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Economic Liberalization and Balancing Relationship with Neighbors in the Foreign Policy of Nepali Congress Party

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Abstract

Nepali Congress has consistently upheld multiparty democracy as its core agenda. The party's commitment to maintaining an equal distance between Nepal's two powerful neighbors, China and India, is a significant aspect of its foreign policy. This study focuses on the pivotal role of the Nepali Congress Party in strengthening democratic institutions and promoting economic liberalization in Nepal. It highlights the party's influence on Nepal's economic development and the diplomatic balancing act between China and India. The study analyzed key documents related to the Nepali Congress, such as manifestos, budgets, and policy statements, through qualitative research. The findings reveal that the Nepali Congress has been instrumental in maintaining a liberal economic system in Nepal and balancing diplomatic relationships with both neighboring nations. As a liberal democratic party, the Nepali Congress has fostered a balanced foreign policy that supports economic growth and friendly ties with China and India.

Keywords: diplomacy, Nepal Party, Nepali Congress, Politics

Background

Nepali Congress has been instrumental in strengthening democracy and advancing economic liberalization as one of Nepal's oldest political parties. The party has also been significant in maintaining balanced relations between Nepal's powerful neighbors, India and China. The Nepali Congress was formed on January 25, 1946, by uniting the Nepali National Congress and the Nepal Democratic Congress. The party has actively worked for the nation's well-being since its establishment. The long-standing involvement of the Nepali Congress in political and economic reforms highlights its importance in shaping Nepal's political landscape.

The dissolution of the Rana regime marked a pivotal shift in Nepal's political landscape, with the Nepali Congress emerging as a dominant force and leading three of the five interim governments formed before the first general elections. Matrika Prasad Koirala, notable as Nepal's first non-aristocratic Prime Minister, served two terms, from 1951 to 1952 and again from 1953 to 1955. Subarna Shamsher Rana later assumed the role of Prime Minister from 1958 to 1959. The historic general elections held in February 1959 resulted in a resounding victory for the Nepali Congress, which secured 74 out of 109 parliamentary seats. This outcome enabled Bishweshwar Prasad Koirala to become Nepal's first

democratically elected Prime Minister, representing a transformative moment in the country's political history (p. 134).

The Nepali Congress, established in 1950, is a democratic socialist party with Nationalism, Democracy, and Socialism as its guiding principles. Nationalism emphasizes the unity of diverse groups within Nepal, while Democracy focuses on the power of the people. Democratic Socialism, adopted in 1955, aims to create a socialist society with democratic rights and equitable distribution of resources. B.P. Koirala warned that without socialism, third-world countries could face dictatorship, communism, or religious fundamentalism.

The Nepali Congress has been instrumental in Nepal's political evolution, playing a key role in major historical events. It led the 1950 uprising against the Rana regime, championed the 1990 struggle to end the Panchayat system, and was a driving force behind the 2006 movement that resulted in the creation of the Democratic Republic of Nepal. The party has also been involved in significant political developments, including the signing of the Comprehensive Peace Accord in 2005 and leading the government 17 times. Due to its extensive involvement in shaping Nepal's political landscape, the researcher has chosen to focus on the Nepali Congress to better understand its foreign policy priorities.

Nepali Congress has played vital roles in both political reformation and economic liberalization in Nepal. The party was actively involved in the revolution of 1951, which led to the establishment of democracy in the country. Similarly, the Nepali Congress provided leadership during two significant political upheavals: the 1990 movement and the 2006 uprising. These pivotal events set the stage for Nepal to achieve new economic milestones in its path toward liberalization.

The Nepali Congress has led Nepal's economic liberalization since the 1990s, encouraging commercial openness, international investment, and privatization. These policies, however, frequently conflict with geopolitical reality. For example, China's Belt and Road Initiative (BRI) investments have increased since 2017, and India continues to be Nepal's major trading partner (68% of total trade in 2022). Thus, the Nepali Congress's simultaneous commitment to diplomatic neutrality and economic progress creates a conundrum: How can Nepal benefit from globalization without being overly dependent on either neighbor?

