and GDP in various economies. The correlation between Nepal and India is -0.16 showing that the capital formation in Nepal and India is poorly in opposite movements over this period. The positive correlation of GFCF to GDP ratio of Nepal with China is 0.57 and China with India is also 0.57, which show that GFCF follows the same trend in the regions. Negative correlation of the USA -0.36 with Nepal, of the USA -0.30 with India, of the USA -0.67 with China, of the USA -0.31 with South Asia shows a negative correlation between GFCF to GDP ratio in relation to the USA. This indicates that the region follows the opposite trend in gross fixed capital formation to GDP compared to the USA. A negative correlation doesn't necessarily imply causation. There could be other factors affecting GDP in the USA. The weak but negative correlation of Nepal (-0.16 with India), Nepal (-0.07 with South Asia) and South Asia (-0.31 with USA), while India has weak negative correlations with the USA (-0.30) and weak positive correlations with Europe & Central Asia-ECA (excluding high income countries) (0.53), which suggests there is little to no linear relationship between the variables. There might be other factors affecting the relationship between GFCF to GDP ratio in these countries or regions.

Table 2

Gross Fixed Capital Formation to GDP

Countries	Obs	Mean1	Mean2	Diff
Nepal - India	27.0	23.9	29.7	-5.9**
Nepal - USA	27.0	23.9	21.1	2.7**
Nepal - China	27.0	23.9	39.0	-15.2**
Nepal - Europe	27.0	23.9	22.0	1.9**
Nepal - East Asia	27.0	23.9	36.2	-12.4**

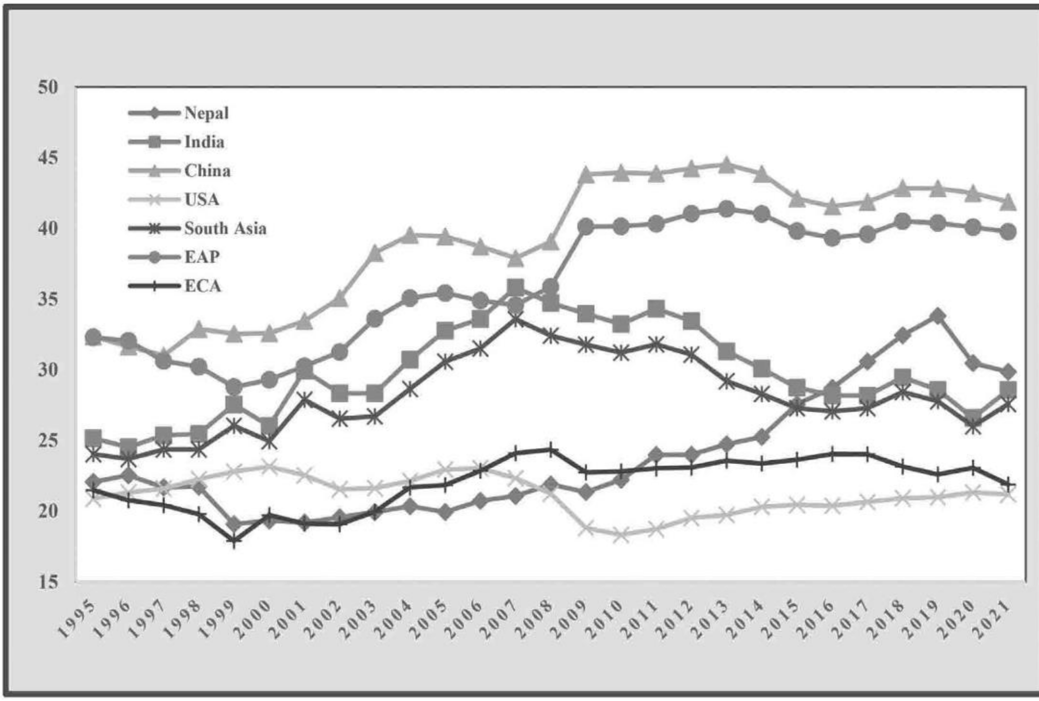
Note: ** Significant at 5 percent

Source: Calculation based on data available at https://data.worldbank.org

Nepal's GFCF to GDP ratio is 5.9 percent lower than that of India, 15.2 percent lower than that of China and 12.4 percent lower than that of East Asian economies. Weaker GFCF also elucidates the underlying reasons for weaker economic growth experience of Nepal. The imprudent public policy is responsible for this weakness. GFCF is the foundation for economic power and security that measures the resilience of physical infrastructure. It is the capital stock in the economy that contributes in revenue flows on which the strength of geo-economics depends upon. Nepal can have catch-up benefit in capital formation to strengthen overall capability.

Figure 1

Gross Fixed Capital Formation to GDP (in percentage), 1995-2021



Source: Estimation based on data available at https://data.worldbank.org

Figure 1 and Table 2 shows the graphical and tabular comparison of GFCF to GDP ratio of Nepal with selected economies such as India, the USA, China, Europe, and East Asia. India, China, and East Asia are burgeoning economies. Hence, they have higher GFCF to GDP ratio compared to Nepal signifying that these economies have a strong economic foundation that bolsters economic growth and development.

Remittances

Remittances form a critical component of Nepal’s economy, contributing around NPR 120 billion per month. This financial inflow supports millions of households and bolsters national economic stability. However, the country's reliance on remittances comes at the cost of mass emigration, with over 2,000 Nepali youths leaving the country each day for work abroad. While remittances contribute significantly to GDP, they also reflect Nepal’s economic vulnerabilities, particularly its dependence on foreign labor markets. Disruptions in global labor demand due to conflicts, pandemics, or economic downturns can directly affect Nepal’s financial inflows, creating challenges for its economic and national security.

Table 3

Correlation: Remittance to GDP Ration and GFCF to GDP Ration

	Remittance to GDP Ratio		
	Countries	Nepal	India
GFCF to GDP Ratio	India	0.50	
	China	0.94	0.65
	USA	-0.58	-0.50
	South Asia	0.55	0.69
	EAP	0.94	0.55
	ECA	0.83	0.47

Source: Calculation based on data available at https://data.worldbank.org

Table 3 shows the relationship between the remittance to GDP ratio and GFCF to GDP ratio of various countries. Table 3 reflects the correlation coefficients between the remittance to GDP ratio of Nepal and India with GFCF to GDP ratio given each country and region compared to the others. There seems to be a weak positive correlation between the remittance to GDP ratio of Nepal and GFCF to GDP ratio of India. The correlation 0.50 suggests that the increase in GFCF of India have positive correlation with remittances to Nepal. Similarly, China has also stronger correlation of 0.94 with Nepal's remittance to GDP ratio. It reveals that though China is not a destination country of Nepali worker but China has trade relationship with gulf countries and Malaysia which are destination countries of Nepali workers. The higher capital formation in China, East Asia & Pacific - EAP (IDA & IBRD countries) and Europe & Central Asia (excluding high income countries) - ECA could increase demand for energy and investment goods from those countries that is indirectly related with Nepali remittance to GDP ratio. This suggests that remittance inflows from these countries might be associated with increased investments in China and other economies of the region. However, the GFCF of the USA has negative correlation with Nepal's remittance to GDP ratio.

