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Remittance Dependency and Strategic Autonomy: How Labor Migration is Shaping Nepal's Foreign Policy Options

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ABSTRACT

Remittances account for a significant portion of Nepal's GDP, making labor migration central to the national economy and embedding it as an important socio-economic trend in recent decades. This paper argues that this trend of Nepal's dependency on labor migration and remittance inflow has brought new elements in Nepal's foreign policy, a dual dynamic that has restructured Nepal's foreign policy behavior from the traditional aspect, constraining strategic autonomy on one side- being dependent on maintaining good relations with host countries while simultaneously generating new arenas and opportunities to exercise diplomatic influence on the other side via labor diplomacy and diaspora network. It also explores how Nepal's economic reliance on migrant destination countries, including the Gulf countries, Malaysia, and India, has pushed it to prioritize migrants' welfare and bilateral labor relations over broader geopolitical ambitions. The paper applies a qualitative research design, utilizing secondary data, policy briefs, reviews, and discourse analysis to examine the nexus between remittance dependency and foreign policy behavior. Preliminary analysis of this literature shows that Nepal's foreign policy priorities are increasingly focused on the welfare of its migrant workers and on maintaining good relations with host countries, thereby creating a structural vulnerability, as abrupt changes in overseas labor demand or foreign policy will directly affect domestic stability. However, labor migration also offers opportunities for leverage through soft power involvement, diaspora networks, and labor diplomacy.

Introduction

Millions of Nepali citizens travel to distant countries each year, leaving behind their families and familiar environments in pursuit of greater employment opportunities abroad. They work all over the world, from the factories in Malaysia and the construction sites in Qatar to the care facilities in Japan and the security agencies in the Gulf states. According to the 2021 National Population and Housing Census, more than 2.1 million Nepali citizens were absent from the country, with 77 percent of these absences attributed to work-related reasons (National Statistics Office, 2023). This claim is further backed up when analysed along with the data from the Department of Foreign Employment (DoFE), which shows that in the last decades,

from 2014/2015 to 2023/2024, over 3.4 million new labor approvals for overseas employment were granted. This data excludes the labor migration to India, which the 2021 census data showed over 587,510 Nepalis working in India at the time of enumeration, while another data from the Nepal Living Standards Survey (NLSS) 2022/23 estimated that number to be more than one million (National Statistics Office, 2023). All of these constitute a workforce, a migrant workforce working abroad and sending money back to the country. The money that the migrant workers send home, i.e, remittances, has fundamentally transformed Nepal's economy. In 2023, remittances accounted for approximately 26.89% of Nepal's GDP, making it one of the most remittance-dependent countries globally (The Global Economy, 2024). Likewise, remittance inflows to Nepal accounted for more than one-fourth of its GDP in FY24, thus far surpassing FDI and other official development assistance, placing Nepal among the top remittance-receiving countries globally (World Bank, 2024). This is not just an economic statistic; it is a mirror that shows profoundly how Nepal sustains itself and, more importantly for this paper, how it engages with the outside world. The above sentence highlights the volume of remittance inflows, placing labor migration not simply as an additional external element of Nepal's economic development, but at the very core of its contemporary economy and social structure. It has transformed labor migration into a structural determinant of its foreign policy behaviour.

Nepal's foreign policy analysis has traditionally focused heavily on its geopolitical strategic location between two emerging giants, India and China, focusing on how it manages sovereignty and relationships with these neighbors. Many scholars and policymakers have extensively debated this balancing act, as well as Nepal's roles in international organizations, UN peacekeeping, and trade dependencies. While these perspectives offer valuable insights into Nepal's foreign policy aspects, they also miss a critical dimension of contemporary Nepali statecraft: that is, the fact that millions of its citizens work abroad and that the country's economic stability depends fundamentally on their continued ability to do so. In 2023, 494,000 Nepali citizens left the country to work abroad, representing a continuous stream of labor migration that has become integral to the nation's economic survival (Asian Development Bank, 2024). This labor migration and the resulting remittance flows have created new dynamics in Nepal's foreign policy that remain inadequately theorized and analyzed.

