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Exploring the Relationship between National Security Risks and Economic Factors: A Nepalese Perspective

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Abstract

Macroeconomic variables have a significant impact on national security. This article examines the intricate association between macroeconomic variables and national security, emphasizing the bottomless effects of economic factors on individual vulnerability to national security risks. The evolution of conventional and unconventional power, encompassing both hard and soft power, has taken on a hybrid form central to national security considerations. In today's globalized world, economic variables have become pivotal in shaping national security threats. Employing the Critical Political Economic Approach (CPE), the study focuses on Nepal as a case study to analyze the interplay between economic determinants and national security risks. The findings indicate that the expansion of trade, financial services, FDI, migration, and remittances both positively and negatively influences national security concerns, whereas growth in poverty and inequality, foreign aid and loans, crises, corruption, critical ICT infrastructures, and cyber risks heighten threats to Nepal's security. The study suggests that fostering strong economic conditions and positive trends can mitigate the likelihood of national security incidents.

Keywords: Critical political economics, cyber security, foreign aid, national security, remittance,

Introduction

National economic security refers to the state of a country's economic well-being and stability, encompassing various factors that contribute to the overall resilience and

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protection of its economy (Retter et al., 2020). It entails safeguarding the nation's economic resources, infrastructure, and institutions from potential threats, both internal and external, that may undermine stability and prosperity. It ensures the stability of economic sectors such as finance, energy, and agriculture, as well as maintaining a balance of trade, stable employment rates, and sustainable economic growth. National economic security is a crucial aspect of a country's overall security framework, as it directly affects the welfare and livelihoods of its citizens, the country's ability to withstand economic shocks, and its overall standing in the global economic landscape.

National security is defined as any form of threat that impedes the physical or mental health of the population and is considered a national security threat (Singh, 2015). These types of threats make people feel unsafe and vulnerable. The strength of a nation's economy, which today is highly interconnected and interdependent, is widely regarded as a national security risk and a key component of hybrid warfare. In contemporary international relations, on the one hand, it provides more economic opportunities for developing countries, while on the other; it creates more economic risks for developing countries that are exposed to external shocks.

Globalization has brought about an unprecedented level of interconnectedness and interdependence between nation-states. The 21st century has seen a dramatic increase in the movement of individuals, commodities, and technology, which has facilitated the quality of life for humans on the one hand and increased the risk of non-traditional threats to national security on the other. According to Buzan (1983), the term economic security refers to the access to the resources, finance, and markets required sustaining satisfactory levels of well-being and state power. When it comes to national security discourse, power could be used as a hybrid combination of hard and soft power (Keohane & Nye, 1987).

The management of international economic relations plays a critical role in determining how well nations get along with one another, and it will always be especially important for US national security objectives as long as that specific function is needed (Luciani, 1988). Global capital flows and commodity markets are considered to be a major source of economic security and a major component of national security concerns, although gross domestic product (GDP) trends do not currently present a threat to national security (Rickards, 2009). National security is not only about the military but also about political, economic, social, and environmental elements (Rotschchild, 1995). According to Retter et al. (2020), the term 'national security' has changed over time and continues to be modified in line with the contextual factors that influence it. The scope of national security has expanded significantly due to its transformation into a blend of conventional and non-conventional elements. Historically, national security in the United States has been viewed from the perspective of a wealthy individual, where the economy provides the resources and capabilities necessary for defense as well as financial stability for households, which has been distinguished from initiatives for the growth of the economy and challenges like unemployment (Nanto, 2011). When extended national security threats are contested and hybrid, Nepal needs a national security policy that calls for innovative thinking and

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broadens the scope of traditional military-centric threat assessment and response (Angbo, 2021).

The National Security Policy of Nepal takes on both conventional and non-conventional national security concerns and dangers, including conflicts, power balances, and economic considerations. The relationship between security and the economy has become increasingly complex because of the impacts of globalization and regionalization. Nevertheless, a noticeable gap exists in the scholarly investigation concerning the influence of economic variables on the national security framework of Nepal. In this study, 'national security' is considered the dependent variable, whereas economic factors such as poverty, unemployment, inequality, trade and foreign direct investment, foreign aid, foreign debt, migration, and critical information and communication technology (ICT) infrastructure are taken as the independent variables.

Problem Statement and Research Questions

Nepal has maintained its status as an autonomous nation since gaining independence. Presently, she is confronted with a combination of conventional and emerging geopolitical challenges. The nation shares an extensive and permeable land border with two significant countries. In the context of unconventional internal security threats and economic considerations, security becomes a primary concern for least-developed countries (LDCs) like Nepal. The government has prioritized the establishment of a state characterized by "joy and prosperity." However, this objective will remain unattainable if the country fails to effectively address the economic consequences resulting from security threats.

