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## Economic Security at the Pivot of National Security: Foresight into Nepal's Headway

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### Abstract

*To what extent does a nation's economic security drive its holistic security framework? The existing literature on national security highly concentrates on conventional military security, with the triviality of other dimensions of national security failing to gain adequate foreground in the academic debate. Traditionally, the economic dimension of national security was associated solely with defence spending, demonstrating the defensive orientation. Meanwhile, the economic power was just there to ensure the conventional security approach of militarization. While observing the definition of security from a broader vantage point, the intricate and complex interplay between national security and the economy can be underscored. Against this backdrop, this paper attempts to demonstrate how the perspective of national security has evolved to incorporate the economic dimension of national power and security. The objective of this paper is to unfold the ever-growing significance of economic security and portray it as a prerequisite to other forms of security, including military security. Thus, this article systematically understudies the relationship between economics and security, particularly in the case of Nepal, while positioning and forecasting Nepal's economic security and recommending actionable measures. The qualitative research approach, employing secondary data from academic books, journal articles, research reports, working papers, and newspaper articles, examines how a robust economy is crucial for sustaining and leveraging other national power elements, with military prowess no exception. Methodologically, the research study stresses the cases of advanced economies and the poorest economies globally through a nomothetic explanation to oversee how their economic growth leads to advancement in military capability and holistic national security, gaining a positive momentum through a causative portrayal. The study finds that Nepal faces significant economic insecurity due to the debt crisis, reliance on aid, imports, remittances, capital deficiency, and underdeveloped sectors. To enhance economic security and safeguard national security, Nepal should focus on managing interdependence, leveraging its geostrategic position, and prioritizing economic diplomacy and capital investment guided by effective leadership.*

**Keywords:** *Economic security, military prowess, national security, security framework, causative*

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## Introduction

The overall security of states cannot be comprehensively and holistically studied from the individual isolated notions of military, economic, political, and environmental security; instead, it demands an integrated framework to oversee the broader aspects of security and the causative relationship among the wider aspects of national security. While observing the definition of security from a broader vantage point, the intricate and complex interplay between national security and the economy can be underscored.

The conventional approach to national security is analogous to territorial and military security. Scholars have historically overlooked the relationship between economics and security, which has resulted in economic security being given lower priority in scholarly and policy domains (Mastanduno, 1998; Steinberg & Wolff, 2023). Likewise, Luciani (1988) states that traditionally, the economic dimension of national security was associated just with defence spending, demonstrating the defensive orientation, while the economic power was just there to ensure the conventional security approach of militarization, which means ensuring the existence of a powerful defence mechanism, i.e., a powerful army, at all times. Later, such a conventional approach to military and territorial security expanded to embrace other forms of security previously overlooked. Moreover, economic security has proven to be the central element in the broader national security framework. Securing the economy would strengthen other security areas, including military, political, societal, and environmental security.

Economic concerns are now increasingly prominent on global political agendas owing to the extreme interconnectedness and interdependence among countries in the globalized era where growth and survival in isolation and insulation are almost unimaginable. States are seen progressively pursuing power politics through economic tactics (either in the form of economic carrots or economic sticks), as observed in the employment of economic sanctions over military force by the Western economies in response to Russia's annexation of Crimea and Iran's nuclear program (Scholvin & Wigell, 2019). Therefore, economic power and security are essential for influence, negotiation, persuasion, and coercion within the global power dynamics.

Edward Luttwak, through his publication "From Geopolitics to Geo-economics (1990)," presents how geo-economics had replaced geopolitics as a critical global strategy by portraying the case of increased Japan's economic power, which was on the course of contesting US hegemony (Baracuhy, 2019). Wigell (2016) presented the case of the heightening relevance of economic power and security with the rise in geo-economics as a strategic practice where there exists an application of economic means of power by states to realize their geostrategic objectives, i.e., the geostrategic use of economic power. Geoeconomic power projection depends on a state's economic capabilities, as the economic power offers geostrategic clout in the backdrop of interdependence among states (Baracuhy, 2019). By integrating geopolitics and economics, the geoeconomic view underscores the criticality of economic leverage over military might for advancing national interests.