This is not simply about economics affecting politics, though that is undoubtedly part of the story. Instead, it is about understanding how a nation's workforce shows global movement, creating both constraints and opportunities in its diplomatic engagements. If, as it is often argued in small-state foreign policy theory, the autonomy of any state's foreign policy is conditioned by structural dependencies (Katzenstein, 1984; Thorhallsson, 2006), then Nepal's deep dependence on remittances may also constitute a hidden but powerful constraint that has remained understudied for a long time. On one side, we have remittances providing much-needed support to household incomes, reducing poverty, and shoring up foreign exchange reserves (Malla, 2009). Remittances have played a crucial role in mitigating the impact of shocks on households and facilitating access to basic services, such as education and healthcare (Thapa-Parajuli et al., 2025).

On the other hand, when a country depends on other nations to employ its vast pool of citizens and when those employment relationships generate resources that keep the domestic

economy afloat, what does that mean for the country's strategic autonomy? At the same time, this same dependency generates new forms of diplomatic leverage and engagement. Labor migration has given Nepal tools of labor diplomacy: bilateral agreements, institutional channels, and ongoing negotiations around worker protection and market access. Thus, at the core of this paper is the argument that Nepal's growing dependence on remittance inflows has transformed labor migration into a structural determinant of its foreign policy behaviour, constraining its strategic autonomy while simultaneously opening new avenues for diplomatic engagement through labor diplomacy, diaspora networks, and soft power.

This trend of migration and reliance on remittances poses significant questions for Nepal's foreign policy and diplomatic stance, which are often not widely studied. Therefore, the question at the heart of this paper is straightforward yet crucial: How does remittance dependency—a condition where a nation's economy fundamentally relies on money sent home by workers abroad— influence Nepal's ability to pursue independent foreign policy choices?

Understanding the dual dynamics produced by remittance inflow matters for several reasons. First, it fills a significant gap in the literature on Nepal's foreign policy, which has not adequately addressed how labor migration shapes state behavior. Second, it contributes to broader theoretical discussions of small-state foreign policy by showing how non-traditional economic factors can reshape the diplomatic landscape. Third, it has practical relevance for policymakers in Nepal and other remittance-dependent countries who must navigate these complex dynamics. Finally, as global migration continues to grow and reshape international relations, understanding cases like Nepal becomes increasingly important for comprehending contemporary world politics. This paper attempts to fill the above-mentioned gaps.

The following section develops the argument by first establishing the theoretical framework and then analyzing the case of Nepal. The methodology section outlines the research approach, explaining how secondary data and discourse analysis enable us to trace the connections between remittance dependency and foreign policy choices. The analysis unfolds in two main sections: firstly, examining how remittance dependency constrains Nepal's strategic autonomy, then exploring the opportunities and leverage it creates. A subsequent subsection discusses how Nepal balances these competing dynamics in practice, followed by the future implications and a pathway forward. Finally, the paper concludes by reflecting on the broader implications for small states, offering policy recommendations for Nepal and charting directions for future research.

Theoretical Framework and Literature Review

Understanding how remittance dependency shapes Nepal's foreign policy requires drawing on multiple strands of existing theoretical literature. This section of the paper establishes the conceptual foundations by examining three interconnected literatures: small-state foreign policy theory, the literature on economic dependencies and state behavior, and emerging work on labor diplomacy and migration as tools of statecraft. When taken as a whole, these frameworks offer an analytical lens through which Nepal's foreign policy decisions may be viewed as outcomes significantly influenced by the nation's place in international labor markets rather than merely reactions to geopolitical forces.

Small State Foreign Policies: Limitations and Opportunities

The scholarly literature on small states has evolved considerably over recent decades. For this paper, small states refer to countries with limited material capabilities, like small populations, restricted economic resources, and minimal military power, that constrain their ability to influence international affairs independently (Vital, 1967). Nepal qualifies as a small state not solely by population but through its economic vulnerability, limited coercive capacity, and structural dependencies that render it responsive to rather than determinative of regional dynamics.