Nepal is actively seeking foreign direct investment (FDI) to address its insufficient financial and technological infrastructure. However, its FDI is largely concentrated in specific sectors, such as engaging in financial transactions with shell banks, accepting investments from shell companies, operating cooperatives, and participating in secondary market transactions (Dahal, 2023). Nepal's investment sectors encounter numerous obstacles, encompassing disputes concerning tax payments with NCELL and complexities in decision-making for extensive electricity projects like Upper Tamakoshi, Budhi Gandaki, and West-Seti. On the other hand, Nepal has heavily relied on external loans to finance and implement major projects, subject to stringent terms and conditions. Consequently, the government faces significant pressure to secure adequate funds for debt repayment and uphold stability within the country.

The country's security has been significantly affected by the high prevalence of poverty, unemployment, and inequality. As a result, there has been a notable migration of people from rural areas to urban centers and even overseas in pursuit of better job opportunities and an improved quality of life. According to the NPC (2075), a significant number of young people of productive age have taken refuge in the Middle East region, the Persian Gulf region, and the Organization for Economic Co-operation and Development (OECD) countries for jobs. This trend of seeking jobs abroad raises concerns regarding socio-economic stability and national security. The balance of payments is declining due to a decrease in exports and a surge in imports, resulting in a negative trade balance. Cybercrime

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and other threats related to ICT are on the rise around the world. In January 2019, Chinese nationals were apprehended by the Nepal government for engaging in illicit activities, such as tampering with ATMs and operating call centers. Nepal's national security framework encounters additional security risks and obstacles due to these factors. Thus, the following research questions need to be thoroughly analyzed.

What are the key economic threats to national security? What are specific economic factors related to Nepal's national security? How have economic factors of security affected the national security of Nepal? How and to what extent do macroeconomic variables affect and strengthen national security?

Objectives

The objective of this research is to examine the primary economic vulnerabilities that pose a threat to the safety of Nepal, as well as to analyze the impact of economic factors on Nepal's national security policy.

The specific objectives are:

- To identify causal relations between Nepal's national security and trade, foreign direct investment, foreign aid, foreign debt, migration, and critical ICT infrastructure.
- To develop a conceptual framework on how macroeconomic variables affect the national security of Nepal.
- To explore the intensity of different economic factors on the national security of Nepal.

Methods

This paper uses the Critical Political Economic Approach (CPE) to analyze the interconnectedness of the economy and national security. CPE serves as the foundation for Global Political Economy (GPE) and is rooted in Marx's tradition. It employs a dialectical technique that starts with the examination of tangible reality (Jäger, 2022). The investigation here seeks causal economic variables to explain certain phenomena and national security threats. This paper presents a conceptual framework and supporting analyses for systematically analyzing the policy-level connections between the economy and national security.

This paper follows a well-structured analysis while discussing various economic factors that are taken as independent variables and how they affect Nepal's national security (dependent variable). It draws on historical events and data from secondary literature to support its findings.

Conceptualization of National Security

The 2015 Constitution of Nepal places a strong emphasis on national security and unity policies, emphasizing the necessity of an all-encompassing human security system. According to Article 266 of the Constitution, a National Security Council must be

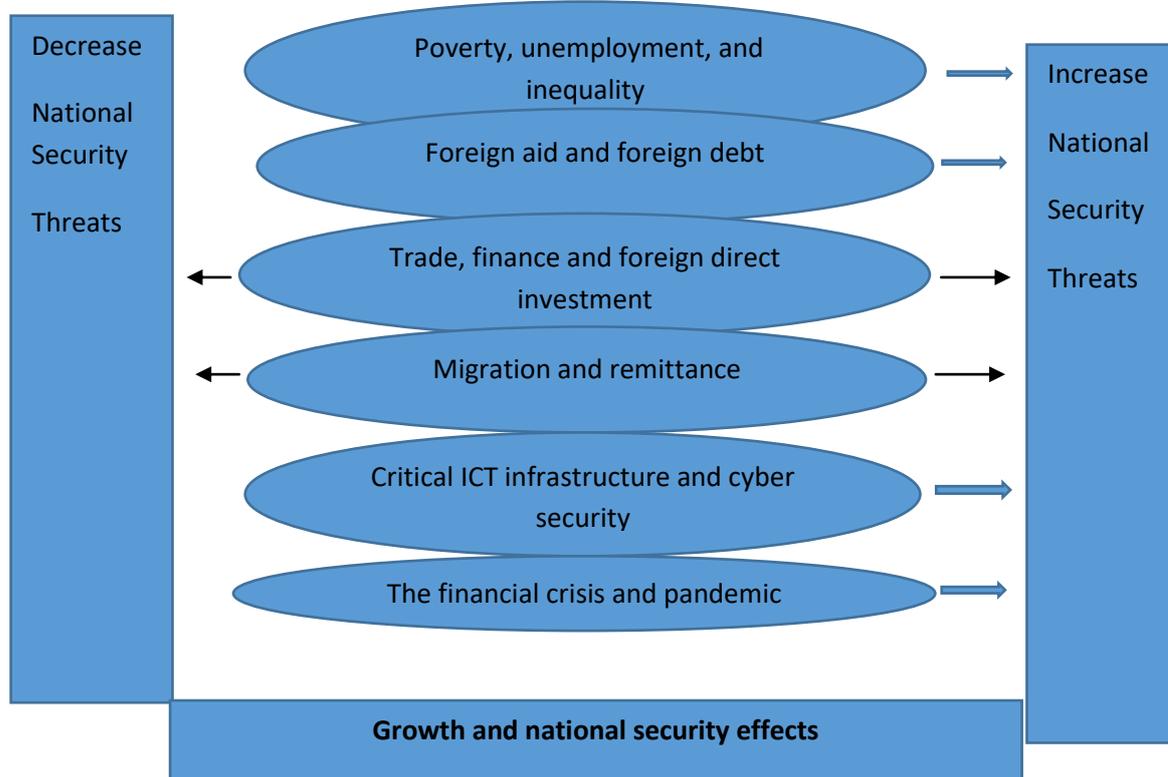
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established to provide advice to the Cabinet of Nepal on issues of the creation of a national security and defense policy, as well as the organization and command of the Nepalese Army. The Chief of Army Staff, the Minister of Defense, the Ministers of Home Affairs, Foreign Affairs, and Finance, the Chief Secretary to the Government of Nepal, and the Secretary of Defense, who serves as the Member Secretary, are the members of the council, which is chaired by the Prime Minister.