Huntington (1993, p. 72) states that "in a world in which military conflict between major states is unlikely, economic power will be increasingly important in determining the primacy or subordination of states." Recent times have seen the growing importance of economic security with events like the US-China trade war, the COVID pandemic, the Russia-Ukraine conflict, and the Middle East conflict, among others, disrupting the global supply chain (Liu, 2024) and

thereby posing threats to economies across the globe owing to high interconnectedness and high interdependencies in the globalized world.

This paper examines how economic prosperity and security form the foundation of a comprehensive national security framework and explores how improvements in economic security contribute to strengthening conventional military security. Despite its importance, there has been limited in-depth exploration of how economic security is a key component in national security and positively impacts other forms of security. Therefore, this article systematically examines the relationship between economics and security to understand how national economic security shapes a country's overall security framework, focusing on Nepal, positioning, and forecasting its economic security or insecurity.

### **Research Methodology and Conceptual Framework**

The article employs a qualitative approach to examine the significance of economic security within the broader national security framework. It employs secondary data sources, including academic books, journal articles, reports, newspaper articles, and web articles, to analyze how the scope of national security has expanded to include dimensions beyond the traditionally emphasized military aspect. Additionally, primary data sources, such as national security strategies and policy papers from various countries, including Nepal, are analyzed through content analysis to assess the presence of economic security considerations within these documents. The research study focuses explicitly on cases of advanced economies such as the USA, China, Russia, Japan, and others to investigate how their economic growth has driven advancements in military capabilities and other facets of national security. Additionally, countries with poor economic performance on a global scale are also examined to identify any such relationship. The cases of the above countries are explicitly examined to explore any potential relationship between the economy, military spending, and their overall impact on national security. The research explores a causal relationship, particularly between economic and military security, while analyzing the cases of multiple countries based on the SIPRI report. A nomothetic explanation, which involves a generalized analysis of cases related to the importance of economy and economic security for military and overall national security, offers a basis for a broader understanding of the abovementioned cases. The basic idea of the research is to conceptualize security from all fronts while describing how security used to be perceived traditionally and how it broadened over time with scholarly contributions that have responded to evolving international dynamics.

The discussion and analysis focus on the framework of national security and how the complex and intricate interplay and relationship between the multiple dimensions of national security determine such a framework while observing the causative relationship between economic security and military security. Nepal's case is analyzed in depth, first assessing its economic security or insecurity. It is supported by data on various economic aspects such as trade, aid, debt, remittances, and its geostrategic position. Along with this analysis, predictions are made regarding Nepal's future regarding economic security and overall national security while offering actionable recommendations for how the country could progress.

## Review of Literature

From the earliest civilizations to the formation of modern nation-states and beyond, the concept and understanding of security have undergone significant evolution. While various forms of security for people, communities, and city-states have existed throughout history, the notion of national security emerged with the Peace of Westphalia in 1648, which introduced the concept of the nation-state. The relationship between national security and economics can be traced back to ancient Greek civilization, which consisted of numerous city-states.

Friedberg (1991, p. 265), in an attempt to portray the national security-economy dynamics in the ancient Greek period, states:

Since Athens taxed its empire to raise a fleet against Sparta, there has been a strong connection between wealth and military power and, therefore, in the most simple and direct way, between economics and national security.

As the concept of national security evolved to encompass various dimensions beyond the traditional military aspect, scholars have debated the relationship between economic security and military security within the national security framework. In *The Wealth of Nations*, Adam Smith, the father of economics, explores the relationship between “opulence” and “defence” as such, opulence (economics) is subservient to defence (national security) (Sheehan, 2005). Likewise, Barnhart (1987, p. 18) put forward the need for economic security for states in years forward, at the advent of World War I, and presents that:

Future wars would be fought not only with guns but with the entire resources of nations, from engineers to doctors, cotton to iron ore. Without these requisites of economic security, the mightiest army would be paralyzed. And without a modern industrial base that could be mobilized in a time of need, even these requisites would prove useless. A nation that could not supply all of its own needs in wartime, a nation that was vulnerable to economic pressure from other nations, would be neither truly secure nor truly sovereign.

The realist perspective on national security demonstrates a conventional notion of security, which states that military interests will always take precedence over economic ones (King, 2018). They further argue that economic interdependence could be a conflictual source in the event of unequal powers and asymmetric distribution of costs and gains of interdependent relationships (King, 2018). On the other hand, the scholarly writings of Hugo Grotius, who championed liberalist ideas, provide a strong relationship between economy and security, where economic means and resources provide for security (Retter et al., 2020; Salter, 2001). Huntington (1993) notes that economic power will hold greater prominence in determining the primacy or subjugation of states in situations where the likelihood of military conflict is improbable. From these perspectives, we can infer the existence of a relationship between military security and economic security. However, we cannot determine which form of security takes precedence over the other.

