

Foreign Trade as a major aspect of National Security: Does it apply to Nepal?

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Abstract

National security encompasses safeguarding a state in every aspect—from protecting fundamental values, democratic principles, and societal well-being to ensuring the security of citizens and the integrity of borders. It involves defending territory, maintaining stable economic relationships globally, preserving the functioning of governance institutions, and securing national secrets. National security is intertwined with concepts like national interest, power, and stability. Economic security, which entails having sufficient financial and other resources to live comfortably now and in the future, is a crucial component. It includes job stability, financial sufficiency, and preparedness for unexpected expenses. Without economic security, other forms of security are incomplete. This article explores the empirical concept of national security and its dependency on economic status, with a particular focus on trade.

Keywords: national security, national interest, economic prosperity, trade, human security

Introduction

National security is a condition where the most cherished values and beliefs of a state, its democratic way of life, institutions of governance, and unity, as well as the welfare and well-being of its people, are permanently protected and continuously enhanced. It involves preserving the nation's physical integrity and territory, maintaining its economic relations with the rest of the world on reasonable terms, safeguarding its institutions and governance from external disruptions, controlling its borders, and protecting its secrets and citizens. National security emphasizes the overall security of a nation and a nation-state (Hussain, 2023).

Experts often disagree on the exact definition of 'security.' Walter Lippmann, one of the earliest to define it, stated that a country is secure when it does not have to sacrifice its rightful interests to avoid war and can defend itself if necessary (Wagle, 2009).

National security involves protecting a country from threats, whether external or internal. This includes safeguarding its sovereignty, borders, laws, economy, technology, military, society, food supply, and information, and defending against activities like espionage, terrorism, and other crimes

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by foreign entities or groups. Nepal, with its strategic location in South Asia, has experienced attempts by its neighbors to influence its domestic policy, especially during major political events (Baral, 2021).

The traditional meaning of national security involves protecting and securing the physical survival of the state from external military threats, particularly defending territory from foreign invasion. Over time, this concept has been redefined and expanded to include various non-military dimensions such as health, economics, environment, and social stability.

The key questions underpinning national security are: Whose security is being addressed (referent object)? And security from what threats? (Paudel, 2021). The concept of national security rose to prominence during the Cold War, primarily shaped by Realist perspectives. In the early 1990s, the concept of human security emerged, placing individuals at the center of security strategies. In essence, national security encompasses the protection of life, liberty, happiness, and prosperity of a state's populace.

Security studies involve exploring the nature, causes, effects, and prevention of war. National security means ensuring a country is safe from various threats, both external and internal. This includes protecting its sovereignty, borders, laws, economy, technology, military strength, society, food supply, and information from espionage, terrorism, and other criminal activities by foreign entities or groups (Markina, 2018).

Major Dimensions of National Security

The dimensions of national security are dynamic and vary from country to country, influenced by their unique contextual features (Pokhrel, 2021). Common and significant sectors include geography, history, economy, socio-culture, environment, human resources, and information technology. However, certain dimensions are globally recognized as critical components of national security: Military Security (Protection against external military threats), Political Security (Stability and integrity of political institutions), Economic Security (Stability and resilience of the national economy), Energy Security (Access to and protection of energy resources), Effective Diplomacy (Strong international relations and diplomatic engagements), Cyber Security (Protection of information technology and data systems), Media Security (Ensuring responsible and secure communication channels), Food Security (Reliable access to sufficient, safe, and nutritious food), Health Security (Protection against health crises and pandemics), Empowerment of Women (Ensuring gender equality and empowerment), Environmental Security (Protection and sustainable management of natural resources), Personal Security (Safeguarding individuals from physical violence), Community Security (Strengthening community resilience and cohesion). Above mentioned areas are critical components of national security and integral to the broader concept of human security (Wagle, 2009).

National security dimensions can be classified into military and non-military dimensions. Until the mid-20th century, national security primarily focused on military security. Over time, the concept expanded beyond what armed forces could achieve. For instance, in 1947, the United States created the National Security Council to advise the president on integrating domestic, foreign, and military policies for national security. This practice has since been widely adopted globally. Similarly,

Nepal's National Security Policy of 2016 defines national security as fully protecting the country in all areas: geography, society, economy, and politics. Each country prioritizes its goals and essential interests, shielding them from external interference and internal problems while ensuring their enhancement and support. A National Security Policy is thus a comprehensive plan covering all measures a country takes to keep its people and land safe (Government of Nepal, 2016).