Table 4

Comparison of Remittances to GDP Ratio of Nepal with Other Economies

Countries	Obs	Mean1	Mean2	Diff
Nepal - India	27.0	15.8	3.0	12.8**
Nepal - USA	27.0	15.8	0.0	15.8**
Nepal - China	27.0	15.8	0.2	15.6**
Nepal - Europe	27.0	15.8	1.3	14.5**
Nepal - East Asia	27.0	15.8	0.7	15.1**

Note: ** Significant at 5 percent

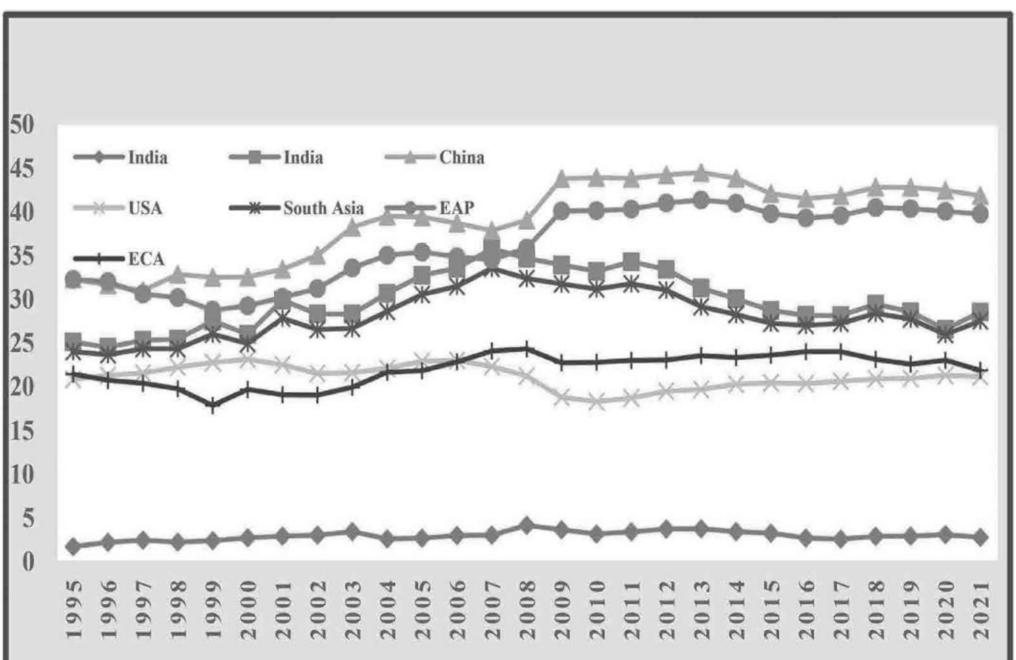
Source: Calculation based on data available at https://data.worldbank.org

Table 4 shows the comparison of remittances to GDP ratio of Nepal with the selected economies. Remittances inflows to GDP ratio of Nepal is significantly higher compared to other economies. The remittances to GDP ratio of Nepal is higher by 12.8 percent, 15.6 percent and 15.1 percent than that of India, China and East Asian economies respectively. This indicates the economic dependency of Nepal to those countries from where remittance flows to Nepal. Higher dependence on remittances would cause habitual cycle of complacency on domestic liquidity in financial system, revenue to the government from tax on imports and abundance of foreign exchange reserves for external sector stability.

The remittance-originating countries absorb the human capital of Nepal at the cost of sustainable development of Nepal that may leave Nepal further backward in the trajectory of socio-economic development. This eventually weakens the geo-economics strength of Nepal. The weaker capital formation, poor manufacturing and industrial activities, and less effective public policy has caused emigration of youths and excessive dependence on remittance like external sources of macroeconomic financing.

Figure 2

Remittance to GDP ratio (in percentage), 1995-2021



Source: Estimation based on data available at https://data.worldbank.org

Figure 2 shows the remittance to GDP ratio of various countries. The figure reflects the movement and dependence of countries on remittances. Remittance is the transfer of money by workers working abroad back to their home country. The remittance to GDP ratio in Nepal appears to be increasing till 2015 and declining over time. The remittance to GDP ratio was 11.2 percent in 2002 and reached 27.6 percent in 2015 and slowly declined after that period. There could be several reasons why the remittance to GDP ratio is declining in Nepal. It is also observed that the weak global economy also affects Nepal, it is seen that the ratio has declined consecutively for three years after the global financial crisis. Also, Nepal's nominal GDP has also grown faster than remittances which have also a partial effect to decline in the ratio. Other larger economies-India and China receive few remittances in comparison to their GDP, other groups of countries also record less than five percent of remittance to GDP. Thus, it is clear that Nepal's economy is highly dependent on remittance and is prone to geo-economics risks.

External Debt

External debt is not necessarily bad for the economy, if a country is using borrowed money to invest in productive assets, it can help the economy grow in the long run. However, if a country's external debt becomes too high, it can become difficult to repay, which can lead to crises and geo-economics vulnerabilities. External debt has seen significant growth since the 2015 Gorkha earthquake, reflecting its dependence on foreign financial aid for rebuilding and development. As of mid-March 2024, Nepal's nominal external debt reached NPR 1,170 billion. While external debt can provide a necessary financial boost, it also represents a vulnerability if not managed properly. Nepal’s external debt-to-GDP ratio reflects its reliance on external financing and can influence its geopolitical positioning, particularly in its negotiations with lending countries or international institutions.

Table 5

Correlation: External Debt to GDP

Countries	Nepal	India	China	South Asia	ECA
Nepal	1				
India	0.24	1			
China	-0.04	0.54	1		
South Asia	0.62	0.90	0.61	1	
ECA	0.12	0.07	0.76	0.11	1

Source: Calculation based on data available at https://data.worldbank.org

Table 5 shows the correlation between external debt to GDP ratio of South Asian countries and other regions. Table 5 shows a weak positive correlation between external debts to GDP ratio of the regions. The positive correlation between South Asia and Nepal which is 0.62, as external debt in South Asia and Nepal is growing in same trend. This suggests that on average, in South Asian countries, the external debt is increasing with the pace of GDP. Nepal shows weak positive correlations with most countries (India: 0.24, China: -0.04, ECA: 0.12). India also has a positive correlation with China (0.54) and ECA (0.07), as they are both the group of growing economies during the period. External debt-financed growth is relatively limited in South Asian countries. The countries may use external debt to finance investments that increase productivity and economic growth. If the investments are successful, the country will be able to generate more revenue to repay the debt. Wealthier countries may have a higher capacity to borrow and repay. They may also have more attractive investment opportunities, leading to higher external debt levels.