In addition to the debate over which form of security holds more importance, some scholars emphasize the need for both military and economic security within the broader national security framework and the complex interplay between varied forms of security. Kautilya’s *Arthashastra* advocates for the multidimensional nature of national security, incorporating economic prosperity, societal stability, ideological values, and environmental and food security apart from conventional military strength (Ghimire & Lamichhane, 2024). In addition,

underscoring the role of economic security, Kautilya presents that “Man, without wealth, does not get it even after a hundred attempts. Just as elephants are needed to catch elephants, so does wealth capture more wealth” (Ghimire & Lamichhane, 2024, p. 66). Barry Buzan explores the diverse elements of a larger security equation encompassing military, political, economic, social, and ecological security in his seminal 1983 publication, “People, States, and War.” In his article “New Patterns of Global Security in the Twenty-First Century,” Buzan presents different security dimensions, including political, military, economic, societal, and ecological, and these aspects should instead be observed as having intricate interlinkage among them (Stone, 2009). Barry Buzan stresses how the military threat was the most pressing issue concerning national security, as it can impact states at many levels. On the same line, he also recognizes the threats posed to political, economic, societal, and ecological domains, ultimately bringing changes to the national security framework. Buzan (1991, p. 368) mentions:

The 'national' security problem turns out to be a systemic security problem in which individuals, states, and the system play a part and in which economic, societal, and environmental factors are as important as political and military ones. From this integrative perspective, the levels and sectors appear more useful as viewing platforms from which one can observe the problem from different angles than as self-contained areas for policy or analysis.

Retter et al. (2020) present that prior to the conclusion of the Cold War, security was understood through a traditional perspective, i.e., a realist perspective on state conduct and the nature of international warfare (Retter et al., 2020). However, after the Cold War with the bipolar rivalry between Western and Eastern blocs coming to an end, the scholarly field has broadened the concept of security to better account for emerging trends of globalization that emerged in the 1990s, which brought on other forms of security concerns into the national security framework (Retter et al., 2020). Similarly, Rothschild (1995) emphasizes that the concept of security broadened to encompass previously overlooked facets of security, such as political, economic, social, environmental, and human security, to form a holistic conceptual approach by integrating the previously ignored aspects with conventional military security.

The importance of the economy and the prioritization of economic security have increased as countries recognize the need for a strong and resilient economy to survive and thrive in today’s globalized world. Ahmad (2012) states that even a nation with an ideal geographical setting and abundantly bestowed natural resources needs to have a robust and sustainable economy to operate its military, feed its population, and exploit its resources while still upholding the integrity of its borders and going beyond the mercy of other countries to ensure its survival and growth. The then-Union of Soviet Socialist Republics (USSR) was one of the world’s most powerful militaries; it controlled the “heartland,” which Mackinder asserted was a prerequisite for world supremacy; it was nearly self-sufficient in natural resources; however, it eventually collapsed owing to its failure to sustain a strong economy (Ahmad, 2012, p. 94). Hence, an economic downturn has the extreme possibility of triggering insecurity, and the opposite is the case when overall national security strengthens with the establishment of a strong economy. Economic aspects, including a state’s ability to manufacture goods like steel and iron, its possession of technology and raw materials, and its production capacity, have long been regarded as significant indicators of national power (King, 2018, p. 24). Now, these economic aspects have broadened to incorporate global flows of goods, services, capital,

information, technology, and more with the introduction of a multitude of actors in the global arena, which impact the functioning and national security of the states.

Economic power was viewed as a means to support a traditional security approach centered on militarization—ensuring a strong defence system, including a powerful army (Luciani, 1988). The economy impacts national security in two folds: by influencing the internal functioning of society and dictating a country's geopolitical stance in a global order (Retter et al., 2020). Most of the existing literature focuses on the traditional notion of security, particularly territorial and military security, as key components of national security. While some earlier works touched on economic security, they did not provide a detailed analysis. After the Cold War and with the academic contributions of the 21st century, the importance of economic security proliferated. However, there has been little in-depth exploration of how economic security is a central element in the national security domain and positively influences other forms of security. Therefore, this article systematically understudies the relationship between economics and security to examine how national economic security drives a country's holistic security framework, particularly in the case of Nepal, while positioning and forecasting Nepal's economic security/insecurity.