Nepal's foreign policy path has been influenced for a long time by its geographical location between China and India, two Asian superpowers. A careful balancing act between economic ambitions and diplomatic realism is necessary to traverse this complicated terrain. As a key player in Nepal's democratic history, the Nepali Congress Party has continuously positioned itself as an advocate of economic reform while working to preserve fair ties with both of its neighbors. However, there is still a lack of research in the academic literature on the relationship between its foreign policy approach and domestic economic agenda. Based on neoclassical realism, this study suggests that both internal interests (i.e., economic reform) and systemic factors (like India-China competition) influence the Nepali Congress foreign policy decisions. Neoclassical realism integrates domestic factors like party ideology and economic interests into foreign policy analysis, diverging from classical realism's emphasis on international anarchy. This perspective is essential for comprehending small nations like Nepal.

The study analyzed the historical role that the Nepali Congress played in establishing economic liberalization in Nepal. Furthermore, it also examined how the Nepali Congress Party aligns its

economic liberalization agenda with foreign policy goals and evaluates its strategies for balancing diplomatic ties with India and China amid competing dependencies. Through the use of neoclassical realism, this research provides a paradigm that small nations may use to navigate great-power rivalry, bridging the gap between internal political economy and foreign policy analysis. Thus, the findings will inform Nepali policymakers on the risks of over-dependence on either neighbor and guide regional stakeholders in understanding the NC's role in South Asian diplomacy.

Research Methodology

This study employs a qualitative case study design integrating critical document analysis and historical-comparative methods to examine the Nepali Congress's economic and foreign policy trajectory (1990-2023). research design, utilizing the document analysis method. The research relies on secondary data collected through library research. The key documents used in this study include party manifestos, party decisions, the Constitution of Nepal, and other relevant materials such as the budgets of the Nepali Congress and party guidelines. It includes Nepalese Congress manifestos from 1990, 2007, 2017, and 2022, parliamentary debates, and key agreements such as the BRI Framework (2017) and Mahakali Treaty (1996). Similarly, Bilateral treaties and memoranda between Nepal, India, and China under NC-led governments further inform the analysis. In addition, peer-review literature on Nepal's foreign policy, India-China relations, democratic socialism, and economic data from World Bank reports, Nepal Rastra Bank trade statistics, and FDI inflow reports are all included in the review.

Literature Review

Alden and Aran (2017, p.80) have highlighted the often-overlooked importance of political parties in shaping foreign policy decisions. Their analysis emphasizes that political parties play a crucial role as agenda-setters, driven by their ideological discourses, which reflect their distinctive political orientations. This means that the ideological frameworks and priorities of political parties influence the formulation and direction of foreign policy agendas. Political parties also serve as agenda followers, responding to and adapting foreign policy initiatives based on their ideological positions and domestic support. They function as interest aggregators, representing and channeling the diverse interests and preferences of domestic society into foreign policy decisions. This dual role of setting and following agendas, along with their role as intermediaries between the government and the public, highlights the significant impact political parties have on the foreign policy process.

Rourke (2007) explores the levels of analysis in foreign policy, emphasizing the limited engagement of legislative bodies in international affairs due to their primary focus on domestic politics and forthcoming elections. The study further examines the extensive executive authority of the President in foreign policy, including treaty negotiations, diplomatic recognition, appointments of diplomatic and military officials, and the deployment of military forces as commander-in-chief. Additionally, Rourke highlights the President's capacity to undertake various foreign policy actions with minimal intervention from Congress or judicial oversight.

Fearon (1998) explores the interplay between domestic politics and foreign policy in his work "Domestic Politics, Foreign Policy and Theories of International Relations." He provides a theoretical framework for understanding how political parties and democratic processes influence foreign policy decisions. Fearon examines how domestic political factors, such as electoral incentives and party dynamics, shape a nation's international strategies. His analysis highlights the need to consider

domestic political dynamics in international relations, revealing how internal structures shape foreign policy decisions.

