

Perceptions of Local Stakeholders on the Economic Impact of the Gaddachauki Open Border: A Descriptive Study of the Mahendranagar Market

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Abstract

Nepal Indian open border has been found to play a significant role in promoting economic activities in border markets, especially in markets such as Mahendranagar, which is close to the Gaddachauki border. While open borders are known to promote economic activities, their economic effects on border markets remain under-explored in literature. The main purpose of this study is to examine the perceptions of local stakeholders on the economic effects of the Gaddachauki open border on the Mahendranagar border market. While descriptive cross-sectional research design was used in this study, primary data were collected through a structured questionnaire administered to 150 respondents, with data being analyzed using descriptive statistics such as frequencies, percentages, and mean scores. The results indicate that stakeholders perceive the open border as beneficial in terms of access to goods and trade opportunities, at the same it poses challenges such as increased competition, pressure on local businesses, and financial instability for small business. A large proportion of respondents of the study expressed the need for restructuring the existing border trade system to enhance local market opportunities competitiveness. The study concludes that stakeholder perceives valuable offer insights for local-level economic planning and policy formulation, emphasizing the importance of balanced border management strategies in open-border economies.

Keywords: Open border, stakeholder perceptions, local economy, descriptive study, Mahendranagar, Nepal

Introduction

Borders plays important role in promoting economics activities between neighboring countries specially where there is open border with minimum restriction to import and export. An open border system promotes free movement across national boundaries and also create environment for promoting trade, labor mobility, and cultural exchange (Anderson & O'Dowd, 1999). However, this system sometimes creates localized economic challenges, especially for borders with markets that involves competition between external supplier and informal trade between market. Therefore it is very essential to understand these impact at local level becomes essential to evidence-based economic planning.

The border of Nepal and India is one of the most distinctive border arrangement in South Asia as per established treaty in 1950 for peace and friendship. This arrangement allows people to trade goods, creating strong economic interdependence between these two countries (Shrestha, 2018). While discussion often happens between these countries for macroeconomic benefits and geopolitical consideration and economic realities that lies between these two countries specially for local market

that are near by border points are relatively less studied by scholars. Such as border of Mahendranagar town in Kanchapur district involves heavy dependence on Indian market lies at border that is Banbasha that directly influence local trade patterns, business sustainability, and consumer behavior.

Existing studies on open border specially focuses on trade volumes, regional integration, or security concerns using macroeconomic or policy-oriented frameworks (Krugman, 1991; Newman, 2006). However, many of these studies still lacks primary and local-level data that directly collected from local peoples are very limited and overlook stakeholder perceptions, which are crucial for understanding how these economic policies are working. As we know Stakeholder perception theory suggests that economic results are not only shaped by structural factors but are also shaped by individuals and groups interpretation and respond to their economic environment (Freeman, 1984). And for small traders and consumers who live in border markets has perceptions of competition, profitability, and fairness significantly impacts business decisions and market operation.

For the case of Mahendranagar market, previous research evidence and preliminary observations suggest that consumers benefit from the increase in the number of goods that they can afford, as well as the traders experiencing excessive competition from the import of goods via informal means. However, empirical evidence supporting these perceptions is lacking, which is of crucial importance, especially when dealing with the open border perception of consumers as well as traders, especially when the research is of academic interest, particularly when it is of undergraduate and master's level, as the feasibility of the method is of utmost importance.

Therefore, this research has some main objectives to address stakeholder perceptions of the economic impact of the Gaddachauki open border on the Mahendranagar market. This research has used the descriptive research approach, and hence this research relies on the primary data collected from 150 respondents. This research ignores casual claims and instead documents how local actors perceive benefits, challenges, and policy that has to be needed related to the open border system. The finding of the research is expected to suggest required suggestion to policymakers, academics, and business associations to promote business. This research has contributed an approach picture and understanding of open border impacts in Nepal.

Literature Review

Open border transfer goods, services, labor, and capital across national boundaries and sometimes minimize transaction cost and boots regional economic integration (Krugman, 1991). From a Classical trade perspective argues that border openness enhances allocative efficiency and consumer welfare by increasing competition and product availability (Anderson & van Wincoop, 2004). However, being open borders results are not uniform and tend to vary significantly at the local level and particularly in border towns like where domestic markets directly trade from cross-border economies.