Table 6

External Debt to GDP Ratio

Countries	Obs	Mean1	Mean2	Diff
Nepal - India	27.0	34.0	20.3	13.7**
Nepal - China	27.0	34.0	13.3	20.6**
Nepal - Europe	27.0	34.0	42.9	-8.9**

Note: ** Significant at 5 percent

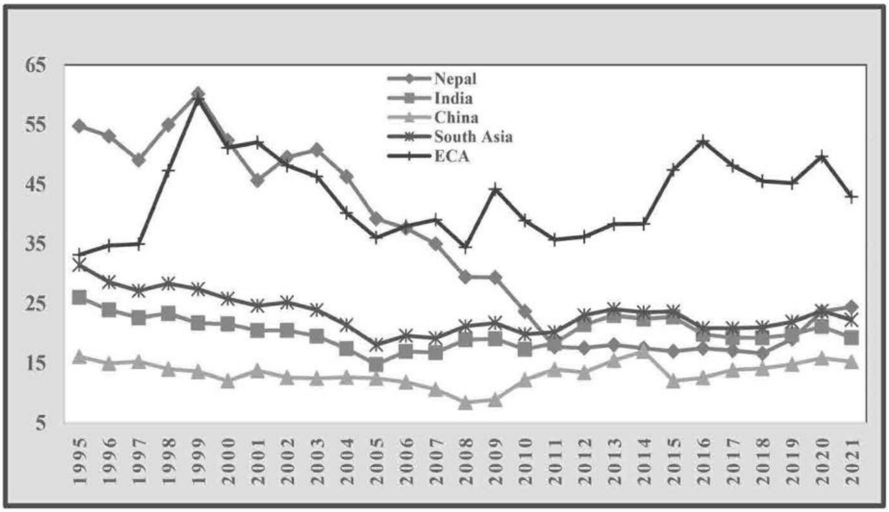
Source: Calculation based on data available at https://data.worldbank.org

Table 6 presents the external debt to GDP ratio of Nepal compared to selected economies. Nepal's external debt to GDP ratio is higher by 13.7 percent than that of India and 20.6 percent than that of China. The results are statistically significant at 5 percent level of significance. This clearly shows the dependence of Nepal on external donors among these comparisons. The growing external debt is detrimental to economic freedom and may eventually succumb a country and riskier geo-economics outlook.

There could be other factors influencing both external debt and GDP in these countries. The reasons for external debt can vary from country to country. Higher external debt can be riskier for developing countries, if a country has difficulty in repaying its debts. The nature and structure of external borrowing also has implications on geo-economics of the country.

Figure 3

External Debt to GDP (in percentage), 1995-2021



Source: Estimation based on data available at https://data.worldbank.org

Figure 3 shows the external debt to GDP ratio of South Asia, ECA, China, India, and Nepal from 1995 to 2021. The average external debt to GDP ratio of most countries appears to have increased over the period. China's external debt to GDP ratio appears to have started lower than most other countries and increased more rapidly. India's external debt to GDP ratio appears to have increased steadily over time, but at a slower rate than China. Nepal's external debt to GDP ratio appears to have fluctuated more than other countries. However, over the period it has decreased. Nepal's recent external debt to GDP ratio is around the level of South Asian countries'.

Foreign Direct Investment

There are several reasons for any country that have a higher FDI to GDP ratio; including political stability, economic growth, business climate, among others. There are many reasons that China's FDI to GDP ratio is higher than that of India and Nepal. China undertook significant economic reforms since 1950s, which made it more attractive to foreign investors. China has invested heavily in infrastructure development in recent decades, which has made it easier for foreign businesses to operate in the country. The Chinese government has implemented several policies to attract foreign investment, such as tax breaks and special economic zones. FDI is crucial for economic growth, particularly for developing countries like Nepal, as it brings capital, technology, and expertise. However, Nepal's FDI inflows have historically been low, averaging less than 0.5% of GDP except for a few exceptional years. Between 2018 and 2022, the country attracted $639 million in FDI. Despite its strategic location between two of the world's largest consumer markets India and China Nepal's political instability, regulatory barriers, and inadequate infrastructure deter higher FDI levels. This limits Nepal's ability to leverage its location for geo-economics gains, thus constraining its economic and geopolitical influence (Wagle, 2024).

Table 7

Correlation: FDI to GDP Ratio

Countries	Nepal	India	China	USA	South Asia	EAP	ECA
Nepal	1						
India	0.06	1					
China	-0.46	-0.37	1				
USA	-0.16	0.04	0.01	1			
South Asia	-0.02	0.99	-0.26	0.07	1		
EAP	-0.43	-0.27	0.98	0.05	-0.15	1	
ECA	-0.19	0.63	0.11	0.19	0.72	0.22	1

Source: Calculation based on data available at https://data.worldbank.org

Table 7 shows a mostly positive correlation between FDI to GDP ratio and GDP ratio, with some exceptions. There's a strong positive correlation within EAP (0.98), suggesting that in EAP countries, higher FDI to GDP ratios tend to be associated with higher GDP ratios. China also shows a positive correlation with most countries (India: 0.57, South Asia: 0.67, ECA: 0.76). This suggests that for China, higher FDI tends to be associated with higher GDP. There's a weak positive correlation within South Asia (0.43). The USA shows a weak negative correlation with most countries (India: -0.30, China: -0.67). This could be due to various factors specific to the USA, but it doesn't necessarily mean FDI is bad for GDP growth in the USA. Nepal has weak negative correlations with most countries (India: -0.16).

A positive correlation between FDI and GDP growth can incentivize countries to compete for FDI. If FDI is seen as a driver of economic growth, countries might offer incentives to attract foreign investors. These incentives could include tax breaks, subsidies, or streamlined regulations. FDI can create jobs in the recipient country. This can be attractive to governments looking to reduce unemployment. FDI can also lead to the transfer of new technologies and skills to the recipient country. This can help to improve the country's productivity and competitiveness.