Early scholars such as Keohane (1969) and Rothstein (1968) emphasized the limitations of small states and the need to navigate great-power politics carefully. Traditional realist approaches viewed small states primarily as vulnerable actors forced to either bandwagon with stronger powers, engage in balancing, or seek protection through alliances. However, more recent scholarship has moved beyond this deterministic view. Since the end of the Cold War, studies have increasingly analyzed how and under which conditions small states succeed in influencing international affairs and contributing to international society (Panke & Thorhallsson, 2024). Likewise, central to the small state theory is the concept of structural vulnerability, that is, the exposure to the external shocks that are beyond state control.

According to Alesina and Spolaore (2003), small states' viability depends fundamentally on the openness of the global economy, creating what can be termed "dependency on openness." In the case of a country like Nepal, these theoretical notions of trade openness encompass the labor movements as well. Nepal's foreign policy autonomy is structurally constrained not by military threats but by economic dependencies that make it vulnerable to policy changes in labor-hosting countries.

Within this literature, small state theory also introduces the concept of compensatory strategies, mechanisms through which small states offset their structural disadvantages. These include shelter-seeking or bandwagoning (relying on larger powers or institutions for protection), niche diplomacy (developing specialized expertise in specific issue areas), and diversification (spreading dependencies across multiple partners to avoid capture by any single power) (Thorhallsson, 2011; Ingebritsen, 2006). There is one central argument in all this: the trade-off between autonomy and dependence. Small states often must balance their desire for independent action against their reliance on larger powers, external markets, or international institutions for security, trade, and development (Hey, 2023). For Nepal, the autonomy-dependence trade-off is complicated by an additional external factor: the country's structural reliance on remittances and labor migration. Unlike traditional dependencies on trade or security guarantees, Nepal's dependence operates through the bodies and livelihoods of its citizens working abroad, creating unique constraints and opportunities that existing small state theory has not fully addressed.

Dependency theory: Impact of asymmetrical interdependence

Dependency theory, originally articulated by Frank (1966) explains how poorer nations (the periphery) remain structurally dependent on wealthier nations (the core) for trade, investment, and technology. Frank argued that this relationship inherently benefits the core at the periphery's

expense: poorer countries export raw materials and cheap labor while importing expensive manufactured goods, creating unequal exchange that perpetuates underdevelopment rather than remedying it. In terms of emittance dependency, it represents what we might theorize as "labor export dependency, where a country's economic stability relies on exporting human capital rather than natural resources or manufactured goods. This creates a specific form of what Armstrong (1981) terms "asymmetric economic interdependence," in which one party's reliance significantly exceeds the other's, creating the space for political leverage. For example, when Nepal depends on Gulf states or Malaysia to employ its citizens, but these countries face no comparable dependence on Nepali labor, given abundant alternative sources, the asymmetry becomes a defining structural feature of the relationship.

However, there are scholars like Keohane and Nye whose theories of complex interdependence suggest that economic dependency does not directly translate into political compliance, needing a more nuanced understanding. They recognize that asymmetric relationships create both constraints and opportunities for weaker parties. Independent theory put forward two dimensions: sensitivity (how quickly changes in one country affect another) and vulnerability (the costs of adjusting to those changes)[(Keohane & Nye, 1977)].

As already mentioned above, literature on labor migration and remittance impacts shows that while remittance contributed to a substantial percentage of Nepal's GDP, it also contributed to lifting the per capita income and uplifting the household income; it also introduced new forms of economic vulnerabilities by tying the household and macro-economies to the global labor market and global relations directly. Many remittance scholars and studies, while focusing on the impact of remittances on domestic stability and household spending, such as Sijapati and Limbu (2017), Sharma (2019), and Thapa-Parajuli (2025), do not examine the foreign policy implications that remittances create. On the other side, many international political scholars have hardly explored the implications of economic dependency beyond trade and aid, thus creating a gap.