The National Security Policy (NSP) 2073 has attempted to embody the principles of the Constitution and has addressed hybrid security risks and challenges to the national security of Nepal. The council structure appears to be smaller, and while it is comfortable, the number of meetings is limited. The inter-agency and inter-departmental coordination appear to be insufficient in light of the rise of non-traditional economic security threats in the areas of the economic, technological, energy, and tourism sectors. This paper proposes a framework for analyzing the economic implications of national security risks, as follows:

Figure 1

Conceptual Framework for the Economic Aspect of National Security



Source: This conceptual framework is based on the author's assumptions on the growth impact of economic variables on Nepal's national security.

Data Presentation

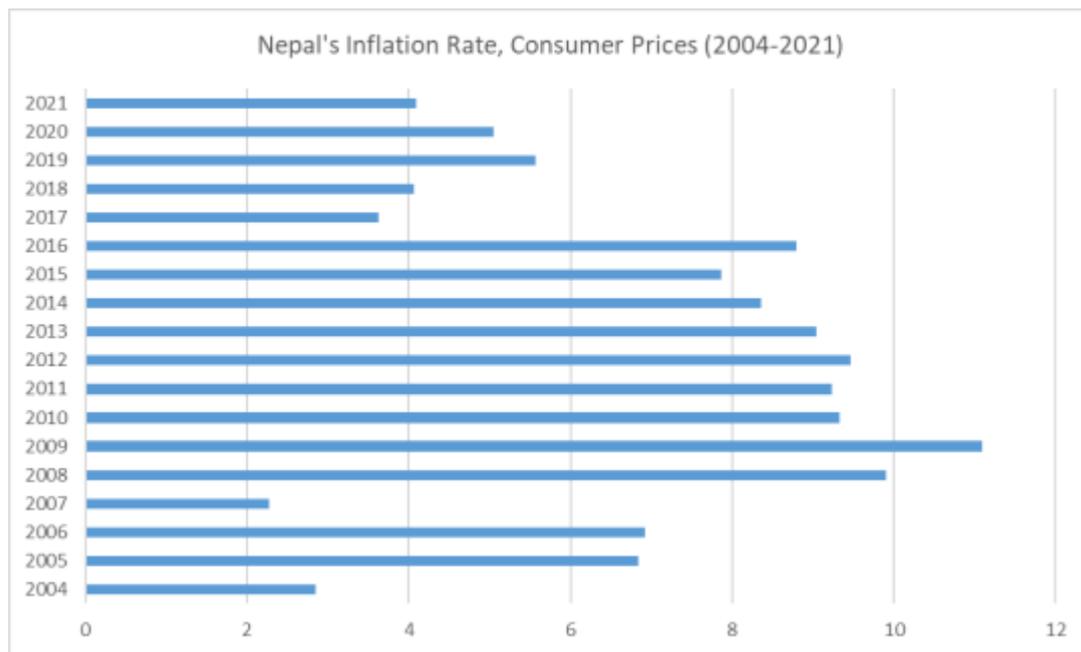
Impacts of Economic Factors on Nepal's National Security

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Nepal aims to achieve its Sustainable Development Goal (SDG) by eradicating poverty through the generation of employment opportunities and the mitigation of inequalities. The country's economy has suffered from a decline in industrial growth, a widening trade deficit due to higher imports and lower exports, and limited capability for expanding capital expenditure. During the 2010/11 fiscal year, Nepal had a Gini coefficient of 49.42, making it one of the most unequal countries in the world according to a report by Oxfam International (2019). The Palma ratio in this study also indicates a similar pattern.

Figure 2

Nepal's inflation rate from 2004 to 2021 based on consumer prices



Note. The figure demonstrates Nepal's inflation rate in consumer prices from 2004 to 2021; the rates are based on World Bank data (World Bank, 2022)

Figure 2 illustrates a correlation between inflation and major crises in Nepal over the past 20 years. These crises include the financial crisis, the Gorkha earthquake, COVID-19, and the recent Russian invasion of Ukraine. This has led to increased food and oil prices, affecting national security.