Table 8

Foreign Direct Investment to GDP Ratio

Countries	Obs	Mean1	Mean2	Diff
Nepal - India	27.0	0.3	1.5	-1.2**
Nepal - USA	27.0	0.3	1.8	-1.5**
Nepal - China	27.0	0.3	3.2	-3.0**
Nepal - Europe	27.0	0.3	2.4	-2.2**
Nepal - East Asia	27.0	0.3	3.0	-2.7**

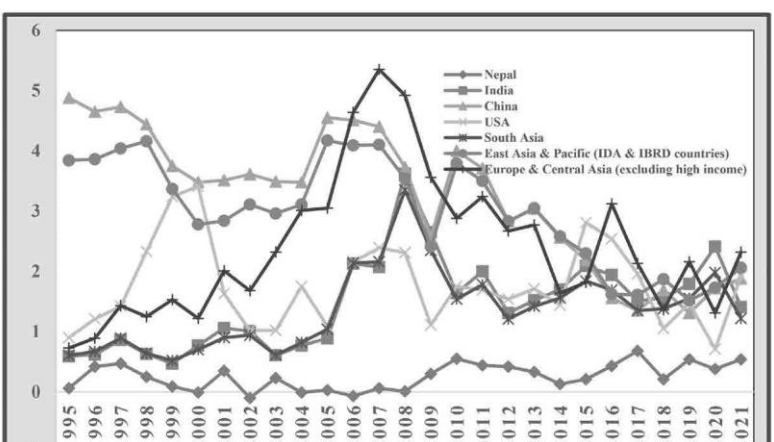
Note: ** Significant at 5 percent

Source: Calculation based on data available at https://data.worldbank.org

Table 8 shows the foreign direct investment to GDP ratio. Nepal's FDI to GDP ratio is 3 percent, 1.2 percent and 2.7 percent lower compared to China, India and East Asia respectively. Nepal is not a preferred destination for foreign investors as foreign direct investment flows to Nepal is significantly lower compared to India, China, East Asian economies, USA and European economies. All selected economies have higher FDI compared to Nepal. This suggests that Nepal does not have favorable environment to attract foreign investors. Lack of trusting investment environment, size of the economy, level of infrastructure has discouraged foreign investment in Nepal. Foreign investment brings capital, technology, knowledge, skill and other potential for innovation that strengthens geo-economics.

Figure 4

FDI to GDP ratio (in percentage), 1995-2021



Source: Estimation based on data available at https://data.worldbank.org

Figure 4 shows the FDI to GDP ratio for several South Asian countries including China, India, and Nepal from 1995 to 2021. China appears to have had the highest and most consistently increasing FDI to GDP ratio throughout the entire period. By 2020, it reached over 6%. India's FDI to GDP ratio has also increased over time, but at a slower and less steady pace than China's. By 2020, it reached around 3%. Nepal's FDI to GDP ratio appears to be the lowest and most volatile of the three countries. It fluctuated between 0% and 2% throughout the period.

Current Account Balance

There are several reasons that the countries might have a high, low, or negative current account balance to GDP. A country that exports more than it imports can have a current account surplus. This can be due to government policies that encourage exports or a competitive currency that makes exports cheaper. Similarly, fast-growing economies tend to have larger current account deficits, as people's incomes rise, they tend to demand more imported goods. China's current account balance to GDP ratio is higher than India's and Nepal's: China had focused on promoting exports in recent decades that led to a large trade surplus (NRB, 2023). During the period, China has attracted a lot of foreign investment in recent years. This has also contributed to its current account surplus. Nepal's weak position to CAB is due to a small, landlocked country with a limited export base and lacuna of public policy. This makes it difficult to achieve a trade surplus. Nepal relies on imports for many essential goods, such as fuel, food, machinery, medicine and other finished products. It has contributed to trade deficit during the period and resulted into huge compromise on geo-economics competencies. A country's Current Account Balance (CAB) reflects its trade balance—exports minus imports as well as its income from abroad and transfers like remittances. Nepal's CAB reached a risky deficit of -12.63% of GDP in the fiscal year 2021/22, which posed a significant threat to the economy. However, by mid-March 2024, the CAB had shifted into a surplus of NPR 167 billion (NRB, 2023). This surplus offers some temporary relief, but long-term deficits reveal that Nepal consumes more than it produces, which increases its reliance on external sources for financing its domestic needs.

Table 9

Current Account Balance to GDP Ratio

Countries	Obs	Mean1	Mean2	Diff
Nepal - India	27.0	-1.0	-1.2	0.3
Nepal - USA	27.0	-1.0	-3.2	2.2
Nepal - China	27.0	-1.0	3.0	-4.0**

Note: ** Significant at 5 percent

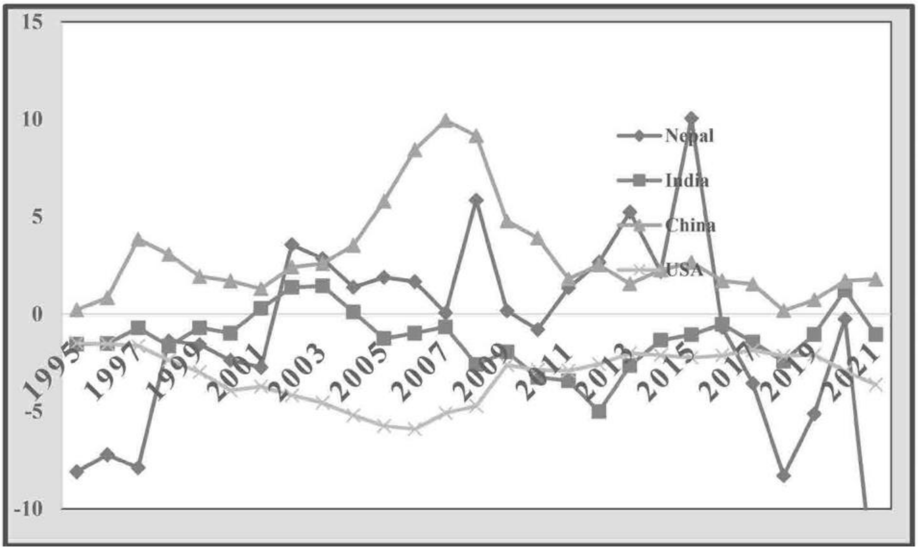
Source: Calculation based on data available at https://data.worldbank.org

Table 9 presents the current account balance to GDP ratio. South Asian economies have more or less similar current account balance to GDP ratio suggested by an insignificant difference of 0.3 percent between Nepal and India. China is a dominant exporter (contributing 25 percent on global exports) with surplus current account balance. As expected, Nepal's current account balance to GDP is 4.0 percent less than that of China. The negative current account balance to GDP is not considered severe in case of developing economies as these economies import huge quantities of infrastructure and construction materials but it should be able to reestablish balance in reasonable time period.

China has a large trade surplus because it exports more goods and services than it imports. This has also offered China geo-economics leverage over other global powers and global south. India's current account balance to GDP ratio fluctuates more than China's. It has been negative for some periods, indicating a trade deficit (importing more than exporting). However, it has also had positive periods.