In this context, addressing issues like poverty, disease, violence, inequality, unjust systems, and exclusion is crucial for a comprehensive national security perspective. Moreover, the policy aims to address and maintain the state's diversities (Sharma, 2023).

Fundamental Elements of National Security

While we can enumerate major dimensions of national security, there exist fundamental elements that lie at the core, significantly amplifying national security. These elements simultaneously pose the most crucial challenges we face as a nation and people. They include: Socio-Political Stability (Ensuring stability in social and political structures), Territorial Integrity (Safeguarding the nation's borders and sovereignty), Economic Solidarity and Strength (Maintaining a resilient and robust economy), Ecological Balance (Preserving the environment and natural resources), Cultural Cohesiveness: Promoting unity and harmony among diverse cultural groups, Moral-Spiritual Consensus (Upholding shared values and ethical principles), External Peace (Fostering peaceful relations with other nations).

Additionally, important measures to ensure national security encompass diplomatic efforts to rally allies and isolate threats, leveraging economic power to foster cooperation, maintaining effective armed forces, implementing civil defense and emergency preparedness measures (including anti-terrorism legislation), ensuring resilience and redundancy of critical infrastructure, utilizing intelligence services to detect and counter threats, and protecting classified information using counterintelligence services or secret police to safeguard against internal threats.

Factors Affecting National Security (Security Threats)

Numerous factors actively impact a state's national security status from various angles and forms, often categorized as security threats. These threats may vary in nature and context from one country to another. Highly influential security threats include:

- Geographical considerations such as border status, surrounding states, and access to the sea (Acharya, 2019).
- Political instability and inter-party relations, religious, social, cultural, and ethnic extremism.
- Challenges to constitutional and legal frameworks, as well as interests of neighboring and other states.
- Economic factors such as poverty, unemployment, exploitation of natural resources, and energy supply disruptions.
- Natural disasters, environmental degradation, and climate change impacts.
- Criminal activities including human trafficking, smuggling, border encroachments, and transnational crimes.

- Challenges related to VVIP security, gender-based violence, misuse of media, corruption, fiscal crimes, and revenue leakage.

Nepal's National Security Policy identifies threats such as political instability, law and order challenges, socio-economic issues, and disaster-related challenges (Government of Nepal, 2016).

These threats can broadly be classified as internal and external, and the maintenance of national security depends on how effectively a state addresses them through the previously mentioned major dimensions of national security.

The Societal Perspective on Security

According to experts in political science and sociology, security is a fundamental aspect of society. It encompasses ensuring the safety and well-being of individuals and communities physically, mentally, emotionally, and financially compared to others and the surrounding environment. Security is essential both within societies and globally, encompassing the protection of a country's interests and values (Grizold, 1994).

National Security Perspectives and Issues in Nepal

National sovereignty, territorial integrity, and security are paramount concerns for any independent nation, and Nepal is no exception. Given Nepal's geopolitical sensitivity and strategic positioning, national security has consistently been a cornerstone of its governance (Sharma, 1986). The discourse on national security traces back to Prithvi Narayan Shah's teachings, known as Ditya Upadesh, which advocated for a defensive stance (Thakur, 2001). Subsequently, during the era of Jung Bahadur Rana, an aggressive policy was adopted. Notably, Nepal has maintained peace since the Sugauli Treaty with the British Empire. The proximity to two dynamic neighbors alone underscores the importance for Nepalese security authorities to prioritize diplomatic engagements over military escalation. Embracing a defensive security doctrine concerning its immediate neighbors remains pertinent for Nepal. Furthermore, key historical events such as the post-Rana period, King Mahendra's strategic principles, King Birendra's "zone of peace" initiative, security strategies in the democratic era, the Maoist insurgency, and the subsequent transition to a republic have all significantly shaped Nepal's national security policies over time (Wagle, 2009).