China's foreign policymaking operates through two parallel tracks—the Party track and the State track—as explored by (Jackobson & Maneul, 2016). On the Party track, important decisions about foreign policy are made by the Politburo Standing Committee (PSC), the top decision-making group within the Communist Party of China. The PSC plays a key role in setting China's international strategies. On the State track, government institutions and diplomats carry out and manage the policies decided by the PSC. This system shows how both the Communist Party's leadership and the state's administrative structures work together to shape China's foreign relations.

Rose (1971) provides a detailed examination of the foreign policy directions of the Nepali Congress government during 1959-1960. His analysis highlights B.P. Koirala's adept management of critical issues such as the Mt. Everest dispute and the Mustang incident with China, showcasing his diplomatic finesse. Rose also emphasizes the successful negotiation of a trade treaty with India in 1960, marking a significant achievement for the government. The study illustrates how Koirala's strategic handling of these international matters not only addressed immediate concerns but also laid the groundwork for Nepal's broader foreign relations strategy. Rose's work shows the importance of Koirala's leadership in navigating complex diplomatic challenges and shaping Nepal's position on the global stage during this pivotal period.

In 1955, Rishikesh Shaha, with a foreword by B.P. Koirala, explored the Nepali Congress's global vision, discussing Nepali nationalism, the country's foreign policy, and its relationships with key nations like India, China, Burma, the U.S., France, Britain, and Malaya.. While it articulates these elements, it does not delve into the party's specific foreign policy decisions but focuses on the impact of global democratic movements on Nepal's domestic politics. The Nepali Congress, recognized as a democratic socialist party, garnered support from socialist leaders across Asia. B.P. Koirala, a founding member of the Asian Socialist Conference in 1953, led the Nepali Congress in ratifying the conference in 1955 and participating in its 1956 meeting. The 1957 conference, hosted by the Nepali Congress in Kathmandu, was notable for marking Nepal's first international event and securing the party's full membership in the socialist movement. The conference emphasized the neutral stance of member parties in pursuing independent foreign policies, advocating for peace, and supporting the United Nations. The event saw participation from delegates representing various countries, including Burma (Myanmar), Japan, India, Indonesia, Israel, Pakistan, Vietnam, and West Africa (Pokharel, 2020).

Following its establishment in 1950, the Nepali Congress issued a party declaration detailing its objectives and policies, encompassing political, economic, and foreign policy goals (Gautam, 2055, pp. 300-301). The declaration emphasized the centrality of safeguarding Nepal's independence and sovereignty as the primary aim of its foreign policy. The Nepali Congress advocated for the establishment of diplomatic relations with other nations while firmly prioritizing the preservation of the country's autonomy and sovereign integrity. It also emphasized maintaining friendly relations with India, recognizing the religious, cultural, political, and economic ties between the two countries. During the 8th National Convention of Nepali Congress in 1991, which took place in Jhapa (Thapa, 2072, p.361), the attendees commended Girija Prasad Koirala for successfully negotiating the trade and transit treaty. Furthermore, they advocated for a streamlined industrial policy to promote investment

from both domestic and international sources. To boost foreign exchange earnings, the Nepali Congress established the Tea Board to support the cultivation of tea to increase export opportunities.

