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**TRADE EMBARGO AS A GEOPOLITICAL TOOL:
A CASE OF NEPAL-INDIA TRADE RELATIONS**

DOI: 10.2478/ppsr-2018-0004

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e-mail: dipuchand12@gmail.com**Abstract**

As interdependence grows, economic issues are increasingly political in their nature and impact, and political issues are increasingly economic. The interdependence is acute in issues that relate to international trade, and especially in the case of landlocked countries. Nepal is one such landlocked country, being between India and China, whose economy depends on the trade relations with its neighbouring countries. Two-thirds of Nepalese trade depends on India. The article presents a summary of Nepal-India trade cooperation, primarily the Nepalese dependence in trade and transit route to India and its effects. It also presents an overview of the trade pattern between the two countries and focuses on the trade embargoes by India. The article analyses the reason behind the embargoes of 1969, 1989 and 2015 and how the situations have been resolved. The embargoes imposed by India on Nepal seem to be more political in nature and their impacts are both political and economic. The Indian embargoes in Nepal follow an objective of compliance, deterrence and subversion. By analysing India's pursuance of trade embargoes against Nepal, the article reaffirms that landlocked nations such as Nepal are susceptible to manipulation by geopolitical threats since neighbouring countries adjust trade ties or use trade ties to fulfil their political, security and economic interests.

Keywords: Nepal-India trade relationship, trade embargo, interdependence, landlocked countries, Nepal blockade**Introduction**

The relationship between Nepal and India dates back to ancient times. They are linked together by geography, history, culture, religion, commerce and economy. The free movement of people and an open border between the two countries were forged since the Kingdom of Nepal was founded in 1789 by Prithvi Narayan Shah. The Treaty of Friendship, Trade, and Commerce, signed in 1950, was the beginning of new era of cooperation between the two countries. This treaty provided "national treatment" for the citizens of both the countries in each other's territory i.e. they have the freedom to work, live and buy property. Although in the treaty no preferential treatment was given to Nepalese exports

to India, India granted transit for goods to be imported and exported by Nepal via India. Subsequently, different treaties were signed between the two countries in 1971, 1978, 1996, 2002 and 2009. Apart from the treaties, cooperation between the two countries has been built on the foundation of mutual trust and friendship resulting in stable relationships for most of the times.

This age-old relation between the two countries has confessed many misunderstandings from time to time so much so that at times India has imposed trade embargoes on Nepal. Since Nepal is a landlocked country bordering India on the south, east and west, and China to the north, India has a near monopoly on trade transit for Nepal that makes these embargoes detrimental to Nepal's economic situation. So, has India imposed repeated trade embargoes on Nepal?

The article analyses the trade pattern between the two countries and focuses on the trade embargoes by India. The main aim of this article is to explore the reason behind the blockades and how the situations have been resolved. The article makes use of concepts in the international relations and political economy about dependence in trade and its political nature and impact to explain the reasons for the embargoes. The article reviews trade treaties and secondary resources to analyse the trade pattern and the logic behind the embargoes.

The article is divided into five sections. The first section explores relevant concepts on trade embargo and landlocked countries in international relations. The second section presents an overview of the political geography and geo-economic situation of Nepal. The third section focuses on the history of trade between Nepal and India. The fourth section focuses on the events leading up to the several trade embargoes and its impact on Nepal's economy. The fifth section discusses and analyses the reasons behind the trade embargoes and it also provides the conclusion.

Economic sanctions, trade embargo and landlocked countries

Economic sanctions have been used in international relations for hundreds of years in different forms. Hufbauer et al. (1990: 26–32) list at least thirteen prominent cases of economic sanction before World War I. The first known economic sanction in world history occurred in 432 B.C. when the Athenian Empire limited the entry of Megara's products into Athenian markets. The Athenian boycott of Magara helped to worsen the situation and resulted in the Peloponnesian War (Thucydides, 1972: 72–73). Back in the days of colonial America, the British tried to stop direct deal of the colonists with West Indies and instead gave the right to a private company, which conducted trade with a monopoly (McGee, 2004: 231). Since World War I, economic sanctions have become a popular tool of statecraft in the increasingly integrated global economy of the twentieth century.