Nepal should refrain from joining any security groups that could jeopardize its security or complicate its relationships with other countries. As one of the founding members of the non-aligned movement and considering its geographical challenges, Nepal should prioritize its own security over its neighbors' concerns and maintain neutrality in its foreign policy to safeguard itself (KC, 2024).

Economic Security: A Prime Factor of National Security

Economic or financial security refers to the condition of having stable income or resources to sustain a standard of living both presently and in the foreseeable future. It encompasses employment security, predictability of future cash flows for scheduled or unforeseen expenses, and plays a crucial role in overall security. Economic security of individuals and the state are interdependent. In today's intricate system of international trade, characterized by multinational agreements and mutual

interdependence, the freedom to pursue desired economic policies is essential for national security. Economic security involves not only protecting the economy's capacity to provide for the people but also ensuring the government and the populace have autonomy over economic and financial decisions. Nepal has recognized national security issues as encompassing economic dimensions (Paudel, 2021).

Ultimately, economic security entails economic policies, infrastructure development, enforcement agencies, and implementation of activities aimed at economic growth, development, and overall prosperity to defend the nation against seen and unseen threats. Economic prosperity, typically defined by economic growth, full employment, low inflation, high investment levels, and productivity improvements, contributes to economic security by reducing uncertainty about continued economic well-being (Neu, 1994).

The Role of Economy in National Security

Without capital, industrial infrastructure, production, employment opportunities, and equitable distribution of resources, all efforts toward national security would be incomplete and of little value. The national security strategy of the United States in May 2010 underscored the importance of the economy in national security. It stated:

We must renew the foundation of America's strength. In the long run, the welfare of the American people will determine America's strength in the world, particularly at a time when our own economy is inextricably linked to the global economy. Our prosperity serves as a wellspring for our power. It pays for our military, underwrites our diplomacy and development efforts, and serves as a leading source of our influence in the world.

(National Security Strategy of the United States, May 2010)

Components and Outcomes of a Strong Economy

To maintain reliable national security amidst various threats, certain components are essential for a strong economy. These components, widely acknowledged or accepted globally, include:

- Industrial development and production capacity ratio
- Approved or committed foreign direct investment (FDI) and its realization
- Base, pattern, and trend of foreign trade
- Components of GDP, including service sectors and their contribution, subject to changing orders
- Agricultural production and its contribution to supply chain resilience

A state equipped with these components can achieve notable outcomes in terms of national security, such as employment availability, self-reliance in various goods, export promotion, import substitution, external sector stability with sufficient foreign exchange reserves, and ultimately prosperity through trade surplus and enhanced soft power (Adhikari, 2024).

Macro-economic variables have a dynamic and comprehensive impact on national security. Therefore, analyzing and improving the relationship among these variables is crucial for reliable and sustainable national security. Inefficiencies in economic factors directly affect individual vulnerability to national security risks.

The Role of Trade in Achieving a Strong Economy

A strong economy cannot be achieved without effective trade practices. Trade is considered the process through which all major components of a strong economy contribute to the prosperity and dimensional power of the state. Production, industry, innovation, startups, value addition, agriculture, demand and supply, all these are means to achieve self-dependency, trade surplus, external sector stability, and economic growth.

Trade ultimately leads to self-dependency, trade surplus or import substitutions, external sector stability, sufficient foreign exchange reserves, improvements in major socio-economic indicators, economic growth, development, equitable distribution, and prosperity. At this juncture, a state attains a level of strong preparedness against any threats, with high morale, national prestige, and effective negotiating power on the international stage.

Economic security encompasses a state's economic well-being, stability, and various factors contributing to the resilience and protection of its economy (Adhikari, 2024).

International Trade and National Security: An Interconnected Relationship

The connection between international trade and national security dates back to the establishment of the General Agreement on Trade and Tariffs (GATT) in 1947. Since then, national security concerns have been central to trade disputes, with some countries imposing trade sanctions on others without mutual agreement, citing national security reasons (Sohn and Yeo, 2005). Researchers have extensively examined how trade sanctions imposed for national security reasons align with the rules of organizations like the World Trade Organization (WTO) and the United Nations (UN). National security considerations are also embedded within free trade agreements (FTAs) and domestic laws in individual countries. FTAs generally acknowledge the importance of national security in economic integration and allow for exceptions based on security concerns. Notably, countries like the United States have significant laws and regulations controlling exports and imports to safeguard national security interests, setting a precedent in this domain. South Korea and the United States, in particular, have notable laws and regulations that impact international trade (Andreas, 2002).