Figure 5

Current Account Balance to GDP Ratio (in percentage), 1995- 2021



Source: Estimation based on data available at https://data.worldbank.org

Figure 5 shows the trends in the current account balance to GDP ratio in Nepal, India, the USA and China from 1995 to 2021. The current account balance refers to a country's net trade in goods and services plus net income received from abroad. China has a consistently high current account balance to GDP ratio throughout most of the period, reaching a peak of over 10% in 2007. Nepal consistently has the lowest current account deficit to GDP ratio throughout the period. It has mostly remained negative, and the deficit appears to have widened over time.

Annual GDP Growth

GDP growth is a measure of progress in the economy quantitatively. It sums up the growth on consumption, investment, government spending and net exports. Real GDP measures the value of all goods and services produced in an economy, adjusted for inflation. For Nepal, real GDP growth has consistently lagged behind expectations, averaging below 5% over several decades. In recent quarters, growth has been forecast to remain at 4% (NRB, 2023). Low economic growth limits Nepal’s ability to fund development initiatives and hinders its ability to meet the population’s needs, which weakens its geopolitical standing. A robust economy is essential for strong national security, but Nepal’s sluggish growth restricts its geo-economics and geopolitical capabilities.

Table 10

Annual GDP Growth Rate

Countries	Obs	Mean1	Mean2	Diff
Nepal - India	27.0	4.2	6.1	-1.9**
Nepal - USA	27.0	4.2	2.4	1.8**
Nepal - China	27.0	4.2	8.8	-4.5**
Nepal - Europe	27.0	4.2	3.5	0.7
Nepal - East Asia	27.0	4.2	7.7	-3.5**

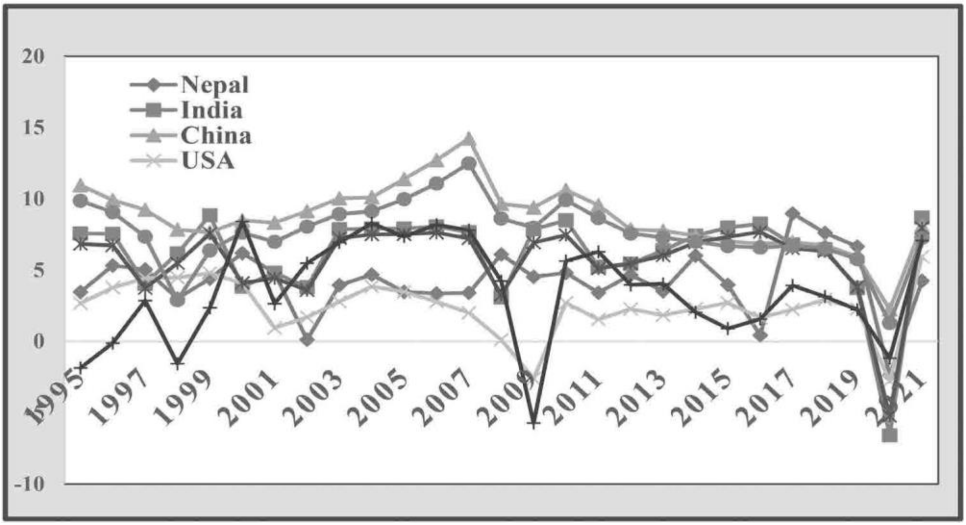
Note: ** Significant at 5 percent

Source: Calculation based on data available at https://data.worldbank.org

Table 10 presents the comparison of annual economic growth rate of Nepal to selected economies. India, China and East Asian economies are growing economies. As expected, Nepal's economic growth is weaker compared to those growing economies. On average, Nepal's economic growth is about 4.5 percent lower compared to that of China, 3.5 percent than that of East Asia and about 2 percent than that of India. This proves Nepal's poor performance in economic growth compared to other developing economies.

Figure 6

Economic Growth (in percentage), 1995-2021



Source: Estimation based on data available at https://data.worldbank.org

Figure 6 shows the economic growth rate of Nepal, India, the USA and China during 1995 to 2021. China appears to have had the highest and most consistent economic growth rate throughout the period. It starts high in 1995 and remains relatively steady around 10% for most of the period. India's economic growth rate has also been positive throughout the period, but it has fluctuated more than China's. India starts lower than China's in 1995 but surpasses it around 2007 with some before it. Nepal's economic growth rate has fluctuated the most among the three countries. It has had periods of high growth, but also periods of negative growth. Overall, Nepal remains to be the slowest growing economy among the two peer countries.

Annual Per Capita GDP Growth

Per capita income is derived by dividing the total GDP at constant prices by the size of the population. It measures the average level of wellbeing from the perspective of income. Its percentage change on real income over the years. Nepal remains one of the slowest growing economies on per capita basis. Per capita income measures the average income per person in a country, offering insights into the standard of living. In Nepal, per capita income growth has been sluggish, and rising income inequality is an ongoing concern. The country's Gini coefficient, which measures income distribution inequality, has been rising, indicating that economic growth is not being equitably shared among the population. This situation weakens the overall economic structure and exacerbates social tensions, potentially undermining national security and stability.

Table 11

Annual Per Capita GDP Growth

Countries	Obs	Mean1	Mean2	Diff
Nepal - India	27.0	3.0	4.6	-1.6**
Nepal - USA	27.0	3.0	1.5	1.5**
Nepal - China	27.0	3.0	8.1	-5.1**
Nepal - Europe	27.0	3.0	3.2	-0.2
Nepal - East Asia	27.0	3.0	6.8	-3.8**