## **Discussion and Analysis**

### ***Tracing the ideas of Barry Buzan***

According to Buzan (1991), the state constitutes three significant components: the idea of the state (nationalism), the physical base of the state (people, resources, and technology), and the institutional framework of the state (political and administrative system). The resources and technology within the physical base directly reflect the economic resources available, which in turn bolster the institutional framework as economic resources are directed towards these establishments. As a result, national security is enhanced, ultimately reinforcing the state's sovereignty and integrity. Additionally, a state's overall security can be inferred from its economic security, as it is evident from the cases of developed and developing countries how it paves the path for attaining other forms of security (Stone, 2009). Economic security fortifies the institutional structures of politics, administration, and the military, creating pathways to ensure comprehensive national security. The concerns for sustainable development, citing the need for future generations and the economic problem of resource scarcity, have gained massive momentum in recent times. Investments in environmental efforts can only be facilitated when a country is economically strong and requires less worry about other national issues. Hence, economic security is imperative to national security as it boosts all other dimensions of national security, like political, social, and environmental, which have a spillover effect on the strong economic sector.

Buzan speaks highly of the imperative connection between military and economic security. Greater economic productivity allows the allocation of productive resources into the military sector and enables military personnel to become more productive owing to advancements in military technology, high levels of education, and positive ethics and skills (Knorr, 1992). Furthermore, military equipment is highly sensitive, and specific armaments may not be available easily in the global market or require complex political bargaining with the supplier state. This problem becomes more severe when a state has to depend mainly on

imported military goods, owing to the inability of the state to initiate its production (Knorr, 1992). Hence, a prosperous economy can expand its production lines along with military goods, thereby lessening the dependence on other states to import armaments.

***Established Recognition of Economic Security in the National Security Framework: Global Perspective***

Numerous countries worldwide have formally incorporated economic security into their national security framework in recent years, with the increasing significance of economic strength as a key instrument of diplomacy, influence, persuasion, negotiation, and coercion in global affairs. The United States has consistently emphasized the importance of its economy as the cornerstone of its continued growth and global significance. This focus on economic security gained heightened significance during Donald Trump's presidency, as nations such as China, India, Japan, Russia, and other emerging economies sought to challenge America's global supremacy, posing potential threats to its national security on multiple fronts. The United States National Security Strategy 2017, unveiled during the Trump presidency, explicitly asserted that "economic security is national security (White House, 2017, p. 17), underscoring economic security as a measure to protect American citizens and preserve American power. Furthermore, the White House documents released during the Trump regime state that a strong, vibrant, and innovative American economy is a prerequisite to sustaining the world's strongest military and securing its nation against potential threats. The succeeding Biden administration adopted a similar stance on economic security, as reflected in the 2021 Interim National Security Strategic Guidance document (Benson et al., 2024). Hence, the United States, the largest global economy, has always prioritized maintaining economic security to bolster its overall national security further.

Japan remained the world's second-largest economy until 2010, when rapidly growing China surpassed it. Japan's centrality to its economy and holistic growth has remained commendable since facing setbacks during the Second World War. Following the establishment of the economic division branch in the National Security Secretariat in April 2020, Tokyo passed the Economic Security Protection Act in May 2022, making Japan what the European Union referred to as the 'early bird' of economic security legislation (IISS, n.d.; Jochheim, 2023). The European Union, a highly successful and exemplary regional integration, is home to some of Europe's largest and most advanced economies and has long been recognized for its economic prominence. Following such recent developments, the European Union, following Japan's lead, published an Economic Security Strategy in June 2023, which it then updated in January 2024 with initiatives to improve its economic security (Benson et al., 2024). South Korea, Japan's closest neighbour, during the Yoon Suk Yeol administration, unveiled the South Korean National Security Strategy in 2023 and identified economic security as one of five core tenets of national security (Lee, 2023; Rechtschaffen, 2024). The high recognition the Gulf countries hold at regional and international levels is all driven by oil-led economic clout. By using oil as a foreign policy tool within their energy diplomacy, the wealthier Arab economies have been advancing their national security goals. The wealthy Arab countries leverage their economic strength to invest in advanced military infrastructure and cutting-edge security technology. These trends in militarization are evident in skyrocketing defence budgets, a rise in

arms imports, and a strong focus on military training and exercises (Gaub & Stanley-Lockman, 2017, p. 7). Thus, the wealthy Arab countries perfectly illustrate how countries, by advancing their economic clout, can gain global influence and strengthen their holistic national security.