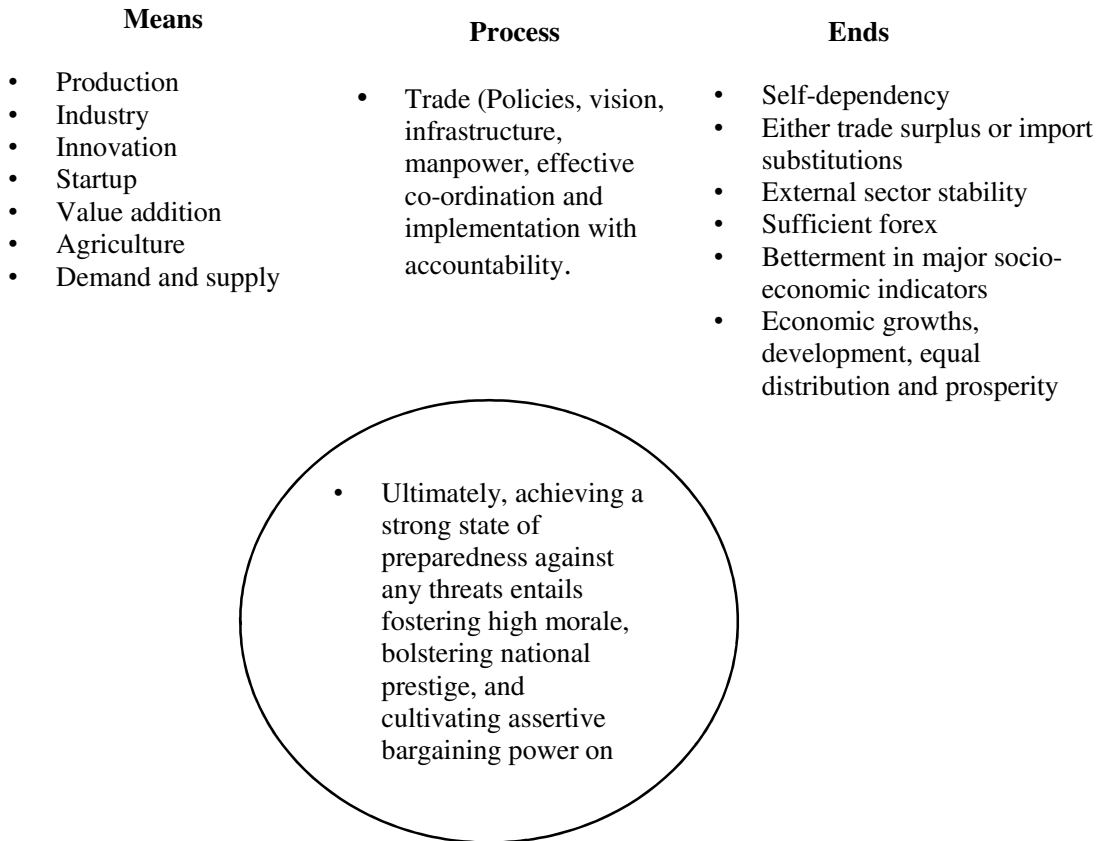
The relationship between international trade and national security, while seemingly contradictory, is complementary in reality. However, critical questions arise regarding the extent of their connection, their practical synergy, and the adequacy of institutional frameworks. Understanding this relationship entails exploring how national security influences international trade and how international trade, in turn, bolsters national security. This dynamic is indispensable for both realms (Sohn and Yeo, 2005).

The Impact of Trade Rules on National Security

Multilateral, bilateral, regional, sub-regional, and national trade rules significantly affect states' international trade, either by supporting or competing with one another. Countries endowed with strong industrial capacities and high export levels can forge ahead, leaving those without such capacities behind. Trade surplus nations can achieve economic prosperity and maintain national security in a hegemonic world. The field of international political economy (IPE) encompasses the sustainable use of resources and advocates for equal access and distribution of resources. The economic aspect of trade and overall economy directly and indirectly influences the national security of any state, highlighting the intricate interplay between trade and security (Adhikari, 2024).