Labor Diplomacy as a Tool of Statecraft

There is a growing body of literature highlighting how labor migration and diaspora engagement have become crucial components of a state's foreign policy behaviour. Scholars such as Ball and Piper (2002), Piper and Iredale (2003), and Wickramasekara (2015) have documented how Asian labor-sending countries increasingly use labor diplomacy -the strategic management of migrant worker flows, rights, and welfare in destination countries- as both an economic and diplomatic tool.

For Nepal, labor diplomacy has emerged as one of the most vital yet understudied and undertheorized sections of studies. The current embassies and Consular services of Nepal in Gulf countries, Malaysia, and Japan act not only as diplomatic posts but also as migrant worker governance institutions that oversee and mediate relations among Nepali migrant workers, Host countries, private companies, and employers, as well as Nepal's national interests. These embassies carried out multiple, and often overlapping, roles that extend far beyond conventional diplomatic functions, such as serving as regulatory bodies by monitoring recruitment agencies, verifying employment contracts, and ensuring compliance within bilateral labor agreements. They also provide consular assistance to workers facing exploitation, wage theft, or any legal

troubles, and coordinate emergency repatriations when necessary, thus acting as welfare institutions for workers abroad. They also act as information hubs, collecting data on labor market conditions, worker grievances, and policy changes in host countries that might affect Nepali migrants and their foreign policy options. Sometimes they also function as dispute resolution mechanisms, mediating conflicts between workers and employers in foreign jurisdictions. For instance, Nepal's embassy in Qatar does not just handle traditional state-to-state relations; it manages a complex ecosystem involving over 400,000 Nepali workers,

The Bilateral agreement signed with the GCC demonstrates attempts to manage migrant workers' welfare while also ensuring critical remittance inflows. Thus, labor diplomacy bridges the gap between foreign policy and economic necessity, offering an innovative framework for examining how small states manage and negotiate their external vulnerabilities in the global labor market.

Synthesis: Towards a Conceptual Framework for Labor Migration/Remittance-Driven Foreign Policy

By bridging all three theoretical understandings, it provides us with a composite framework to analyse Nepal's labor-migration-driven foreign policy options. Small state theory explains the structural vulnerabilities and compensatory strategies that small states like Nepal show to survive in a competitive international system. Dependency theory shows the complex interdependence and asymmetric relations, and how they constrain a state's political autonomy; Labor Diplomacy shows how migration governance itself can become a tool of foreign policy.

All together, they show that Nepal's foreign policy options in contemporary times cannot be fully understood through a traditional geopolitical lens. Instead, it must be analysed through the deep interconnectedness between economic dependence and political sovereignty, shaped by the liberal global order of labor and capital. This conceptual framework will explain how remittance dependency, while economically stabilizing, reconfigures the very logic and limits of foreign policy in small, labor-exporting states.

Methodology

This paper employs a qualitative research design using secondary data analysis and discourse analysis to examine how remittance dependency shapes Nepal's foreign policy behavior. The interpretive approach recognizes that foreign policy choices emerge from complex interactions between structural constraints and strategic opportunities, requiring in-depth analysis rather than statistical correlation. Among the sources examined are Nepal's Foreign Policy 2020, bilateral labor agreements, parliamentary discussions, remittance and migration data from the Department of Foreign Employment and Nepal Rastra Bank, and reports from international organisations such as the International Labor Organization (ILO) and the World Bank. The above document analysis is supported by academic studies on labor diplomacy, dependency theory, and small-state behaviour, which provide theoretical grounding for the empirical investigation.

Documents were chosen for their significance, credibility, and direct relation to remittances, labor migration, and the foreign policy decision-making process in Nepal. The study systematically reviewed key policy and institutional documents to identify recurring

themes related to remittances, labor migration, economic vulnerability, and diplomacy, and then applied discourse analysis to examine how remittances and labor mobility are framed as economic necessities, development strategies, or tools of diplomacy. Changes in language and policy emphasis were analysed to understand how remittance dependency shapes Nepal's foreign policy behaviour.