China's economic reforms and opening, beginning in the 1980s, paved a solid path toward development, enabling it to build a robust economy capable of competing with the United States in the race for superpower status. This economic growth has played a vital role in bolstering China's national security across varied domains. Corff (2018) noted that the Central Communist Party of China has listed multiple security aspects, including political, territorial, military, economic, socio-cultural, scientific-technological, information, ecological, resource, and nuclear securities, in its Comprehensive National Security. Furthermore, China leverages the global economy's finance, investment, and trade aspects to establish partnerships and influence developing regions of Asia, Africa, and Latin America (Scholvin & Wigell, 2019), thereby emphasizing the economic aspect more strongly. In recent decades, evidence indicates that China has transformed its economic achievements into enhanced diplomatic and military power, solidifying its position on the global stage and strategically competing with the United States across multiple fronts.

National security is significantly jeopardized when a nation is economically fragile, and its economic stability is highly vulnerable. Economically weak nations such as South Sudan, Burundi, the Central African Republic, Afghanistan, Syria, and Eritrea face heightened threats to their security, as evidenced by ongoing disorder, internal conflicts, civil wars, and terrorism (Ventura, 2024). Such chaotic internal conditions often entice unwarranted foreign aggression and intervention, further undermining the national security of these economically unstable states.

### ***Relation between Economics and Military: Klaus E. Knorr's View***

Klaus E. Knorr attempted to explore and unfold the multidimensional nature of military power through his seminal texts "The War Potential of Nations" and "The Power of Nations: The Political Economy of International Relations," whereby he highly emphasized the extensive role of material resources and economic capabilities towards military might along with the influencing factors in the form of political establishments, cultural predispositions, and morale, which guides the military power of a country (Bienen, 1992). Bienen (1992) discusses Klaus' perspective that a nation's military performance is not solely determined by military investment but also by factors like military intelligence, training, doctrines, and the ability to function under uncertainty. He highlights the importance of non-material aspects, such as political will, military statecraft, and cultural elements, in shaping military power. Bienen (1992) argues that these non-material factors, along with economic, industrial, and technological development, form the foundation of military strength, suggesting that economic strength is closely linked to military potential. While interlinking economic strength and military prowess, Klaus stated that military strength varies positively with the economy's growth rate.

### ***Economic Security for Strengthening Military Security: A Causation Approach***

Economic prosperity serves as the cornerstone of national military might since it enables the government to allocate higher funds for national military expenditure (King, 2018, p. 24). Tian et al. (2024, p. 2) present the United States, China, Russia, India, Saudi Arabia, the United



Kingdom, Germany, France, and Japan as the most significant military spenders in 2023. While looking into the list of countries with the largest economies in 2023 as measured in terms of their size of GDP, a similar list appears with the US topping the chart, followed by its rival China, Germany, Japan, India, the UK, France, Russia, and so on. Hence, the military burden has a direct proportional relationship with the economy. As per the SIPRI Fact Sheet, US military spending accounted for 37 percent of the global total military spending, but such expenditure was only 3.4 percent of its GDP (Tian et al., 2024), which highlights the gigantic economic size of the US economy, allowing for greater maximum spending as compared to other countries across the globe.

Similarly, China, the second-largest military spender, accounted for 12 percent of global military spending, yet this only represented 1.7 percent of its GDP. In 2023, Russia's military spending saw a significant 24 percent increase compared to the previous year, mainly driven by its economic growth and resilience, according to the SIPRI report. Additionally, Saudi Arabia, the fifth-largest spender, achieved this ranking due to its stronger economy, which was bolstered by its oil industry that thrived during the energy crisis triggered by the Russia-Ukraine conflict, as noted in the SIPRI Fact Sheet (Tian et al., 2024).