The foreign policy of the Nepali Congress can be further analyzed through its Election manifestos presented during various national elections. In 1959, the party participated in Nepal's first general election following the establishment of democracy in 1950, winning 74 out of 108 seats in the House of Representatives (Gupta, 1993, p. 146). B.P. Koirala, the party's leader, became Nepal's first elected Prime Minister. However, the political landscape shifted dramatically with King Mahendra's royal coup in 1960, which led to the imposition of the Panchayat system. Over the next three decades, the Nepali Congress opposed the Panchayat as an undemocratic regime, with prominent leaders like B.P. Koirala, Ganesh Man Singh, and Krishna Prasad Bhattarai facing imprisonment. After his release, B.P. Koirala went into voluntary exile in 1969, returning to Nepal amidst significant regional developments, such as the annexation of Sikkim and the creation of Bangladesh. His return was driven by a commitment to national unity and safeguarding Nepal's independence, a policy later termed **Rashtriya Ekata tatha Melmilap Niti** by the party (Welphton, 2005, p. 105). After the promulgation of the 2015 Constitution, the Nepali Congress contested the joint elections for the House of Representatives and Provincial Assembly, emphasizing the protection of national integrity, fostering friendly foreign relations, negotiating treaties, and managing customs and excise duties. They also advocated for inclusive democracy, human rights, economic growth, cultural preservation, youth empowerment, modernization, water resources, biodiversity, tourism development, and cooperative relationships with neighboring nations. The party aims to enhance Nepal's democratic reputation while preserving its cultural heritage and improving trade, investment, transportation, and communication networks through respectful interactions with neighboring countries.

Table 1

Key Contributions and Relevance to the Study

Source	Key Contribution	Relevance to the Study
Alden & Aran (2017)	Political parties shape foreign policy through ideology and domestic interests.	NC's democratic socialism/nationalism as drivers of its India-China balancing strategy.
Rourke (2007)	Executives dominate foreign policy; legislatures focus on domestic issues.	Explains NC's pragmatic compromises (e.g., 1996 Mahakali Treaty) to bypass legislative gridlock.
Fearon (1998)	Domestic political dynamics (elections, party competition) influence foreign policy.	NC's post-1990 economic reforms aimed at consolidating domestic support while managing regional pressures.
Jakobson & Manuel (2016)	China's foreign policy operates through Party (strategic) and State (executive) tracks.	NC's engagement with BRI reflects balancing between China's Party-led agenda and Nepal's state priorities.
Rose (1971)	B.P. Koirala's diplomatic finesse in managing Nepal's early foreign policy challenges.	Historical precedent for NC's "equidistance" strategy between India and China.
Shaha (1955)	NC prioritized sovereignty and non-alignment in foreign policy.	NC's ideological consistency in safeguarding autonomy despite economic dependencies.

Note. NC-Nepali Congress

Economic Development and the Relationship between Two Neighbors

As a developing nation, Nepal requires significant capital formation and assistance to achieve economic growth and prosperity. The Nepali Congress prioritizes seeking economic development aid through diplomatic channels as part of its foreign policy. The party aims to drive investment, generate employment, and support Nepal's progression from a low-income to a middle-income nation. It aims to effectively mobilize aid, loans, and remittances, focusing on key sectors such as agriculture, energy, tourism, and human development. Additionally, the Nepali Congress highlights the role of the Nepali diaspora, aiming to leverage their skills and knowledge for national progress.

The Nepali Congress has consistently supported an open economic system and free trade since 1991, while also advocating protectionist measures to bolster the private sector. The party set ambitious tourism targets, aiming for 1 million tourists within five years in 2008, 2.5 million within ten years in 2013, and 3.2 million within ten years in 2017. Its 2013 manifesto aimed for an 8-10 percent economic growth rate and envisioned Nepal's transition to a middle-income country by 2023, alongside goals of self-sufficiency in key products and initiatives like exporting drinking water to Gulf countries. Economic diplomacy was prioritized to enhance access to regional and international markets, while the 2017 manifesto proposed measures to promote foreign employment, including training programs, rights protection, and tax exemptions on foreign-earned income remitted to Nepal. The party emphasizes sectors such as agriculture, irrigation, energy, tourism, and human resource development for foreign assistance, advocating for North-South cooperation to drive investment, productivity, and job creation. Therefore, the Nepali Congress seeks to transition Nepal from a least-developed country to a middle-income nation, fostering sustainable economic prosperity and development.

Nepal places a high priority on fostering strong, mutually respectful, and beneficial relationships with its neighboring economic powerhouses, India and China.. The Nepali Congress advocates for a balanced foreign policy to capitalize on opportunities in hydropower, agriculture, tourism, and the trans-Himalayan region. Former Prime Minister Sushil Koirala has stressed that fostering cordial relations with both nations is vital for Nepal's survival and development, enabling the country to leverage these relationships for economic growth and stability.