Foreign Aid and Foreign Debt

All forms of assistance that a nation receives from other governments, multilateral organizations, and financial institutions to bridge apparent gaps—particularly in production, savings, and investments—are collectively referred to as foreign aid (Omotola & Saliu, 2009). The aid, whether in cash or kind, must be unconditional. They must be mobilized according to the requirements of the beneficiary country under the agreement reached in Paris and Accra in recent times. Multilateral and bilateral donors, on the other hand, are eager to be at the forefront. How ODA was disbursed and loans were disbursed raised

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questions about their motivations, as well as whether they fueled conflict that fueled national security risks. For example, in the case of Nepal's national security regime, the evidence of how the geopolitical interests of India, China, and now the US have become a matter of dispute can be seen in the political dilemma surrounding the implementation of the Millennium Challenge Corporation (MCC). There has been a lack of progress in implementing Belt and Road Initiative (BRI) projects recently. Sri Lanka is currently enduring a crisis of unprecedented economic and political proportions, which has recently culminated in a debt default (Gunuruwan & Wickremeratne, 2018). In the fiscal year 2019–20, Nepal's public debt increased by 35.5% due to the rising costs of combating COVID-19 and a decrease in tax receipts caused by a slowdown in economic activity (Hona, 2021). Each year, the government of Nepal faces pressure to allocate a budget for debt service management, which exerts pressure to ensure finance in the development sector and homeland security.

The Millennium Challenge Corporation of the United States and the Chinese Belt and Road Initiative are viewed as economic tools and forms of aid for developing countries by recipient nations like Nepal. The MCC compact focuses on two main areas of project implementation in Nepal: electricity and transportation. (MCA Nepal, 2017). However, these strategies either have national security implications for the beneficiary, as the official statements of strategic countries explicitly or implicitly refer to security aspects. These MCC discussions not only disturbed Nepalese society but also triggered a political crisis in Nepal as opposition to the grant began to emerge from left-wing parties who claimed that IPS was a US-backed military ally in Nepal only to fight against China's Belt and Road Initiative (BRI). (Himalayan Times, May 15, 2019).

Table 1

Nepal Gross Domestic Product (GDP) to External Debt: \$ billion, 2005-2020

Year	GDP	External Debt	Debt/GDP Ratio	Per Capita	GDP Growth	Debt Growth
2020	33.43	7.95	1: 4.20	1,147	-2.37	21.36
2019	34.19	6.51	1: 5.25	1,195	6.66	18.19
2018	33.11	5.51	1: 6.01	1,179	7.62	11.03
2017	28.97	4.90	1: 5.91	1,048	8.98	15.50
2016	24.52	4.30	1: 5.70	900	0.43	3.73
2015	24.36	4.14	1: 5.88	902	3.98	4.07
2014	22.73	3.99	1: 5.70	845	6.01	-0.80
2013	22.16	4.01	1: 5.52	823	3.53	5.33
2012	21.70	3.81	1: 5.70	804	4.67	-0.43
2011	21.57	3.83	1: 5.63	798	3.42	1.02
2010	16.00	3.79	1: 4.22	592	4.82	0.28
2009	12.85	3.80	1: 3.38	478	4.53	2.17
2008	12.55	3.70	1: 3.39	470	6.10	2.31
2007	10.33	3.61	1: 2.86	391	3.41	6.19

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2006	9.04	3.40	1: 2.66	347	3.36	6.70
2005	8.13	3.19	1: 2.54	316	3.48	-5.27

Note. This table demonstrates Nepal's GDP to external debt ratio from 2005 to 2020 in a prototypical format. Per Capita income is calculated in US dollars, and GDP growth and Debt growth are based on percentages. The figures are the authors' calculations based on the World Bank database.

Table 1 shows that Nepal's external debt is growing at a higher rate than GDP growth. If this trend continues, it could trigger a debt crisis. However, the ratio of GDP to debt seems to be stable and relatively low compared to developed economies like Italy, France, and the United States. In 2019, the external debt to GDP ratio was 135%, 98.6%, and 107%, respectively (Ibragimovich et al., 2020).

Trade, finance, and foreign direct investment

We noticed that the financial system was already too fragile even before the crisis in 2008, which meant that the financial crisis would most likely worsen and eventually endanger national security (Rickards, 2009). Trade, finance, and investment play a crucial role in the security strategy of superpower nations and can promote their interests (Blackwell & Harris, 2016). Geo-economic factors are utilized directly and indirectly by countries like the United States and China while performing their security operations. Nepal attracts less foreign direct investment (FDI) compared to other developing Asian countries, and its FDI accounts for only 0.6% of the Gross Domestic Product (GDP) in comparison to the least developed countries. Most investors are from the same country and are primarily interested in investing in the power and cement industries. While the power sector is beneficial for the environment, the cement industry poses a higher risk to national security. Currently, there is a debate surrounding large-scale electricity projects, such as Upper Karnali and Budhi Gandaki, which can be analyzed using game theory.