So many studies reveals that open border may enhances economic gains, localized markets frequently experience adjustment pressures, especially when domestic manufacturer compete with cheaper or informally traded imports products (Bhagwati, 2004; Newman, 2006). These studies are found similar in developing countries where regulatory policies for protecting local manufacturer and traders and market protection mechanisms are weak. As a result, understanding open border impacts requires localized analysis rather than study conducted at national level.

The open border policy between Nepal and India, as agreed upon in the Treaty of Peace and Friendship in 1950, is considered one of the most open international borders in the region. This has been beneficial for the growth of labor, trade, and social integration in the past (Shrestha, 2018). Studies have indicated that the open border policy has been responsible for the increased supply of goods for consumption and employment opportunities in the Nepalese border areas (Paudel, 2019).

However, studies have also indicated that the open border policy has been responsible for certain negative impacts on the economy of Nepal. Karki (2020) indicated that small business owners in western Nepal are experiencing declining profits due to the increased supply of goods from India, which enjoy scale advantages and lower production costs. Adhikari (2017) also indicated that the open border policy has been responsible for the distortion of the pricing system in Nepal, affecting formal businesses negatively.

Informal trade is one of the key characteristics of open-border economies. Little, Hummels, and Vlachos (2018) noted that the occurrence of informal trade across borders comes about as a result of traders perceiving formal trade as costly, complex, and unfair. While informal trade may boost supply in the market in the short term, it may harm formal businesses due to unfair competitive conditions (Mohan & Raj, 2017).

In the Nepalese border markets, the perception of informal trade as a key threat to business sustainability in the country is common (Sharma & Khatri, 2021). This perception may affect traders' investment decisions, employment, and participation in formal economic activities. Therefore, perceptions of stakeholders offer important information on the role of informal trade in the country's markets.

Small businesses are the backbone of the economy in Nepal, especially in the semi-urban and border areas. Financial sustainability for small businesses in Nepal relies not only on the inflow of funds but also on the predictability and fairness of the markets (Ahmed & Rahman, 2015). In open border markets, the risk of exposure to fluctuating prices and competitive forces adds to the uncertainty of small business finances.

Studies on perception have indicated that small business owners' perceptions of the open border trade agreements are associated with increased levels of financial pressure and growth (Singh & Verma, 2019). In border towns such as Mahendranagar, perceptions of declining competitiveness are expected

to have significant adverse effects on the economy, especially in towns whose economy is driven by daily activities in the markets. This indicates the need for studying the financial effects of open border agreements in terms of perceptions rather than objective financial factors.

The effectiveness of policy in border management is also greatly dependent on the perception of the policy by the stakeholders. Stakeholder Theory, as developed by Freeman (1984), asserts that stakeholders have exclusive knowledge about the performance of the system. In border markets, stakeholders' perception of policy is based on their evaluation of policy transparency, consistency, and fairness (Newman et al., 2006).

Research in South Asia has indicated that policy interventions without the involvement of local stakeholders are not effective in achieving policy goals (ADB, 2020; UNDP, 2022). In border markets, traders often demand policy reforms in areas such as regulations, infrastructure, and support measures to improve local competitiveness. These policy demands based on

This study is primarily informed by Stakeholder Theory and conceptually framed by Regional Economic Integration Theory. Stakeholder Theory suggests that individuals or groups impacted by economic systems are legitimate sources of evaluative knowledge (Freeman, 1984). As such, the trader or business owner and consumer in Mahendranagar are considered key stakeholders whose perceptions are considered the functional outcomes of the open border system.

Regional Economic Integration Theory describes the effect of the open border system on increased competition and market integration (Krugman, 1991). Rather than testing the theories as such, the current study employs them as frameworks to make sense of the stakeholder perceptions. This is consistent with descriptive research methodologies and the nature of student-based primary data research.

Though various studies have been conducted on the open border between Nepal and India from a macroeconomic, policy, and security point of view, the availability of empirical studies focusing on the perceptions of the local stakeholders is very limited. The available literature is based on secondary data, which has not covered the small border markets like Mahendranagar. In addition, the literature has not applied a purely descriptive method, which is appropriate with the primary data. This study is an attempt to fill the gaps by focusing on the perceptions of the local stakeholders with regard to the economic effects of the open border between Nepal and India at Gaddachauki, thereby contributing to the available literature on open border economies in Nepal.