Connection of trade with other economic components regarding national security

A robust economy cannot be achieved without effectively harnessing the power of trade. Trade is recognized as the mechanism through which all key components of a strong economy converge to foster prosperity and enhance the dimensional power of the state.



How Dependency impacts on Nepal's National Security

The preceding sections of this paper have primarily focused on analyzing the diplomatic, political, and socio-economic impacts on global communities as a whole. However, addressing the economic implications of dependency, with a special reference to Nepal, is crucial. Let's examine the example of the Ukraine crisis. While some economic parameters have been mentioned earlier in this paper, it's essential to delve deeper into the economic scenario.

Before the crisis, the effect of the Omicron variant was gradually decreasing, and vaccination rates were increasing, leading towards normalization. Economic activities were on the rise, with aggregate demand for goods and services increasing, and the supply side functioning smoothly. Most basic necessities and luxury items were being imported, and the price of diesel stood at Rs. 128 per liter, with petrol at Rs. 145 per liter. This provided a general glimpse of Nepal's economic and trade situation, with the economy expected to move in a positive direction.

Relative to its size, Nepal has a small economy that is heavily reliant on the global platform, necessitating the importation of various goods and services from different countries, which accounts for more than 90 percent of total foreign trade (NPC, 2022). Its internal production and nominal exports cannot meet the demands of the population, leading to various dimensional effects and problems directly and indirectly caused by crises.

Before the war, the global economy had appeared to rebound after the Covid crisis, including Nepal. Despite rapidly increasing demand, the prices of crude oil, metals, food crops, and other commodities rose due to weak supply mechanisms, exerting a deep and dimensional impact on the global and Nepalese economies. The price of crude oil skyrocketed in the international market, with diesel reaching Rs. 172 per liter from Rs. 88 per liter within a year. Many other goods became more expensive as Nepal imports almost all consumed goods from different countries, including Russia and Ukraine. More than 20 countries banned food exports to prioritize their own populations, exacerbating shortages and price hikes.

Specifically, the prices of food items, beans, pulses, soybean oil, and raw materials for oil increased, making the overall supply more expensive. With major wheat suppliers like Russia and Ukraine engaged in war, Nepal, which imports over 95% of sunflower oil from Ukraine, faced disruptions and price hikes. During the conflict, over 46 countries imposed more than 8000 restrictions against Russia, attempting to isolate it from the global system. This not only rendered large reserves of gold and foreign exchange in Russia passive but also halted the use of oil, gas, and coal. Such disruptions in the supply chain put pressure on the rest of the world, including Nepal.

African countries, which import large quantities of wheat from Ukraine, also faced shortages and price hikes. According to the UN, some countries began to experience food crises during and after the conflict. These scenarios have not only affected the foundation of Nepal's economy but also disrupted the supply chain, leading to shortages and high prices of goods (NPC, 2022).

Possible Effects of Dependency on the Future

Given that Nepal imports more than 90 percent of its total trade and relies on import-based revenue, the availability of various goods, services, and resources will be affected by disturbances at the source, especially in Russia, Ukraine, and other Western countries. The ongoing wars in different parts of the globe show no signs of abating, causing uncertainty and leading to increased prices, shortages of energy, and wasteful use of resources, all contributing to an unfavorable trading environment. Consequently, not only the global system and many developing countries, but also Nepal, will likely face numerous unwanted political-economic challenges in the future (PRI, 2022).

Specifically, the availability of oil, a major energy source, may decrease, resulting in an overall price hike. This would sharply increase the prices of goods and services, including basic necessities, potentially leading to scarcity and a heightened risk of food crises and hunger. Furthermore, the disruption of major development projects worldwide could decrease global economic growth, while daily life and supply chains may encounter disturbances and uncertainties (NPC, 2022).

Trade: A Pillar for National Security - Does Nepal Apply It?