Results and Discussion Analysis and Findings: Remittance Dependency and Nepal's Foreign Policy Behaviour

Remittance Dependency as Structural Constraints

Remittance, post-adaptation of neoliberal economic policies in the 90s and, more prominently, in the last two decades, has become a stronger pillar holding up Nepal's economy. The share of remittances in Nepal's GDP rose from under 5% in the 1990s to over 20% in recent years (Global Compact for Migration, 2024). Thus, it plays a crucial role in maintaining domestic stability, as it contributes hugely to the national GDP. Given such a significant contribution, it is clear that foreign policy is inherently tied to remittances and labor migration, as maintaining the flow of labor and remittances has become crucial.

At the same time, this structural dependency on remittance also exposes a greater constraint on Nepal, as such a dependency on external factors like remittance inflow, which is dependent on external actors, that is, the access of its citizens to the labor market of the host country, limits Nepal's freedom to maneuver in the international system. For example, any changes in the foreign market, such as a ban on Nepali workers in key destination countries, will directly reverberate domestically and, in effect, affect Nepal's foreign policy calculations in dealing with these countries. In simple terms, a reduction in Nepali labor abroad would not be just an economic or trade issue but a diplomatic concern with cascading effects on household economies and the nation's macroeconomy, given that remittances constitute over 26% of Nepal's GDP and support millions of households (*The Global Economy*, 2024).

Small state theory further helps us understand this, as under such circumstances, small states like Nepal employ compensatory strategies to overcome structural vulnerabilities, meaning the state will prioritize protecting access to the labor market over other issues. It means Nepal's foreign policy will prioritize maintaining good relations with destination countries over other geopolitical and international obligations. A very striking example of the intersection of remittance dependency and foreign policy options can be seen when the temporary ban was observed from destination countries like Saudi Arabia and Korea following Nepal's initiation to enhance its labor protection via the "Free Visa-Free Ticket" policy and the enforcement of the G2G (Government-to-Government) mechanism under the Employment Permit System (EPS) with Korea. The diplomatic tension emerges. Saudi Arabia implicitly slowed hiring, and Korea paused the new requirement, underscoring Nepal's fragile bargaining position (Adhikari, 2023). This example clearly shows how a destination country can easily put pressure on Nepal, leveraging the access to its labor market as structural power to back off or adopt conciliatory measures. The example clearly shows Nepal's inherent vulnerability to external factors, where a state is forced to adopt conciliatory measures to avoid losing market access and remittances, and sometimes this comes at the cost of its own citizens' welfare. This clearly shows how structural dependence on remittances shapes the nation's foreign policy behaviour.

Labor Migration Flow Shapes Foreign Policy Priorities

The above arguments suggest that Nepal's foreign policy options have, in some ways, moved beyond conventional priorities in territories, trade, and defence, and are increasingly prioritizing migrant welfare, given that remittances have become an integral part of the national economy. Nepal's diplomatic mission and embassies regularly engage with the Bilateral Labor Agreement (BLA) on migrant labor welfare, reflecting Nepal's foreign policy priorities. If any destination country changes its labor policies or restricts Nepali workers, it will immediately become a diplomatic priority, and Nepal must respond not only via employment and labor policy but also via diplomatic strategy. Thus, Nepal must constantly monitor the destination nation's labor policies and adapt accordingly, which, in turn, limits Nepal's independent foreign policy options.

At the same time, the large number of Nepali migrant workers in the international labor market has created the potential for Nepal to exercise labor diplomacy and diaspora pressure, though this is often less exercised. The Nepali state can also impose the labor ban on host countries as a bargaining chip if Nepali workers are mistreated, especially if the laborers are present in huge numbers. However, given the asymmetrical interdependence, the effectiveness often remains limited, as host countries have many other labor sources. Thus, while labour diplomacy gives small states like Nepal a form of agency, it also exposes its limitations.