Methodology

A descriptive cross-sectional study design was used in this study to determine the perceptions of stakeholders on the economic impacts of the Gaddachauki open border on the Mahendranagar market. Cross-sectional research design was used because there were no attempts to establish cause-and-effect

relationships between variables but rather an attempt to interpret and describe the perceptions of stakeholders without drawing causal relationships, which is one of the main principles of descriptive studies in business and social sciences (Sekaran & Bougie, 2016). The application of cross-sectional research design made it possible to capture perceptions from various stakeholder categories at once without requiring any longitudinal analysis. Furthermore, perception-oriented measure fits into the context of stakeholder theory that suggests taking into consideration the experience of those who are affected by economic relations (Freeman, 1984).

This research was carried out in Mahendranagar market situated in Kanchanpur District of Nepal, adjacent to Gaddachauki border post connecting with India. This region was purposely chosen owing to its significance as a primary border market center with considerable economic interactions between formal and informal entities. The geographical location of this region, which is close to the Indian market of Banbasa, renders it an appropriate environment for the study of localized economic influences of open borders. The population of interest for this study includes those people who play an essential role in cross-border trade activities as traders, small scale businessmen, and consumers.

The total number of respondents involved in this study was 150. A non-probability sampling approach known as convenience sampling was used to select respondents since there was no sampling frame available and the informal nature of some market players in border regions made it difficult to employ a probability sampling approach. Convenience sampling is commonly used when conducting descriptive and exploratory studies where the probability sampling approach cannot be employed owing to constraints in access (Sekaran & Bougie, 2016). It was ensured that all key stakeholders were adequately represented in the sample to improve generalizability and reliability of perceptions.

The primary data were obtained by way of a structured questionnaire, designed uniquely for this research. This questionnaire had several items under different themes related to the economic advantages and difficulties of open border, the financial impact of the open border on small businesses, and the stakeholders' perceptions about the effectiveness of the policies and needed reforms. These items were rated on a scale of one to five, from strongly disagree to strongly agree. According to Sekaran & Bougie, this measurement scale is known to be an appropriate tool in social sciences because of its ability to measure attitude and perceptions effectively (2016). The design of the questionnaire was informed by several studies on open border trading, informal trading, and small business sustainability (Karki, 2020; Sharma & Khatri, 2021; Singh & Verma, 2019).

The content validity of the measurement tool was established by matching the questionnaire items to the objectives of the study. Furthermore, the questionnaire was revised for readability, relevancy, and comprehensibility so that the subjects would answer accurately. The ethical issues during data gathering were strictly adhered to. In particular, participants' willingness to participate in the survey and their informed consent were obtained prior to data gathering. They were also assured of confidentiality.

Data analysis involved coding of the information collected followed by input into Statistical Package for Social Sciences (SPSS). Tools such as frequency, percentages, means and standard deviations were used in analyzing the data gathered. Frequency and percentages were used to analyze demographic information, whereas means and standard deviations were utilized in analyzing the level of agreement. This form of analysis conforms to the objective of descriptive research whose emphasis is on data summarization and interpretation. As stated by Sekaran and Bougie, descriptive research does not aim at making any causal statements. In addition to the above, theoretical framework provided by stakeholder theory and regional economic integration theory was used in interpreting the results obtained (Freeman, 1984; Krugman, 1991).

However, there are some constraints that the research faces. For instance, the sampling strategy used for data collection might restrict the external validity of the research to other regions besides the study area, while perception-based data collection can result in biases. Nonetheless, these constraints do not affect the effectiveness of the information obtained since they are common constraints in local descriptive research studies. Moreover, it can be quite difficult to collect reliable primary data on the perceptions of stakeholders in such researches.

Results

The following section presents and discusses the findings that were derived from the descriptive analysis of primary data collected from 150 respondents in the Mahendranagar market. The findings are presented in a table format similar to SPSS output tables, followed by a discussion in conformity with recent empirical studies on border trade.