Attracting foreign direct investment (FDI) necessitates robust and efficient intellectual property (IP) protection laws. Transferring technology is also supported, but it's worth noting that Nepal's FDI volume and projects are falling behind those of other LDCs like Bangladesh and Cambodia. In 2021, a large amount of FDI went to China. Table 2 provides detailed information about the amount of foreign direct investment (FDI) that Nepal has allowed. Employing 275,020 Nepalese, this amount is relatively low compared to the employment needs.

Table 2

Foreign Direct Investment (FDI) Projects Approval in Nepal Volume: NRs million, 2077/078

Scale	Number	Project Cost	Fixed Cost	Working Capital	FDI	Employment
Large	317	391,260	362,635	30,161	214,349	59,286
Medium	529	68,674	49,228	18,903	52,499	49,591
Small	4,388	109,560	69,609	39,577	97,662	166,143

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Total	5,234	569,494	481,472	88,641	364,511	275,020
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Note. The table 2 shows the number of approved Foreign Direct Investment (FDI) projects, their costs; fixed costs, working capital, amount of foreign direct investment (FDI), and employment generations from FDI projects. Data is taken from the publication of the Department of Industry, Industrial Statistics (2077/78 BS.)

According to Table 2, The Nepalese government has recorded a relatively low level of FDI inflows (FDI) and has only attracted a limited number of large projects. There is a significant gap between the amount of investment committed and the actual amount received. However, this FDI has helped generate some jobs, a crucial factor for reducing poverty and minimizing security risks. Financial, commercial, and foreign direct investment (FDI) are essential elements of any nation's economic system if they are managing effectively, and they can have a significant impact on the economy and can contribute to economic development, job creation, and peace-building. On the other hand, poor management of these resources can lead to conflict and compromise national security.

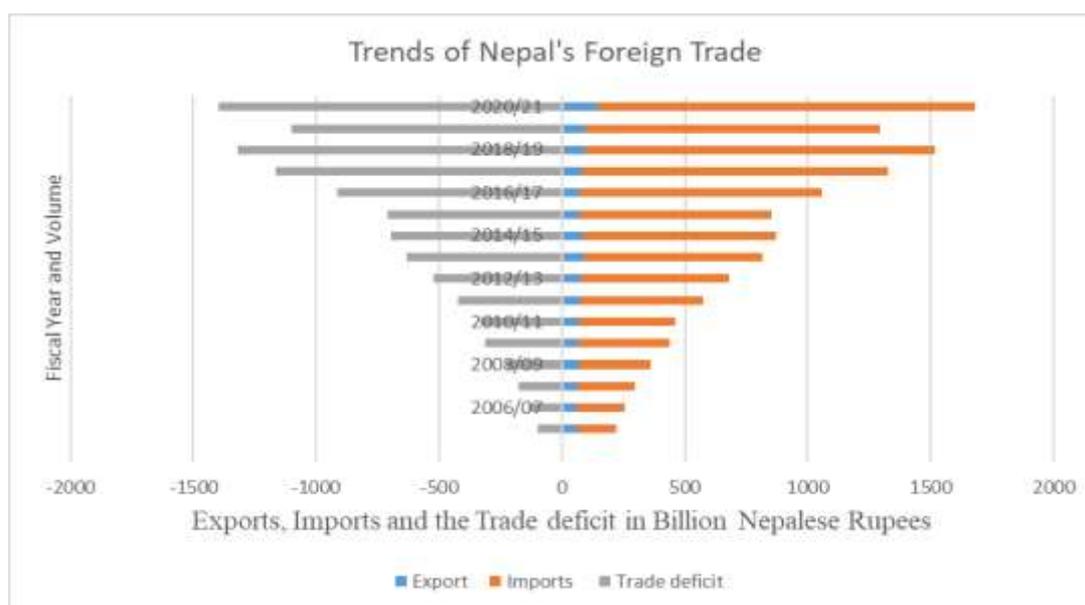
Nepal's Trade Scenario

Nepal has seen a decline in export growth since joining the World Trade Organisation (WTO) in 2004, but a sharp increase in imports. From NPR 100.9 billion in FY 2005/06 to NPR 314.7 billion in FY 2009/10, NPR 697.9 billion in FY 2014/15, and NPR 1398.7 billion in FY 2020/21, Figure 3 shows the rise in Nepal's merchandise trade imbalance. Nepal's exports have not increased over the past fifteen years, resulting in a large trade imbalance that has harmed the country's current account balance (Adhikari, 2023). The export-import ratio rose over time, reaching a peak of 1:15.31 in the fiscal year 2017–18. In FY 2020–21, it then marginally dropped to 1:10.91.

Figure 3

Nepal's Trade Balance from the fiscal year 2005/06 to 2020/21 (In Billion NRs)

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Note. This figure shows the development of Nepal's foreign trade and shows the volume of export, import, and trade deficit in Nepal since the financial year 2005/06 as per the calculations made by the authors based on the data provided by the Trade and Export Promotion Centre.