As discussed earlier, trade serves as the means to achieve prosperity, which is crucial for ensuring reliable national security. However, Nepal faces a significant trade deficit with high dependency on imports, including essential items such as energy, machinery, vehicles, and construction materials, all considered lifelines for the people and the state. Moreover, Nepal lacks strategic goods and services for self-dependency or export, leaving it vulnerable to global uncertainties, be they due to war, economic fluctuations, or natural disasters. Remittances, a major source of foreign exchange, are also volatile and subject to disruption. Additionally, key components of GDP, such as agriculture, services, and industry, have been neglected, failing to contribute to resilient trade. Given these weaknesses in Nepal's trading system, how can it contribute to a comprehensive and reliable national security perspective?

Enhancing Trade for National Security: The Way Forward

While numerous elements, dimensions, and factors contribute to national security, trade-supported economy stands out as a major aspect for peaceful advancement, devoid of war or physical tension, primarily relying on diplomacy. For a robust economy and trade, a state must enhance its infrastructure, policies, mechanisms, resources, ICT capabilities, and coordination efforts to utilize its full potential. In summary, the following steps can be taken:

1. Increase the productivity of existing industries.
2. Establish mega industries strategically, focusing on sectors like forestry, agriculture, and high-imported goods.
3. Promote activities such as quality assurance, marketing, branding, and competitiveness enhancement for existing and potential export goods.
4. Expand market reach and trade intelligence for diversification.
5. Enhance service trade, particularly in sectors like ICT, tourism, and hydro.
6. Assess the quality and value of goods.
7. Engage in trade negotiations for preferential market access and other trade agreements.

8. Enhance the capacity of producers, exporters, governmental, and non-governmental agencies, as well as diplomatic missions.
9. Emphasize the productivity of Nepalese industries and agriculture at all levels of government by providing necessary support.
10. Address the needs of Micro, Small, and Medium-sized Enterprises (MSMEs) to foster their development and increase their numbers (Adhikari, 2024).

Special attention and incentives should be directed towards all production sectors with high potential to meet demand and contribute to exports. Customs duties and excise taxes on industrial raw materials should be lower than those on finished goods. The government should mandate the consumption of domestic products whenever possible, even if they are more expensive up to a certain threshold. Policies promoting clean and green energy (such as electricity, wind, and solar) should receive tax relief to encourage greater adoption. Unused land should be effectively utilized through coordinated efforts among federal agencies. Entities like the Food Management & Trading Company Ltd. and related public authorities should take a leading role in the trade of essential goods such as rice, oil, sugar, salt, and pulses. Additionally, the government should establish buffer stocks of basic goods for emergency purposes in each province in collaboration with the private sector and other stakeholders (NPC, 2022).

According to data from the Department of Customs, two-thirds of Nepal's total foreign trade is with India. Nepal should diversify its international trade beyond India based on its existing potential and leverage various preferential market facilities (Ojha, 2011).

To succeed, Nepal must update its laws, enhance product quality, and invest in better infrastructure. It should focus on its strengths in production and involve more people, especially women and vulnerable groups. Trade extends beyond goods to services like tourism and IT, offering additional opportunities. Nepal needs to create an attractive investment environment and protect intellectual property rights. While trade is crucial for stability and prosperity, peace is equally vital. Nepal requires a stable government to foster economic growth through trade. Poorer countries require special assistance to compete in global trade and weather crises. Safeguarding trade is imperative for vulnerable economies during challenging times (Ojha, 2011).

Conclusion

As previously discussed, trade serves as the conduit for prosperity, essential for reliable national security. However, Nepal faces significant trade deficits and high import dependency, especially for critical goods like energy, machinery, vehicles, and construction materials. Nepal lacks strategic goods and services for self-sufficiency or export, hindering its ability to negotiate and shape global/regional orders. Remittances, a major source of foreign exchange, are volatile and susceptible to global uncertainties. Key GDP components, such as agriculture, services, and industry, have been neglected, failing to contribute to resilient trade. Consequently, Nepal's trading system is weak and far from the desired level of self-reliance, leading to limited bargaining power in negotiations due to multiple dependencies. To address this, Nepal must strengthen its economy, promote prosperity, and reduce dependency levels. Thus, Nepal must take significant steps to leverage trade as a primary pillar for national security by achieving economic strength, prosperity, and minimal dependency levels.

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