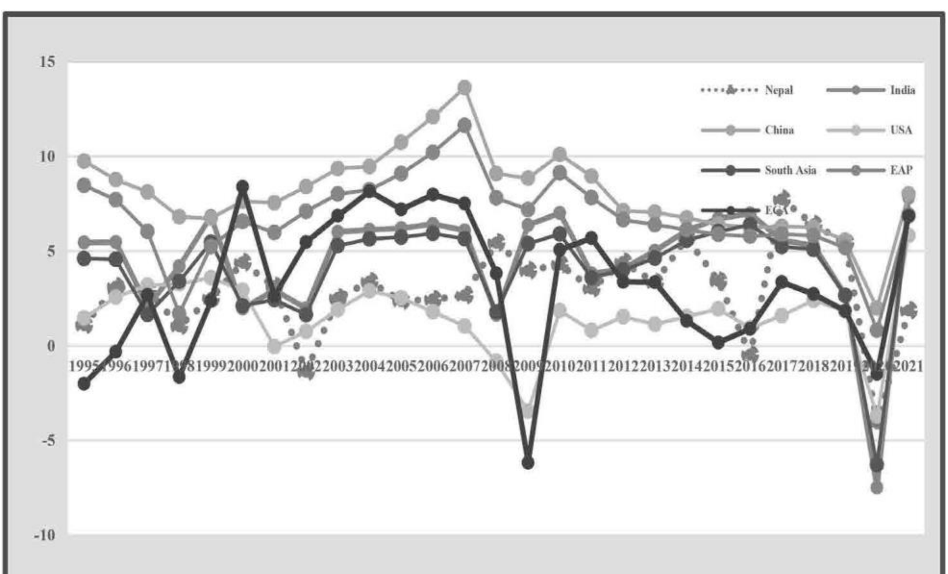
Note: ** Significant at 5 percent

Source: Calculation based on data available at https://data.worldbank.org

Table 11 presents annual per capita GDP growth. Nepal has a weaker performance compared to selected economies. Annual per capita GDP growth of India and China on average, is 1.6 percent and 5.1 percent higher respectively compared to Nepal. The weaker growth in annual per capita GDP is due to weaker investment prospects reflected in lower GFCF to GDP ratio and the reluctance of foreign investors to invest in Nepal. It has historical legacy of multiple socio-politico-economic development over the centuries.

Figure 7

Per Capita Income Growth (in percentage), 1995-2021



Source: Estimation based on data available at https://data.worldbank.org

Figure 7 shows the trends in per capita income growth in several South Asian countries including China, India, and Nepal from 1995 to 2021. It's an average measure of income without consideration or adjustment of inequality in income. Per capita income appears to have increased the most in China followed by India and Nepal over the period. However, the level of per capita income of Nepal is smaller than other countries implicating weaker economic-political performance.

Table 12

Correlation: Per Capita GDP Growth

Countries	Nepal	India	China	USA	South Asia	EAP	ECA
Nepal	1.00						
India	0.43	1.00					
China	0.15	0.53	1.00				
USA	0.24	0.54	0.20	1.00			
South Asia	0.46	0.99	0.53	0.53	1.00		
EAP	0.28	0.56	0.92	0.16	0.58	1.00	
ECA	0.14	0.17	0.48	0.47	0.22	0.54	1.00

Source: Calculation based on data available at https://data.worldbank.org

Table 12 shows correlations between per capita GDP growth of various regions and countries. The correlation between Nepal and India is 0.43, however, the correlation between Nepal and China is only 0.15. The correlation coefficient indicates that Nepal has relatively stronger positive correlation in per capita GDP growth with India and USA than China. Further to be noted that correlation does not equal causation, there could be other factors influencing macroeconomic performance. The possible reasons could be the flow of merchandise trade, trade link, and easy travel of people in between the countries.

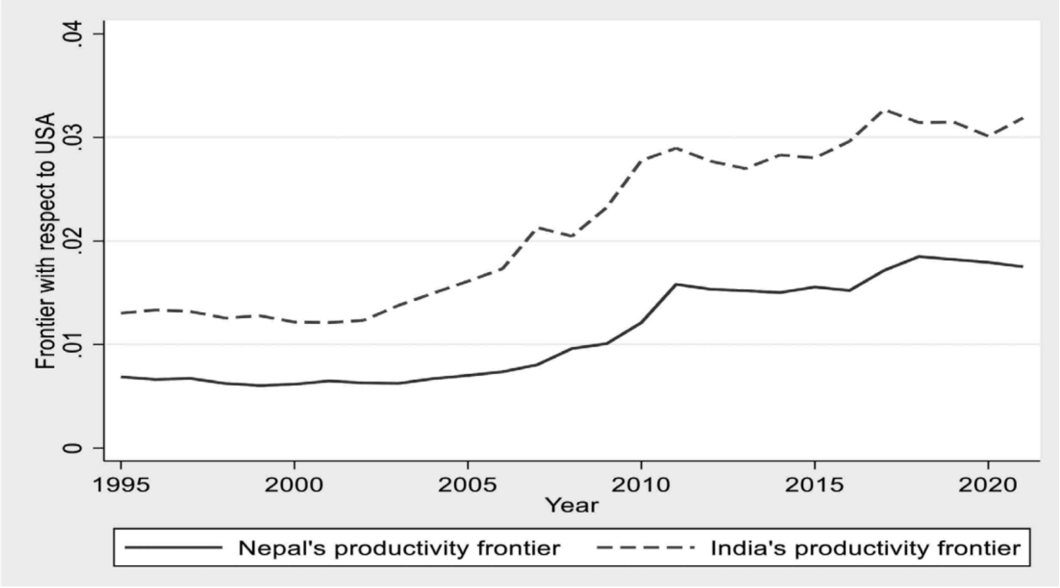
Production Possibility Frontier

Based on annual per capita GDP growth on Table 12, productivity possibility frontier has been drawn. It measures the highest level of productivity that can be achieved by a country given its current resources and technology. It is often estimated by using a benchmark country which is considered as the most productive in the world. The USA has the lowest GDP gap, so it has been used as benchmark country. For PPF, the state of technology is taken to be constant. The study of productivity convergence among nations investigates whether knowledge spillovers, technological advancements, and learning drive productivity toward the global frontier country. Studies conducted within nations examine convergence to the national border using the wide variation in productivity between enterprises. Using the annual per capita GDP growth rate and assuming the PPF of the USA as a benchmark frontier with respect to the USA, the productivity of Nepal lags far behind than that of China and India.

The gap between productivity frontier of Nepal and India was narrower by 2002 and widening afterwards indicating the scope for improvement in productivity for Nepal as shown by Figure 8. Similarly, the gap between productivity frontier of Nepal and China was narrower by 2005 and sharply widening afterwards indicating the scope for massive improvement in productivity for Nepal to meet the path of China as shown by Figure 9. The PPF of Nepal seems almost flat compared to China. These PPFs measure the geo-economics strengths of Nepal, India, China and the World Bank Nepali firms might lag far behind technologically. So they can learn more from the global frontier and adapt accordingly. Nepali firms are still able to benefit from domestic knowledge and skills inherited by raising the level of existing capacity utilization by three-fourth of installed capacity. The development of science and technology at the maximum level is the prerequisite for lifting PPF of Nepal to the level of global standard. The weaker public policy implementation shall also be responsible for lower PPF of Nepal.