The land boundary between the People's Republic of China and the Republic of India is open and permeable. Border management is relatively more sensitive for Nepal as it has been deploying limited resources than the neighbouring countries, and its border with India is more porous. The illicit trafficking of goods across borders has also posed a threat to national security by impacting domestic industries and increasing the risk of trafficking in human beings, drugs, and small arms. Based on research findings (Taneja & Pohit, 2001), explore why the informal trade between India and Nepal has not decreased despite trade policy liberalization. The findings of their study suggest that informal traders have developed effective strategies to share and mitigate risk, enforce contracts, and exchange information. Illicit trade is on the rise due to poverty and other economic reasons.

Migration and Remittance

In 1998, Massey et al. (1998) demonstrated that migration is a long-term phenomenon, which was one of the motivations for countries to emphasize it. In Reichert's opinion, this could result in a situation of "migrant syndrome," also referred to as a "Dutch disease," which could pose a serious risk to national security. Nurtazina (2014) has identified intellectual immigration into the European Union as a threat to national security. It has had a detrimental effect on the nation's defense posture and external security, leading to an imbalance in internal security across social, economic, political, scientific, and technological dimensions.

Nepal's macroeconomic indicators are heavily dependent on remittances. Remittances employ most of the country's workforce, which is risky. For example, in the aftermath of the global financial crisis, there was a record-breaking level of unemployment. The pandemic had a significant impact on employment as well as on remittances (source: World Journal of Political Science, Vol. 24, February 2024 [39-56])

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Bank, 2020). The study by Wagle and Devkota (2018) shows that remittances from countries other than India have a positive effect on overall economic development. The liberalization of the Nepalese economy has caused a surge in the number of Nepalese who have relocated to other countries in pursuit of employment opportunities. In 1993–1994, there were 3605 labour approvals reported to the Department of Foreign Employment (DOFE) (2020). Subsequently, the number of approvals rose to 106,660 in 2003–2004 and reached a high of 519,638 in 2005–2006.

According to a study by the Ministry of Labour, Employment, and Social Security [MOLESS] (2020), the number of people moving out of the country has decreased slightly over the last few years. However, this number does not include people who moved abroad with no labour permit (people who travel on tourism and other non-labour visas) or people who move to India to work.

The migration has both positive and negative effects on Nepal's socio-economic structure. It positively influences Nepal's economy by improving the balance of payments and increasing the availability of food, education, goods, and services. It harms health, not only for individuals but also for other family members. Furthermore, it hampers the nation's productivity because of the lack of young people in rural areas, who constitute a significant portion of the workforce. This has had a detrimental effect on the natural world and the proper use of scarce land resources [IOM] (2019). Even though the remittance economy has helped many Nepali households escape poverty, a large number of migrant workers pass away abroad inexplicably. Furthermore, it is upsetting Nepal's social cohesion.

According to the Nepal Labour Migration Report 2022, there has been a significant increase in the number of fatalities among Nepali workers who migrate for employment. The report highlights that since the period of 2008–09, there have been a total of 10,666 deaths. The report also brought attention to the significant number of migrant fatalities in Saudi Arabia, Malaysia, Qatar, and the United Arab Emirates. The issue was further amplified by numerous undocumented deaths, aggravating the problem (Pandey, 2022).

Nepal Police have documented a rise in deceptive practices, including the production of counterfeit money, alongside instances of gender-based discrimination, which can be attributed to the phenomenon of migration. These occurrences present a grave menace to the overall security of Nepal.

Critical ICT Infrastructure and Cyber Security

The digital divide is causing inequality in less developed countries and putting their national security at risk. The least developed countries, including Nepal, don't have much access to technology, resulting in poor skills in people needed for the economy. As outsourcing of information technology (IT) and business processes continues to grow and create jobs around the world, the issue of cyber security is evolving as a threat for governments and companies alike. A recent economic survey of Nepal has revealed that Nepal Telecom, Nepal Cable & Telecommunications Limited (NCELL), and the information technology

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sector are among the most tax-paying sectors, indicating that these industries are experiencing a period of growth.

The US and China are in a race for 5G tech and space, and Nepal has to rely on other countries for access. As a result, data security is becoming a priority for national security, not only from the perspective of government data security but also from the perspective of individual privacy. Khalid (2021) asserts that India faces complex security challenges due to its inadequate education and health systems, alongside the emergence of menacing issues like cybercrime.

Social media and cybercrimes, including gender-based violence, counterfeiting, and fraud, are on the rise in Nepal, and cybercriminals are taking advantage of outdated software being used at ATMs to withdraw money from various locations in Kathmandu (The Kathmandu Post, 2017). In August 2019, foreign nationals who hacked Nepal Electronic Payment Systems (NEPS) due to the weakness of the central Nepal Rastra Bank stole millions of dollars from various ATMs.

More recently, Nepalese police have arrested call center operators who operate unauthorized call centers and focus on counterfeiting. Hence, ensuring the provision of protected information and the adoption of secure technology is considered imperative for enhancing the overall security of the nation.