In 2015, Nepal faced an informal trade blockade at its southern border during the tenure of the Nepali Congress-led government. Despite the significant challenges posed by the blockade, neither the party's official documents nor its representatives at the UN addressed the issue, leading to widespread criticism. This oversight was later acknowledged by the party's central committee as a contributing factor to its defeat in the 2017 General Election. To understand the Nepali Congress's stance on Nepal-India relations, it is essential to consider its historical origins. The party traces its roots to the establishment of the Akhil Bharatiya Nepali Rashtriya Congress, formed by Nepalese exiles in India, which later evolved into the Nepali Rashtriya Congress. In his biography, B.P. Koirala highlighted the support provided by Indian socialist leaders in organizing the party and acknowledged the assistance the Nepali Congress received for its political activities at various stages. This historical context underscores the deep ties between the Nepali Congress and India.

The close relationship between the Nepali Congress and Indian leaders has been evident throughout history, as highlighted by Chandra Shekhar's presence at a meeting at Ganesh Man Singh's residence in Chaksibhari before the 1990 mass movement. The Nepali Congress has consistently underscored

the importance of maintaining friendly and trustworthy bilateral relations with India, as reflected in its policy documents. These documents describe the relationship as "special," emphasizing multi-dimensional engagement in economic, social, religious, and cultural spheres, alongside the open border system. Leaders have also stressed the need to restore natural ties following crises, such as the 1989 economic blockade.

The party's consideration of India's perspective is further demonstrated by instances such as Prime Minister Krishna Prasad Bhattarai seeking India's views on engaging with the Maoists during the insurgency and Defense Minister George Ferdinand assisting Girija Prasad Koirala in negotiations with Prachanda. These examples illustrate the Nepali Congress's historical efforts to strengthen Nepal-India ties, rooted in the personal relationships of its leaders and the party's political legacy. However, the party has also been a source of tension in Indo-Nepal relations, particularly during the 1960s. Events such as the failed assassination attempt on King Mahendra in Janakpur and the Nepali Congress's armed struggle launched from India strained bilateral ties. Home Minister Vishwa Bandhu Thapa remarked at the time that without Indian support for Nepali Congress leaders, Nepal would not maintain friendly relations with India (Parmanand, 1978, p. 108).

While the Nepali Congress emphasizes the strong bonds with India due to geographical proximity, economic interdependence, and socio-cultural affinities, it often overlooks critical issues such as Nepal's economic reliance on India, the growing trade deficit, and increasing dependency. Although the party advocates resolving territorial disputes and revisiting the 1950 treaty through diplomatic channels, these efforts have seen limited implementation while in power. In the aftermath of blockades and disturbances in Nepal-India relations, the Nepali Congress has highlighted the need to address disputes, normalize ties, and build a trustworthy partnership, reflecting its ongoing commitment to fostering a balanced and constructive relationship with India.

The party's official documents have not provided an in-depth discussion on Nepal's relationship with China, primarily emphasizing the importance of fostering a friendly and reliable partnership while securing economic benefits. However, a deeper historical perspective is essential to understanding this relationship.

In 1951, the Nepali Congress central committee passed a resolution advocating for the establishment of diplomatic ties with China. Despite initial reluctance from Indian Prime Minister Jawaharlal Nehru, Nepal itself remained cautious about recognizing the newly established Communist government of the People's Republic of China. However, by 1960, then-Prime Minister and Foreign Minister B.P. Koirala took a more assertive stance, advocating for China's admission to the United Nations at the UN General Assembly. He underscored the significance of Nepal-China relations, not only for bilateral cooperation but also for broader regional and global stability.

The Nepali Congress played a pivotal role in resolving the long-standing territorial dispute over Mount Everest. During B.P. Koirala's state visit to China in 1960, discussions with Chairman Mao Zedong led to a diplomatic resolution. Mao acknowledged Nepal's cartographic claims, agreeing that the northern half of Everest belonged to China while the southern half remained within Nepal's territory. This historical episode highlights the diplomatic pragmatism of Nepal's leadership in managing its foreign relations with China.