Since World War II, military power has evolved in its usage and utility with the development and advancement of nuclear weapons. The development and advancement of nuclear arms brought about the specialized field of nuclear strategy within military strategy. The annihilating effect of the nuclear arsenals significantly impacted global security dynamics and reshaped how nations perceive their security. According to Wilcock (1997), the deterrent capacity of nuclear weapons undoubtedly played an essential role in moderating superpower relations, keeping any tendency towards war in check. The nations in the so-called "Nuclear Club"—the United States, Russia, China, France, the United Kingdom, India, Pakistan, Israel, and North Korea—have consistently modernized their nuclear stockpiles with the introduction of Intercontinental Ballistic Missiles, Submarine Launched Ballistic Missiles, Air Launched Cruise Missiles, Heavy Bombers, and Missile Defense System, with advancements in the form of design, technology, and destructive capacity (Arms Control Association, 2024; Park, 2023). Other advancements in the form of satellite technologies and AI-based technologies are all crucial in the technologically driven era to keep a state's security as the top priority. Most such investments in nuclear power countries are mainly attributed to the ability of their economies to fund such extensive investments (Arms Control Association, 2024; Onyanga-Omara, 2016). Hence, a wealthier and more stable economy will forever serve as a financial sponsor to initiate and sustain nuclear advancement, which the major powers perceive as a crucial element of deterrence in the contemporary era marked by geopolitical tensions and great power rivalry.

In conclusion, whether it involves substantial investment in the military for acquiring modern weaponry, research and development, training, or skill enhancement programs, all of these demands highlight the need for a robust and resilient economy so that means and resources flow unconstrained in the military sector. The above reasoning underscores the strong connection between economic security and military security.

### ***Positioning Nepal's Economic Security/Insecurity***

According to the National Security Policy (2016), national security encompasses the comprehensive safeguarding of a country from geographical, social, economic, and political standpoints. The National Security Policy also identifies a weak economy, economic dependence on external entities, and other economic trends as significant challenges and threats to national security. Similarly, the directive principles and policies outlined in Nepal's Constitution emphasize establishing a sustainable and prosperous national economy, aiming for a self-reliant, independent, progressive, and socialism-oriented system.

Specifically, as regards to economic security as one of the key priorities, the National Security Policy (p. 17) states:

To achieve high economic growth and ensure just distribution of economic achievements through sustainable and appropriate mobilization of resources, having oriented the financial condition of the country towards progress and fulfilling basic needs of citizens and defending economic freedom.

Does Nepal possess the wherewithal to fund the defence expenditure as its giant neighbours and other affluent and influential economies? As stated in the SIPRI Military Expenditure Database, in the case of Nepal, the military spending for 2023 in local currency was measured at 58,84,50,00,000, which has been on a constant rise compared to the preceding years (SIPRI, n.d.). Such expenditure's share of GDP stood at 1.1 percent, and the share of government expenditure at around 4 percent (SIPRI, n.d.). Nepal's military investment appears insufficient, primarily due to its weak economic foundation, which limits its ability to strengthen its military capabilities.

With globalization reaching unprecedented heights in recent times, the strength of the linkage between the economy and national security has increased. However, Keohane and Nye brought forward the asymmetric character of interdependence, which eventually may result in bifurcation between autonomy and dependence whereby such power struggles between countries highly benefit those who are less dependent on others and who enjoy greater autonomy while the more dependent ones end up in the losing front (Fjäder, 2019). Additionally, on the same line, Jean Jacques Rousseau discussed interdependence and inequality as the factors responsible for emanating insecurity among states (Retter et al., 2020). Nepal's economy is heavily reliant on other countries, particularly its southern neighbour, India. Global economic disturbances and fluctuations significantly affect Nepal's economy, marked by aid dependence, import reliance, and remittance dependency. These factors pose substantial threats to Nepal's overall security. A notable example is the 2015 economic blockade imposed by India, which highlighted the vulnerability of Nepal's economy and its excessive reliance on India, leaving the nation severely weakened and its national security compromised on multiple fronts.

Recent global events, such as the COVID pandemic, the Russia-Ukraine crisis, the US-China trade war, and Brexit, have sparked debates about the retreat of globalization. However, the DHL Connectedness Report 2024 counters this claim, noting that globalization reached a record high with an index depth of 25 percent in 2022 and 2023 (Altman & Bastian, 2024). Nepal ranks 148th out of 181 countries, scoring 43, reflecting its weak global interconnectedness (Altman & Bastian, 2024, p. 21). Hence, it implies that Nepal's economy has not been able to leverage the benefits of globalization and has been more exposed to its threats.