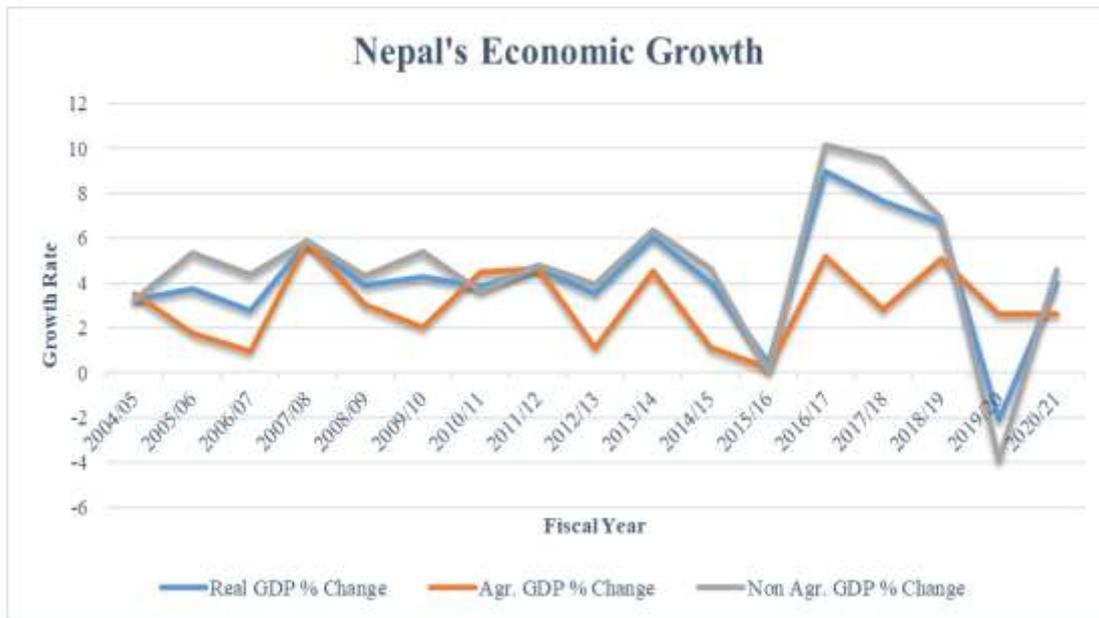
The Financial Crisis and Pandemic

The current economic downturn due to the COVID-19 pandemic is distinct from the financial crises caused by the First and Second World Wars, the Great Depression in 1930, the 1980s oil price crisis, and the financial crises of 2008 (Economic Survey, 2020/21). The Nepalese transport and tourism industries have been significantly affected by the coronavirus pandemic, leading to a decline in production, distribution, and employment. It has also led to an increase in unemployment, poverty, and social disparities. Therefore, numerous individuals find themselves trapped in destitution, leading to a substantial population living below the poverty line. As a result, the economy has suffered from sluggish growth and declining employment, resulting in millions of people living in poverty and jeopardizing national security. According to the Nepal Police (2080), with the COVID-19 pandemic's long-term impact and lack of access to decent jobs in Nepal, among other social and economic reasons, the number of security cases increased along with the alarmingly high suicide cases.

Figure 4

Economic Growth of Nepal from the Fiscal Year 2004/05 to 2020/2021

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Note: This figure shows the real GDP growth, agricultural GDP growth, and non-agricultural GDP growth in Nepal from the financial year 2004/05 until the financial year 2020/21. The calculations are based on the information available from the National Bureau of Statistics (NBS), 2022.

Figure 4 illustrates the inherent volatility and fragility of Nepal's GDP, consistently highlighting the persistent disparity between the intended goals and the actual execution.

The country's economic growth has been impacted by the global economic crisis in 2008, the Great Recession, the devastating 2015 earthquake, and the coronavirus pandemic. It worsens the human condition by pushing people into poverty and making them vulnerable to security risks.

Corruption, Organized Economic Crime, and Anti-Money Laundering

Kathmandu Post Daily reported on May 24, 2023, that the Kathmandu District Prosecutor's Office had filed criminal charges against thirty individuals, including the former Vice Prime Minister and prominent public figures, in connection with an alleged fraud perpetrated against Bhutanese nationals living abroad. They were accused of obtaining Rs 288.17 million from 115 victims, promising to send the money to the US under the guise of Bhutanese refugees, with promises ranging from Rs 200,000 to Rs 4.8 million (Fake Bhutanese Refugee Scam: Cases Filed against 30 Individuals in District Court, n.d.). The Global Corruption Barometer (GCB) Report 2020 states that people in the Asian region are aware of corruption. One in five respondents (1%) to a survey of 20,000 people said they had accepted bribes in the previous year to receive public services, and the majority of respondents (74%) said that government corruption was a major concern in their nation.

According to Transparency International (2020), corruption in Asia includes but is not limited to bribery, insider dealing, vote buying, and sextortion. Moreover, the prevalence of corruption in Nepal has long been a major threat to national security, comparable to the

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situation in less-developed economies. The economic aspect of corruption has made the country even more vulnerable, as it prevents honest people from doing business with the government.