Balancing the Autonomy and Dependence: Strategies and Trade-offs

It is seen that the central tension in Nepal's Foreign Policy, created by remittance dependency, lies between maintaining the autonomy to pursue an independent foreign policy and dependence on remittance inflows to sustain the domestic economy. On the one hand, given remittances' contribution to national GDP, Nepal has no position to lose access to the foreign labor market or reduce remittances. On the other hand, it may wish to pursue large-scale diplomatic ambitions, such as joining a regional or international alliance or compact, which might contradict the interests of the destination countries. For example, Nepal might want to be part of the regional alliance or support another country's initiative, but this displeases the destination country of Nepali labor migrants, who retaliate by introducing stricter labor laws. In such situations, despite the desire, Nepal might not take assertive action, as it could not risk losing access to the destination nation's market. Another clear example of this is the temporary ban imposed by Saudi Arabia in 2018, following the death of a Nepali migrant, which aroused diplomatic tension. Nepal, which relied on remittances from the Saudi labor market, was forced to treat it carefully and avoid the escalation. This incident shows how Nepal's economic dependence on remittances from labor-exporting countries constrains its ability to take specific diplomatic actions that might conflict with those countries' interests, thereby limiting Nepal's foreign policy autonomy.

However, on the other hand, Nepal is not always a passive actor. The strategy of diversification in the labor market can be a means to maintain and regain autonomy. Rather than relying solely on the traditional labor-exporting nation of Nepali migrant workers, currently the Gulf countries and Malaysia, Nepal can look to labor markets beyond that and strengthen its bargaining position. Some scholars also suggest that if Nepal can diversify its labor expertise—from exporting pure labor or semi-skilled labor to skilled or value-added labor, then dependency

can be reduced, thereby creating opportunities for various foreign policy options (Mishra & Kunwar, 2020).

Moreover, labor diplomacy provides Nepali Embassies and diplomats with the opportunity to exercise foreign policies beyond the conventional arena, and beyond the conventional topic of being sandwiched between two huge nations, India and China. The inclusion of the migrant welfare policy in the diplomatic mission shows that Nepal's foreign policy is moving beyond the traditional narrative and reconfiguring its policy objectives.

Foreign Policy Pattern as Empirical Evidence

More recently, the foreign policy documents and diplomatic speeches of Nepal, increasingly include foreign employment, migrant welfare, and bilateral labor agreements in their content. The government actively engages in renewing and upgrading bilateral labor agreements with key destination countries, primarily in the Gulf Cooperation Council (GCC) region, such as Qatar, the United Arab Emirates, Malaysia, Israel, and the United Kingdom. These agreements aim to safeguard fair labor standards, minimum wages, social security portability, and protection against exploitation. Likewise, the Nepal Labor Migration Report 2020, produced by the Ministry of Labor, Employment and Social Security (MoLESS, 2020), provides a comprehensive analysis of labor migration trends from 2017 to 2019, emphasizing the government's efforts to safeguard the rights and welfare of Nepali migrant workers throughout the migration cycle. It reports that remittance contributors account for over a quarter of the national GDP and, in detail, explains Nepal's multi-level policies to make foreign labor migration safe, dignified, and fair to migrant laborers. These government initiatives show how labor migration and migrant welfare are becoming significant priorities in foreign policies and international engagement. Thus, labor migration and remittances are now not only significant socio-economic issues but also critical foreign policy issues.