Figure 8

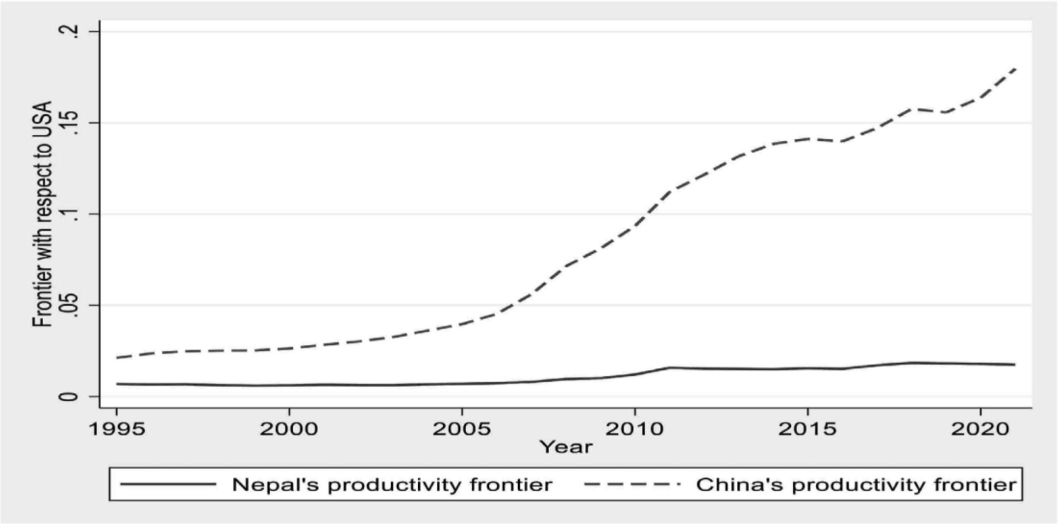
Productivity Frontier of Nepal and India with Respect to the USA (1995-2021)



Source: Author's estimation

Figure 9

Productivity Frontier of Nepal and China with Respect to the USA (1995-2021)



Source: Author's estimation

Results of Hypothesis Testing

The study enlists the geo-economics variables of Nepal that comprises: the Gross Fixed Capital Formation to GDP, Remittance to GDP Ratio, External debt to GDP Ratio, Foreign Direct Investment to GDP Ratio, current Account Balance to GDP Ratio, Annual GDP Growth Rate, and Annual Per capita GDP growth. The acceptance or rejection decision has been made based on probability value derived from calculation at 5 percent level of significance.

Table 13 shows the results of hypothesis testing on whether there are differences in the mean values of the given variables. The first column states the null hypothesis, which is that there is no significant correlation between two countries on the variables under study including: gross fixed capital formation to GDP, Remittance to GDP ratio, external debt to GDP ratio, foreign direct investment to GDP ratio, current account balance to GDP ratio, annual GDP growth rate and annual per capita GDP growth in the compared countries or regions. The second column shows mean differences with significant at 5 percent level of significance for each comparison. The third column simplifies the result of accepted or rejected to explain whether there are differences between the mean. The rejection of null hypothesis depicts there is no correlation between the two means and they are significantly different to each other.

Table 13

Results of Hypothesis Testing

Variables Tested	Mean Difference (t-test)	Null Hypothesis
1. Gross Fixed Capital Formation to GDP		
Nepal - India	-5.9**	Rejected
Nepal - USA	2.7**	Rejected
Nepal - China	-15.2**	Rejected
Nepal - Europe	1.9**	Rejected
Nepal - East Asia	-12.4**	Rejected
2. Remittance to GDP Ratio		
Nepal - India	12.8**	Rejected
Nepal - USA	15.8**	Rejected
Nepal - China	15.6**	Rejected
Nepal - Europe	14.5**	Rejected
Nepal - East Asia	15.1**	Rejected
3. External debt to GDP Ratio		
Nepal - India	13.7**	Rejected
Nepal - China	20.6**	Rejected
Nepal - Europe	-8.9**	Rejected
4. Foreign Direct Investment to GDP Ratio		
Nepal - India	-1.2**	Rejected
Nepal - USA	-1.5**	Rejected
Nepal - China	-3.0**	Rejected
Nepal - Europe	-2.2**	Rejected
Nepal - East Asia	-2.7**	Rejected
5. Current Account Balance to GDP Ratio		
Nepal - India	0.3	Failed to Reject
Nepal - USA	2.2	Failed to Reject
Nepal - China	-4.0**	Rejected
6. Annual GDP Growth Rate		
Nepal - India	-1.9**	Rejected
Nepal - USA	1.8**	Rejected
Nepal - China	-4.5**	Rejected
Nepal - East Asia	-3.5**	Rejected

Variables Tested	Mean Difference (t-test)	Null Hypothesis
7. Annual Per capita GDP growth		
Nepal - India	-1.6**	Rejected
Nepal - USA	1.5**	Rejected
Nepal - China	-5.1**	Rejected
Nepal - Europe	-0.2	Failed to Reject
Nepal - East Asia	-3.8**	Rejected

Note: The value of t-statistics is neutral of sign. Asterisk sign *, **, and *** represents 10 percent, five percent and one percent level of significance respectively.

Source: Author's calculation

The outcomes of the Hypothesis testing presented on Table 13 indicate that there is significant difference between Nepal and other economies in the given geo-economics variables as the null hypothesis has been rejected. The significant difference of values of Nepal with all the best performing economies and global power blocs under consideration in this research signifies the vulnerable geo-economics of Nepal. Gross fixed capital formation to GDP, remittance to GDP ratio, external debt to GDP ratio, foreign direct investment to GDP ratio, annual GDP growth rate related null hypothesis have been rejected. It implies that there is significant difference among the compared economies and Nepal. Nepal has not followed the suit as India, China, East Asia, the USA and Europe. It indicates the geo-economics weakness of Nepal as these all have well-positioned than Nepal on geo-economics indicators.

Current account balance to GDP ratio between Nepal and India as well as Nepal and the USA is not significantly different. The imports and exports of goods and services is not in their favor. They are similar in nature and trend. Similarly, the growth rate of annual per capita GDP of Nepal and Europe & Central Asia (excluding high income) is not significantly different as the null hypothesis has been accepted. The absolute level of per capita is different in these economies but relative pattern of growth is not different. Nepal's geo-economics strengths seems inferior and subordinate than other economies as reflected on all variables considered above. The significant difference between Nepal and other economies in each individual geo-economics variable indicate the scope of requirement for historical progress on geo-economics performance.

Geopolitics to Geo-economics in Nepal

Nepal's geopolitical stance has shifted toward geo-economics dynamics in recent decades, moving from managing political conflicts with global powers to dealing with economic challenges. Over the past 40 years, geo-economics tools like economic blockades have been used more frequently, reflecting global shifts. The dominance of the US dollar continues, even as other currencies rise. However, global economic structures, such as the World Trade Organization (WTO) and the IMF, face challenges. For instance, the IMF's limited ability to reduce national debt post-COVID has led to a debt crisis in many poor countries. Global economic fragmentation, trade protectionism, and rising inequality are growing concerns, and Nepal is no exception. The economic system today is marked by increased competition, security threats, unemployment, and inequality. Globalization has worsened financial crises, climate risks, and economic tensions. Geo-economics, the application of economics to achieve political objectives, is a growing trend worldwide. Theories such as neorealism, which prioritize state survival in an anarchic global system, underpin geo-economics. This approach focuses on states' use of economic power to gain control over others and emphasizes the importance of economic security.