Prithvi Man Shrestha, the op-ed writer of *The Kathmandu Post* (2020 January 2), highlights the potential threat Nepal is confronted with in terms of being included in the "grey list" of the Financial Action Task Force (FATF). This international regulatory body, headquartered in Paris, focuses on combating money laundering and terrorist financing. Shrestha points out that Nepal's existing legislation and enforcement mechanisms on anti-money laundering and anti-terror funding regulations are inadequate, which increases the likelihood of its placement on the FATF's watch list. Shrestha further argues that a grey-list country would face challenges such as reduced trade opportunities, falling ratings, and a weakening economy that would increase national security risk.

Discussion

Over the past 35 years, Nepal has seen several political changes. It moved from a single-party system to a democracy in 1990 and then to a federal system in 2008, which meant the end of the 240-year-old monarchy. However, despite these changes, the expected economic progress has not been achieved, leading to disappointment among the public. From the above discussion, one can conclude that economic factors play a key role in determining a nation's national security posture. Nepal, a country with an independent national identity and a rich historical background of never being colonized, requires pragmatic security arrangements. To achieve this, both traditional and non-traditional elements of national security must be considered. In order to achieve sustainable development goals, Nepal needs to harness a wide array of economic resources. It should also practice reasonable economic diplomacy, considering the effects of every economic factor on national security.

The strengthening bond between Nepal and its neighbouring nations is progressively intensifying, necessitating Nepal to uphold a robust economy. However, Nepal's economy is characterized by its relatively small size, which gives rise to significant concerns such as unemployment, poverty, inequality, inflation, and food scarcity. The national security system is at risk due to the prevailing trade deficit, limited manufacturing output, and sluggish GDP growth.

Furthermore, Nepal's competitiveness is also affected because it heavily relies on FDI and technology transfer to stay ahead of other countries. It is important to note that promoting investment alone cannot generate employment. The use of information and communication technologies (ICTs), cyber-security, and the Internet is increasing, which can have both positive and negative impacts on national security. Developing countries are more vulnerable to financial crises, epidemics, and global events, leading to higher poverty rates, social exclusion, and unemployment. These factors, in turn, increase national security risks.

Nepal is currently facing a critical situation where its economic challenges pose a significant threat to national security. Despite receiving substantial foreign financial aid since the 1950s, Nepal's economic growth has been slower than that of its neighbouring countries,

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which leaves the nation vulnerable to security risks. The industrial sector's contribution to GDP has been declining, and the widening trade deficit has aggravated the economic crisis, leading to issues like a lack of job creation, investment promotion, and overall prosperity.

Nepal's reliance on external assistance has resulted in a surge in debt, underscoring the urgency of implementing strategic economic reforms to mitigate security vulnerabilities. Nepal's reliance on external assistance has resulted in a surge in debt, underscoring the urgency of implementing strategic economic reforms to mitigate security vulnerabilities. The research highlights the significance of economic stability in tackling the escalating issues of unemployment, poverty, and inequality, all of which contribute to a feeling of statelessness among the populace. In order to ensure continuous development and bolster national security, Nepal must alter its economic trajectory by fostering self-reliance, enticing foreign investments, and harnessing the potential of digital technologies.

The paper highlights the importance of including economic considerations in Nepal's national security policy. It emphasizes the critical role played by economic variables and the need to recognize the impact of the International Political Economy (IPE) in domains such as international trade, finance, migration, and aid. This acknowledges the notable advantages and dangers linked to these elements. Nepal must thoroughly analyze the patterns, implications for growth, and terms of the agreements within the context of broader development frameworks. Nonetheless, the execution and enforcement of these agreements still lack strength and, at times, pose a potential peril to national security. In order to mitigate these economic threats, Nepal must address them within the framework of national security and formulate a national security strategy. The main goal of Common Political Economy (CPE) is to motivate politicians to concentrate on economic issues without compromising national unity and security.

Conclusion

In conclusion, this study has fulfilled its objectives and provided an advanced scholarly understanding of the complex interplay between economic developments and Nepal's internal security landscape. The meticulous examination of poverty and inequality, trade, foreign investment, migration, aid, and critical ICT infrastructure establishes a robust conceptual framework, shedding light on the intricate interplay between economic variables and national security policy. Moreover, the study's contemporary focus on information and communication technologies, cyber threats, and modern technologies offers timely insights, emphasizing the imperative for Nepal to fortify its cybersecurity measures in the face of growing global challenges.

This research underscores the pivotal role of effective political leadership in addressing economic factors crucial to national prosperity. The identified nexus between political instability, governance deficiencies, and hindered economic growth amplifies the urgency for comprehensive approaches. As the study advocates for strategic economic reforms in trade, investment, and migration, prompt action on issues like money laundering, fostering economic resilience, and fortifying cybersecurity measures emerge as pressing needs. In this context, the findings convey a positive message: by addressing these challenges holistically,

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Nepal can unlock its economic potential, foster sustained growth, and fortify national security against the complexities of the modern world.

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