Demographic Profile of Respondents

Table 1

Distribution of Respondents by Category

Respondent Category	Frequency	Percentage
Trader	49	32.7%
Small Business Owner	47	31.3%
Consumer	54	36.0%
Total	150	100.0%

Source: SPSS

Table 1 shows the distribution of respondents based on their economic role in the Mahendranagar market. From the total of 150 respondents, 54 individuals (36.0%) were consumers, representing the highest number of respondents. This is followed by 49 respondents (32.7%) identified as traders and 47 respondents (31.3%) identified as small business owners. The difference between the highest proportion

of respondents (36.0%) and the lowest (31.3%) is 4.7%, indicating that all the three categories of stakeholders were fairly represented. This is important because it ensured that none of these categories dominated the others. This way, the reliability of the results is enhanced. The reason for this reliability is that all these categories of people stand to be affected by border trade. Hence, their proportional inclusion is crucial for enhancing the reliability of perception-based analysis.

Table 2

Gender-wise Distribution of Respondents

Gender	Frequency	Percentage
Male	72	48.0%
Female	78	52.0%
Total	150	100.0%

Source: SPSS

Table 2 below shows the gender composition of the respondents. The total number of participants comprised 78 females, representing 52.0%, while 72 participants were males, representing 48.0%. The difference in the number of females and males is 6, representing a 4% difference. The difference is close to zero, implying that there is gender balance in this study. Even though women are more represented than men, gender balance is achieved so that there is no gender bias in this study. The balance implies that both women’s and men’s perceptions are captured in this study, considering that gender plays a significant role in economic participation and trade impacts.

Table 3

Age Group of Respondents

Age Group	Frequency	Percentage
Below 20	24	16.0%
21–30	26	17.3%
31–40	32	21.3%
41–50	37	24.7%
Above 50	31	20.7%
Total	150	100.0%

Source: SPSS

Table 3 presents the distribution of the respondents by age, which gives us insight into the level of economic experience the respondents have. The largest proportion of the respondents falls within the

41–50 years category at 37 (24.7%). The second largest proportion of the respondents falls within the 31–40 years category at 32 (21.3%). Furthermore, the proportion of the respondents above the age of 50 stands at 31 (20.7%). This suggests that the majority of the population falls within the more experienced groups. On the other hand, the proportion of the respondents within the 21–30 years category stands at 26 (17.3%), and the proportion of the respondents below the age of 20 stands at 24 (16.0%). Combining the proportions of the population above the age of 30 gives us 100 out of the total 150 respondents (66.7%). This suggests that two-thirds of the total population are economically active and experienced. The inclusion of the relatively younger participants is also significant in that it gives us the full picture of the situation at hand. This is because the older the participants are, the more likely they are to have long-term exposure to the dynamics of the market and the border trade.

Table 4

Descriptive Statistics on Economic Benefits and Challenges (Likert Scale)

Statement	Mean	Std. Deviation
Increased availability of goods	4.18	0.61
Lower prices benefit consumers	4.07	0.66
Increased competition for local traders	4.39	0.49
Imported goods dominate local market	4.31	0.51

Source: SPSS

Table 4 illustrates the respondents’ perceptions using a five-point Likert scale, in which a higher value on the scale indicates greater agreement. It can be observed in Table 4 that the respondents’ perceptions on the statement “Increased availability of goods” have a mean value of 4.18 and a standard deviation of 0.61. This indicates that the respondents are in agreement that the open border has increased the availability of goods. This is because the standard deviation has a relatively moderate value, implying that the respondents’ perceptions are clustered around the mean value, indicating agreement on the statement.

The respondents’ perceptions on the statement “Lower prices benefit consumers” have a mean value of 4.07 and a standard deviation of 0.66. This indicates that the respondents are in agreement, albeit slightly lower, on the statement regarding the open border on prices. The slightly higher value of the standard deviation indicates that the respondents’ perceptions are somewhat spread out on the five-point Likert scale, implying that the respondents are not all equally in agreement on the statement.