Geo-economics Implications for Nepal

Nepal has a rich history of state-building without colonial oppression, which provides distinct geo-economics opportunities. Remittances, largely from foreign employment, have long been crucial to Nepal's economy for over a century, allowing it to build a degree of economic resilience. This trend dates back to Nepalese involvement in global conflicts, where Nepali youths served as soldiers abroad. In recent decades, many Nepali laborers have worked in construction and development sectors, especially in Gulf countries, sending remittances back home. These relationships have geo-economics significance for Nepal, as the remittance flows foster interdependence. The same holds true for remittance exchanges with India, as the two countries share open borders and a significant labor migration pattern (Baru, 2013). Nepal's geographic position between two emerging powers, India and China, offers potential economic benefits. The trickle-down effects of their economic prosperity could help Nepal build a strong foundation. By leveraging the large markets of its neighbors, Nepal can bolster its own exports and imports, strengthening its geo-economics. However, this also demands strategic responses to the geo-economics impacts of these nations' actions.

Economic Growth and Investment Potential

Nepal has the potential to achieve double-digit economic growth, but this requires substantial investment in both human and physical infrastructure. With domestic savings low, foreign investments in technology and innovation could be a boon for Nepal. FDI can be particularly attractive to investors, as developing countries like Nepal offer higher returns. The example of rapid economic growth in India and China, partly fueled by foreign investment, could serve as a model for Nepal.

Additionally, borrowing from bilateral and multilateral sources at low interest rates can support long-term strategic projects. If these resources are used effectively, they could boost employment and production, enhancing national economic security. Growth in per capita income, along with reduced inequality, would further strengthen Nepal's economic foundation. Investment in strategic infrastructure is crucial for fostering production, employment, and stability. This would also help Nepal maintain its economic security, which in turn safeguards national sovereignty.

Geo-economics as a Tool of Statecraft

As global powers increasingly use geo-economics as a tool of statecraft, Nepal must adapt. Economic methods, such as market penetration and civilian innovation, are replacing traditional military strategies. This trend favors economic security and power over military dominance. However, powerful nations will still resort to war when other methods fail to sway global trade flows in their favor (Abbott, 1989).

For Nepal, the shift toward economic diplomacy offers new opportunities. Participation in the liberal world order can boost Nepal's access to global markets, as demonstrated by the contribution of remittances to the country's foreign exchange reserves. Nepal can also benefit from alternative financial institutions like the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB), gaining access to diverse sources of development financing. Nepal's adherence to the principles of Panchasheel mutual respect and non-interference in the affairs of neighboring countries has allowed it to avoid entanglement in military alliances. Moreover, its significant contributions to UN peacekeeping missions have provided the country with a global platform, enhancing its geo-economics influence.

Challenges Facing Nepal's Geo-economics

Despite the prospects, Nepal faces significant challenges. As a landlocked nation situated between two rising powers, Nepal is often caught in the rivalry between India and China. This political-economic-military competition creates a proxy conflict within Nepal. Moreover, the presence of Western interests, especially from the US and Europe, complicates Nepal's balancing act between these regional and global powers. Weak governance and a sluggish pace of improvement in public services further hinder Nepal's geo-economics growth. The country's weak domestic production system exacerbates its trade deficit with many of its trading partners, an indicator of its economic vulnerability. High sovereign debt and the inefficient use of borrowed resources also pose long-term risks.

Additionally, global financial crises and economic shocks have direct repercussions on Nepal, given its interconnectedness with the global economy. The mismanagement of resources by private financial institutions also threatens to destabilize the national economy. The competitive international environment, characterized by power blocs, places further strain on Nepal's diplomatic and economic strategies. The global shift toward a zero-sum mindset in trade and investment often injects conflict into these areas, undermining cooperation and trust.

Nepal's Strategic Response

To navigate these challenges, Nepal must cultivate a strategic mindset that integrates economic and political considerations. Strengthening governance, fostering domestic production, and securing foreign investments will be critical for building economic resilience. The country must also carefully manage its debt and focus on projects that yield long-term benefits. Nepal must also work on improving trust with global and regional powers, ensuring that its geo-economics strategy promotes cooperation rather than conflict (Guterres, 2023). As a relatively small state with limited global influence, Nepal must maintain diplomatic flexibility, balancing relationships with China, India, and the broader international community.

Nepal's shift from geopolitics to geo-economics reflects broader global trends. By leveraging its geographic position and strategic opportunities, Nepal can enhance its economic security and national sovereignty. However, this requires careful management of domestic and international challenges, as well as a forward-thinking approach to governance and economic policy. Geo-economics presents both opportunities and risks for Nepal, and its ability to adapt will determine its future prosperity (Silwal, 2021).

Conclusion

Considered all variables jointly and individually, and from qualitative and quantitative analyses as well as from ground experience, geo-economics indicators have revealed the weaker situation of geo-economics in Nepal. It has to make important breakthrough to transform a remittance-dependent and consumption-based economy for competitive standing. It has been concluded that to solve multidimensional challenges, the dynamics of geo-economics of Nepal shall be strengthened for the national economic security and sustained equitable prosperity. The area of geo-economics is linked to military, political, technological innovations as well as socio-economic capabilities of a nation-state. If a nation is not economically strong internally, it cannot protect well from all aspects of threats to nation. It has vulnerably exposed to risks and has less confidence of public. Geography, politics, and economics are complement to each other rather than competitive in the process of consolidation of multi-dimensions of geo-economics in Nepal. The complementary relations with cooperative rivalry have been proved true in this study.

Economic capability underpins the robustness of geo-economics power, foreign policy and international relations. Different economic indicators having cross-border relations directly and indirectly influencing political, economic, military, diplomatic and security strength of Nepal. Nepal should strive for quality capital formation to reduce economic dependency to the countries from where remittances and imports flows to Nepal. Most productive use of external debt is important for economic freedom and, sovereignty. Lower foreign direct investment flows into Nepal indicates that Nepal does not have favorable environment to attract foreign investment. Nepali firms lag far behind technologically hence requiring them learn more from the global frontier, domestically inherited skills and adapt to global innovation accordingly.

Geo-economics security is the base for economic security, national security and sovereignty of Nepal. Intervened sovereignty eventually challenges the robustness of overall national security. Sovereign nation has an ability to follow its choice of policies to develop the national economy, politics, and international relations on the desired path, without which other dimensions of national security cannot be well guaranteed and managed. Economic strength largely determines the growth, defense capability, law and order. Thus economic security directly influences the national security.

Author Introduction

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