Nepal's economy is characterized by excessive reliance on imports, foreign aid, remittances, a mounting debt crisis, and capital deficiency. Over the past decade, the country's imports of goods and services have consistently exceeded 30 percent of its GDP (Trading Economics, n.d.). The limited range of exportable goods, predominantly of low value, coupled with high-value and larger imports, has led to a persistent and widening trade deficit. In the fiscal year 2023/24 alone, Nepal recorded a total trade deficit of NPR 1,440.60 billion, maintaining trade deficits with 133 out of its 169 trading partners (Kafle, 2024). Additionally, there have been instances when the Nepali government implemented restrictive import policies due to a shrinking foreign exchange reserve owing to large imports.

Nepal's economy relies heavily on remittances, with the remittance-to-GDP ratio averaging 20 percent in recent years, a significant increase from just 1.92 percent in 1990 (Limbu, 2024). However, the inefficient use of remittances remains a persistent issue, as reports from CBS and NRB indicate that over two-thirds are spent on routine consumption, with only 3.5 percent directed toward productive investments and capital formation (Limbu, 2024). Additionally, Nepal depends heavily on foreign aid to bridge its saving-investment and expenditure-income gaps. As a least-developed country, Nepal has taken advantage of grants and concessional loans, but this window of opportunity will not remain open indefinitely.

The debt crisis is one of the major factors responsible for exacerbating the criticality of economic insecurity, mainly in weaker and less advanced states (Pitswane, 1993). Such weaker economies are highly characterized by capital deficiency, as a more significant chunk of their capital is required to service debts, leaving little capital resource for other aspects of development. Similar is the case for the Nepali economy, whose public debt stood tall at NPR 2.431 trillion, representing 43.43 percent of the country's GDP at the end of FY 2023/24, and has seen a persistent rise in recent times. Such debt burdens mean most of the country's coffers go towards resettlement of debt liability, leaving little room for capital formation and growth (Republica, 2024). Hence, with lower capital formations, the country's debt burden would increase continuously, thereby placing the Nepali economy in the vicious circle of debt burden in the succeeding years.

Likewise, the dearth of the industrial base further limits Nepal's ability to build a strong economy. This issue has an effect in the form of lower exports and higher import dependency, thereby disrupting stable trade flows, lowering capital formation, lowering employment opportunities, and, on the military side, the inability or constrained ability to produce weaponry. Furthermore, the Nepali economy is highly vulnerable to disruptions in global supply shocks, being an overly sensitive and dependent economy. The economic challenges outlined above paint a grim picture of Nepal's economy, with minimal signs of improvement. On the contrary, economic performance across various sectors has deteriorated, underscoring that Nepal's economic security is more aptly viewed through the lens of insecurity.

### ***Forecasting and Recommendation: Nepal's Economic Security***

One greater area of concern with regards to Nepali military spending is the percentage of total military expenditure in capital expenditure, which leaves Nepal in an undesirable situation as the majority of the expenditure is on the recurrent one, standing large at 90 percent, while only 9.6 percent is expended on the capital investment (Poudel, 2023). Nepal's defence budget is

barely adequate to meet recurrent expenses, leaving limited resources for modernization and strengthening of the military. Given Nepal's fragile economic position, investing in advanced military capabilities, as other nations do, is not a viable option. Simultaneously, prioritizing significant military spending is unfeasible when other socio-economic sectors need greater funding. Therefore, the only sustainable path forward is strengthening the economy. A stronger and larger economy would generate increased resources for military establishments, ultimately enhancing the country's overall security.

Economic challenges such as the debt crisis, aid dependency, import reliance, remittance dependency, capital deficiency, and the underdevelopment of industrial and service sectors, if left unaddressed, could collectively have a devastating impact on Nepal's economic security. Recovery from such a situation would be challenging. Addressing these issues requires time and gradual improvement but must begin with strong commitment and consistent effort. Overcoming capital deficiency necessitates initial capital investment, which can create a cycle of capital generation and accumulation, enabling further investments in industrial and service sectors and strengthening the overall economy. Nepal's export potential remains largely untapped. Initiatives to promote exports could help reduce the trade deficit and boost foreign exchange reserves. However, with loans now surpassing grants and a decline in soft and concessional loans, the public debt problem will likely worsen in the coming years as debt servicing obligations increase. Nepal's transition from LDC status will further intensify these challenges as the composition of foreign aid shifts toward loans, making debt management even more critical.