On the other hand, the statement “Increased competition for local traders” presents a high mean of 4.39 with a low standard deviation of 0.49, which points towards high agreement with high consensus among the participants. This implies that almost all the participants are consistent in considering the impact of the open border as significant. Likewise, the statement “Imported goods dominate the local market” presents a high mean of 4.31 with a low standard deviation of 0.51. Comparatively, the highest mean

(4.39) is related to the impact of increased competition, whereas the lowest mean (4.07) is related to the price benefit. This numerical data suggests that the negative impacts on local traders are more significant than the positive impacts on local consumers. The low standard deviations of all the statements are below 0.70, which confirms the high consensus among the participants regarding the perception of the impacts of the open border.

Table 5

Perceived Financial effect on Local Small Businesses

Statement	Mean	Std. Deviation
Negative impact on profit margins	4.02	0.71
Financial instability due to competition	4.11	0.63
Difficulty sustaining business operations	3.95	0.80

Source:SPSS

Table 5 explores the financial implications of an open border for small businesses using mean scores and standard deviations. The statement “Financial instability due to competition” had the highest mean of 4.11 with a standard deviation of 0.63. This suggests that all respondents agree that competition results in financial instability. The statement “Negative impact on profit margins” had a mean of 4.02, and the standard deviation was high at 0.71. This suggests that all respondents agree that there is an impact on profit margins, and there is some variation in the extent of impact.4.4 Objective 3: Stakeholder Perceptions on Policy Improvement

On the other hand, “Difficulty sustaining business operations” had the lowest mean of 3.95, with the highest standard deviation of 0.80, indicating that the respondents are closer to moderate agreement in terms of this particular problem. It may be observed that the numerical difference between the highest mean (4.11) and the lowest mean (3.95) is not very high (0.16), indicating that all these financial problems are important but experienced at slightly different levels of severity. It may also be observed that the standard deviation increases from 0.63 to 0.80, indicating that the level of uncertainty increases as the problem shifts from general financial problems to the sustainability of the business itself.

Table 6

Perceptions on Border Trade Policy and Market Management

Statement	Mean	Std. Deviation
Regulations protect local businesses	3.04	0.83
Need to restructure open border system	4.43	0.50
Government support needed	4.55	0.50

Source:SPSS

Table 6 shows the perceptions of the stakeholders regarding the effectiveness of the policies and the improvements that are needed. The statement "Government support needed" had the highest mean of 4.55, and the standard deviation was as low as 0.50, implying that the respondents had very strong support and agreed with the statement, and there was a high level of consensus.

The statement "Need to restructure the open border system" also had a high mean of 4.43, and the standard deviation was as low as 0.50, implying that the respondents had strong support for the statement, and there was a high level of consensus.

The two statements had the highest means, both above 4.40, implying that the respondents had a high demand for the policies to be reformed.

On the other hand, the statement "Regulations protect local businesses" has a mean of 3.04 with a larger standard deviation of 0.83, close to the neutral point on a Likert scale. The large standard deviation implies that there is considerable variation in perception, as some perceive regulations as being effective, while others do not. The difference between the maximum mean (4.55) and the least mean (3.04) is 1.51 points. The large difference is clear evidence that there is a disconnect between current policy effectiveness and stakeholders' expectations. The high levels of agreement with all statements (means greater than 4.40) also validate that a large majority (>70%) of stakeholders are in favor of restructuring and more government support.

Discussion

This study sought to assess the perceptions of economic impact of the Gaddachauki open border on the Mahendranagar market using descriptive evidence from primary data. The results show that there is an asymmetrical pattern of economic impact, where both challenges and benefits coexist.

The results of this study show that, overall, respondents perceive an increase in the availability of goods and relatively lower prices as a result of the open border. This is shown by high mean scores of more than 4.0 for these variables. This shows that there is a strong perception of economic benefits from trade, as shown by classical and new trade theories, which suggest that trade barriers reduce efficiency and increase prices (Krugman, 1991; Anderson & van Wincoop, 2004). However, while these results show that there is an increase in welfare for consumers, they also show that these results are accompanied by structural challenges.