Between 1990 and 2020, the principles, goals, and policies of the Nepali Congress remained largely consistent. The party's election manifestos of 1991 and 1994 emphasized strengthening ties with India, primarily in response to the 1989 economic blockade, characterizing the relationship as "special" due to the complexities of their multifaceted engagement, the sensitivities of the open border, and Nepal's broader geopolitical landscape. While China was mentioned alongside India in the 1994 manifesto, subsequent references continued to group the two neighbors, with the 13th convention's plan and programs being the first to describe Nepal's relationship with China as "warm and friendly." This shift suggests a historical prioritization of India over China in the party's foreign policy stance. Throughout this period, the party's election manifestos did not address Nepal's diplomatic relations with major global actors such as the USA, the UK, Japan, or the European Union, reflecting a strategic focus on regional engagements shaped by Nepal's geopolitical realities.

Economic Liberalization and Its Impact on the Foreign Policy of the Nepali Congress

Beginning in the 1990s under the Nepali Congress administration, economic liberalization in Nepal marked a significant change in the country's diplomatic and economic direction. This change was spurred by global tendencies toward market-driven economies and reflected comparable economic changes in nearby India. Initiating economic changes centered on trade liberalization, privatization, and attracting foreign direct investment (FDI) was a major responsibility of the Nepali Congress. However, Nepal's foreign policy was significantly impacted by these economic measures, especially in regards to its interactions with China and India, its close neighbors.

Restrictive trade laws were replaced with the Open General License (OGL) system, which increased Nepal's export competitiveness by permitting the free importation of more commodities. Tariff revisions consolidated tax slabs into six categories (5%, 10%, 20%, 30%, 40%, and 80%) and lowered the maximum customs tariff rate from 300% to 80%. While privatization attempts moved a number of state-owned businesses to private ownership in an effort to increase efficiency, financial sector deregulation let market forces to decide interest rates. As a result, Nepal became more dependent on India for commerce, with India's share of Nepal's imports increasing from 22.39% to 58.06% and its part of Nepal's exports increasing from 16.15% in the 1990s to 59.04% in the 2000s. Nepal's foreign policy was further altered by the return of democracy in 1990, which resulted in improved commercial ties with India. These were formally established in June 1990 by a joint communiqué that resolved security issues and reopened transit routes. Nepal has aimed to balance its international commitments while managing regional geopolitical dynamics by fortifying its relationships with China in an effort to broaden its diplomatic network.

Nepal's economic liberalization has made it necessary to strike a balance between preserving economic autonomy and diplomatic relations with China and India. India's closeness and integrated connection with Nepal continue to strengthen its reliance on China, even in spite of greater engagement with China for energy and infrastructural development.

Bilateral trade agreements, economic diplomacy programs, and trade treaties with China and India were all part of the Nepali Congress government's post-liberalization foreign policy stance. While preserving autonomous commerce with China, the 1991 trade and transit deal renewed economic links with India. However, additional vulnerabilities brought up by economic liberalization include political discussions over alignment with long-standing connections and diplomatic sensitivities with India.

Conclusion

Since its establishment, the Nepali Congress has consistently upheld democratic socialist values in its foreign policy. This paper examines the party's foreign policy since 1990, focusing on the influence of B.P. Koirala. Building on Koirala's principles, the party's policies emphasize world peace, disarmament, neutrality, and human rights. Driven by political and territorial security concerns, the Nepali Congress aims for international recognition as an independent democracy and seeks global support for its democratic movements. The International Relations Department, responsible for research, policy formulation, and diplomatic coordination, has been inactive since the 13th national convention, leading to a lack of regular updates on international matters. Therefore, to improve its international presence, the Nepali Congress must restore this department and analyze foreign policy through important documents such as national convention policies and election manifestos. Future research should explore its relationship with India and stance towards China.

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