To reduce reliance on foreign aid, Nepal must utilize the aid it receives efficiently by directing it toward productive investments and capital expenditures. Given Nepal's strategic geopolitical position, foreign interest remains high. Nepal must remain vigilant about any hidden agendas or priorities tied to aid, as these could threaten national security. Assertive leadership is crucial in navigating these issues, as nothing precedes safeguarding the nation's sovereignty, integrity, and security.

Global interdependence is often asymmetric, yielding unequal gains influenced by differences in bargaining power and each country's position in the global arena. In this regard, Nepal lags, having been unable to fully capitalize on the benefits of its global connections. Nepal needs to be vigilant of the 'weaponization of interdependence,' i.e., the exploitation of economic links for geopolitical purposes (McCaffrey & Poitiers, 2024), as its critical ge positioning draws the eyes of many countries. Nepal's critical position, bordered by India and China, means that the actions and reactions of these neighbouring powers heavily influence its security. As a result, the interdependence Nepal experiences presents both opportunities and challenges, requiring the country to remain strategically vigilant to maximize the benefits of global interconnectedness while managing potential risks to national security.

As economic diplomacy gains prominence, Nepal must leverage it to address its areas of weakness while prioritizing sectors where it holds a comparative advantage, such as hydropower, tourism, and specialized exports. The extensive bilateral and multilateral relationships Nepal has cultivated will hold little value if they remain confined to formal agreements without being harnessed to advance the country's economic objectives. Economic security should be a central

strategic priority for the Nepali government, as meaningful initiatives and progress depend on political and bureaucratic leadership. Developing a dedicated economic security policy could provide a comprehensive framework addressing Nepal's economic vulnerabilities and their connection to national security, along with actionable strategies to strengthen economic resilience. Merely referencing "economic security" in the National Security Policy will not suffice. Think tanks' focus on national security should emphasize integrating economic insights and understanding their implications for Nepal's security, a perspective currently lacking.

Despite its unique geographical position as a small nation bordered by larger neighbours, China and India, Nepal can draw valuable lessons from smaller European and Southeast Asian countries on prioritizing economic growth to enhance overall security. While it must remain vigilant about potential threats and challenges, it should not lose sight of available opportunities. Placing greater emphasis on building a robust and resilient economy, supported by assertive political and bureaucratic leadership, will strengthen various aspects of national security, including military security.

### **Conclusion**

The paper concludes that economic security drives a holistic security framework. The bearing of the economy upon broader aspects of security must be noticed. The economy influences national security in two ways: economic superiority strengthens economic security and, as a result, has a proliferating effect on national security, while an economic decline threatens overall national security. Hence, a robust economy is crucial for sustaining and leveraging other elements of national power. Particularly regarding the conventional security domain, economic prosperity is the cornerstone of national military might since it enables the government to allocate higher funds for national military expenditure. Affluent and powerful countries can dedicate greater resources to strengthen their military capabilities. On the contrary, economically weaker countries face constraints in devoting adequate means and resources toward military defence security as they have worrisome social, political, and economic sectors which need greater attention.

The perception of national security developed throughout time, being moulded and conditioned by historical occurrences, patterns, and varying theoretical viewpoints on security. As a result, the scope of security has deepened to include other forms of security, including economic, political, environmental, societal, and others. The intricate relationship of the economy with a multitude of sectors binds economic security to be the focal point for ensuring other security dimensions that are equally significant in the holistic security framework. Hence, the requirement of robust economic underpinnings heightens at all times to ensure national security is not compromised.

Applying a multidimensional approach to security with economic security at its core, Nepal's current position appears challenging. Economic challenges like the debt crisis, reliance on aid, imports, and remittances; capital deficiency; underdeveloped industrial and service sectors; and limited benefits from globalization contribute to significant economic insecurity for Nepal, threatening its overall national security. Therefore, remaining cautious of the weaponization of interdependence, leveraging its geostrategic position, and prioritizing economic diplomacy and capital investment, all guided by astute leadership, can be the practical path forward for Nepal toward achieving economic security.

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