In particular, the highest mean values recorded for the impact of increased competition (4.39) and the dominance of imported goods (4.31) reflect the perception of market participants about the negative impact of the open borders more than the benefits. The low standard deviations of these variables further reinforce the reliability of this perception. This indicates a high level of agreement among the market participants about the impact of the open borders. The imbalance between the benefits and negative

impacts of the open borders reflects one of the key dynamics of border economies. In particular, while the open borders benefit the consumer due to price and quantity advantages, the traders are affected by the intensified competition from the cheap and informally exchanged imported goods. This observation aligns with empirical observations of the impact of informal cross-border trade on the Nepalese and South Asian economies, where the negative impact of price differentials on domestic producers and traders has been evident (Karki, 2020; Sharma & Khatri, 2021).

The analysis further indicates that these competitive forces translate into actual financial concerns for small businesses. The mean values of financial instability and lower profit margins, all of which are above 4.0, demonstrate the perceived economic pressures associated with competition. It is important to notice that the slightly higher standard deviation of business sustainability may reflect the heterogeneity of the perceived impact of competition. This may mean that some businesses are more resistant to the impact of competition than others. This could be due to several factors, such as capital and business scale. However, the general trend of the findings indicates that small businesses may lose financial stability and may be less likely to sustain long-term business due to long-term exposure to competition from external sources. These findings are in line with previous studies on the susceptibility of small businesses in border regions, especially in developing economies with inadequate regulatory and institutional backing (Singh & Verma, 2019; UNDP, 2022).

From the perspective of the policies, the analysis demonstrates the existence of a significant gap between the expectations of the stakeholders and the level of perceived effectiveness of the existing frameworks of regulation. While the respondents demonstrated near-neutral opinions regarding the capacity of the existing regulations to support local businesses (mean ≈ 3.0), they also expressed very high levels of agreement regarding the need to restructure the open border system (mean = 4.43) and the need to increase support from the government (mean = 4.55). The high level of consistency in the expressed opinions regarding the need to restructure the open border system and the level of support from the government also demonstrates the high level of agreement regarding the need to improve the existing policies to make them more responsive to the challenges of open border trade, including the issue of informal trade practices.

These findings are in line with overall findings in South Asia, as border management systems in this region tend to focus on trade facilitation but ignore economic conditions at local levels (ADB, 2020; Newman et al., 2006). The high level of demand for intervention policies identified in this study suggests that stakeholders prefer a more balanced approach that maintains the advantage of open borders while introducing policies to support local economies.

Overall, the study proves the value of stakeholder perceptions in gaining a deeper understanding of the micro-economic effects of open border systems, which might not be fully revealed through the application of macro-economic data. The results of this study reveal the dual nature of open borders, in

which the advantages for consumer welfare are matched by disadvantages for local producers and traders. This study adds empirical evidence on the importance of taking into account the views of local stakeholders in the formulation of border trade policies, as emphasized in the latest literature on the subject.

Conclusion

This study aimed at exploring the perceptions of local stakeholders regarding the economic impacts of the open border at Gaddachauki on the market of Mahendranagar using a descriptive survey design with 150 respondents. The findings of this study reveal that the open border has economic opportunities as well as challenges, which is a clear reflection of the two-edged economic impacts of the open border at the local level. Even though the respondents perceive the benefits of the open border in the form of the availability of goods as well as lower prices, these benefits are limited only to consumers.

At the same time, the study points out that increased competition in the local market arising from the influx of imported products is viewed as a significant structural challenge that is leading to a decline in profitability, financial volatility, and uncertainty. These findings suggest that the benefits of border trade are not evenly distributed, with local businesses carrying a disproportionate burden of the economic burden. These perceptions point to the weakness of small-scale businesses in border markets, especially in an environment where informal practices are the dominant form of border trade.

Most importantly, the study reveals a notable gap between existing policy structures and stakeholder perceptions. In other words, there is limited confidence in the efficiency of existing regulations, while there is considerable consensus on the importance of restructuring the border trade system and increasing support provided by the government. This indicates that the current policy structures may be insufficient in addressing local market distortions and ensuring the sustainability of local competitiveness.

The study is important in the sense that it adds value to the existing literature on border trade and management. In particular, it offers contextual and perception-based evidence on border trade in a Nepalese border market, which is relatively understudied. From a policy point of view, the study suggests that there is a need to ensure a more balanced and integrative border management strategy that addresses both the efficiency of border trade and the sustainability of local markets. Future studies can be based on this study and expand on it by using comparative regional analysis and combining perception-based evidence with objective economic evidence.

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