Dual Dynamic: Dependency and Agency

The above analysis thus shows the dual dynamics at work: the dependency and the agency. Remittance dependency creates constraints and vulnerability and limits a nation's strategic autonomy to exercise an independent foreign policy, as it directly ties the nation's strategic choices to external actors, i.e., the labor-exporting countries' policies and interests. For example, Nepal's responses to worker rights violations in Gulf countries remain carefully crafted even when Nepali workers face abuse or exploitation, and diplomatic protests are often muted to avoid jeopardizing bilateral relations that sustain remittance flows. However, at the same time, the new arenas also provide opportunities amid the constraints, opportunities to diversify Nepal's foreign policy options beyond Nepal's immediate neighbours, and establish bilateral relations with countries like Malaysia, Qatar, South Korea, which otherwise have limited strategic interest in Nepal, and to encourage innovation in diplomatic practices such as labor diplomacy, diaspora diplomacy, migration governance, and so on.

Hence, we may restate the central argument of this paper: Nepal's growing dependency on remittance inflows has turned remittances into a structural determinant of Nepal's foreign policy, creating constraints on the one hand and opening new avenues for diplomatic engagement on the other.

It also means Nepal's strategic autonomy is being reconfigured and understood beyond the conventional narrative that ties it to geopolitical manoeuvres to safeguard migrant flows, negotiate labor conditions, and diversify labor destinations. This also shows the new arena for small states, which is less about military and natural resources per se and more about negotiating between labor and market dependency.

Implication and Pathway Forward

The above analysis has identified several policy implications. The first is that Nepal should aim to diversify its labor market away from conventional destinations in the Gulf. Secondly, it needs to upgrade the skills of its migrant labor so that Nepal can negotiate better terms with the labor-exporting nations and reduce its dependency. Thirdly, it needs to institutionalize labor diplomacy and train its diplomatic personnel accordingly. Moreover, finally, the state should find a way to convert remittance into productive domestic investment, thereby reducing the vulnerabilities created by remittance dependency.

Likewise, from a theoretical perspective, the above analysis contributes to the literature on small-state foreign policy behavior by showing that, in contemporary times, remittance inflows and labor migration should also be treated as structural variables influencing small states' foreign policy options. It also shows that foreign policy is shaped not only by geopolitics and trade, but also by People's mobility and the labor movement.

Conclusion

By combining small state theory, dependency theory, and labor diplomacy scholarship, the paper reveals how remittance dependency is fundamentally reshaping foreign policy for labor-exporting countries. It shows that Nepal's foreign policy cannot be understood completely through a traditional geopolitical lens alone. Small state theory shows that Nepal's vulnerability comes not from military threats but from economic dependence on foreign labor markets.

The theoretical framework applied here shows three interconnected dynamics. First, small state theory (Vital, 1967; Thorhallsson, 2011) explains Nepal's structural vulnerabilities, its limited material capabilities, economic fragility, and exposure to external shocks beyond state control.

Nepal exemplifies what Alesina and Spolaore (2003) termed "dependency on openness," where state life depends on access to global markets. For this paper, this concept extends to labor mobility. Here, Nepal's structural vulnerability manifests not through military threats but through economic dependencies, dependency on the global labor market, which makes it vulnerable to policy changes in labor-hosting countries like recruitment bans in Malaysia or visa restrictions in Gulf states (Mandal, 2018). These external shocks directly threaten household livelihoods and macroeconomic stability, constraining Nepal's diplomatic autonomy in ways traditional small state theory has not adequately theorized.

However, as mentioned above, dependency does not mean complete powerlessness. The same remittance dependency that constrains Nepal also creates opportunities through what this paper identifies as compensatory strategies predicted by small state theory, as mentioned by Thorhallsson. Labor diplomacy has emerged as a new arena for diplomatic engagement.

Thus, the paper reveals that the deep interconnectedness between remittance dependence and foreign policy autonomy of the nation, shaped by liberal labor and capital mobility, creates foreign policy constraints and opportunities that traditional geopolitical analysis cannot capture. The case of Nepal here persuades us to rethink how we view small state foreign policy in an era of mass labor migration, where millions of citizens work abroad, and remittances constitute the economic lifeline. Emerging studies on small states should reflect this reality, that in the 21st century, the ability to control transnational labor movements may be as significant a component for foreign policy as military strength or the size of territory was in earlier times.

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