P. Wallensteen (1983: 87–129), based on conclusions from previous scholarly studies and reviews of sanction cases, shows that the major objectives of sanctions are of five types – compliance, deterrence, subversion, international symbolism and domestic symbolism. First, the initiator may be seeking *compliance*, meaning the objective of the sanction is to create pressure upon targeted countries to follow the preferences of the initiator. The sanction imposed by the Great Britain against Italy in 1935 is an example of the compliance. In this case, the aim of sanction was to compel Mussolini to withdraw from Abyssinia. Second, the objective of the initiator may be *deterrence*, in which case the sanction is an

attempt from the initiator to make the targeted countries decide not to do something in the future. Third, the objective of the initiator may be *subversion*, a systematic attempt to overthrow the entire regime or remove the leaders of the targeted countries or undermine the government or political system. For example, the Soviet Union announced sanctions against Yugoslavia because Josef Stalin sought to establish a pro-Soviet leader by replacing Josip Broz Tito. The aim of the U.S. embargo against Cuba was targeted to establish a non-communist government by replacing Fidel Castro's regime (Lindsay, 1986: 155). Fourth, the goal of the initiator may be *international symbolism*, whereby the sanction by the initiator may be simply to express its disapproval of a regime by sending messages to other members of the world community. In order to condemn Muammar Gaddafi's support for international terrorism, the Ronald Reagan Administration embargoed Libyan oil (Lindsay, 1986: 155–156). The initiator may also use a sanction with the goal to protect its prestige or to signal its resolve in the international scene. Finally, the objective of initiator may be *domestic symbolism*, whereby sanctions are used as a tool to minimize internal criticism of its foreign policy and increase its domestic support by projecting the act as a decisive foreign policy measure. In order to improve the electoral chances of Richard Nixon, the Dwight Eisenhower Administration imposed an embargo against Cuba two weeks before the 1960 U.S. presidential election (Schreiber, 1973: 387–413).

As with the objectives, there are various kinds of economic sanctions that are available at the initiator's disposal ranging from financial limitations, banning imports and exports of certain products and to a complete embargo on trade. This paper focuses particularly on trade embargos. The term trade embargo is often used to refer to a ban on all commerce. The term trade embargo is defined as "the partial or complete blockade on the imports or exports or both of a country by one or more countries" (McGee, 2004: 81). An embargo is a tool that may be used for a variety of political purposes, such as sending a political signal, demonstrating resolve, compelling a country to change its behaviour, retaliating for actions of another country, deterring it from engaging in undesired activities and weakening its military capability.

Since the impact of the trade embargo can be observed in both the initiator and targeted countries, the possibility of trade embargoes being imposed becomes high if the predicted economic effects of the embargo on the initiator country are low and most likely to be withheld if the effects are high. The imposition of the economic embargo, partially or completely, on imports from targeted countries aims to decrease the targeted country's national income through the weakening of international trade (McGee, 2004: 81–83). The decrease of exports of the targeted country results in a decrease in production and its national revenue. Furthermore, trade embargo brings about change in the framework of international trade, which compels targeted country to search for different options to balance trade. It affects the balance of payment by increasing the deficit and decreases the external value of the local currency (Mohamed, 2017).

Trade embargoes, when imposed, are either unilateral or multilateral in nature, i.e., either they are imposed by a single initiator or by a consensus of multiple countries. For multilateral embargoes, a collective cooperation among countries is required for implementation as well as effectiveness. The effectiveness of trade embargoes reduces if the targeted country is able to acquire embargoed goods from a third party.

Advocates against economic sanctions make the argument that economic sanctions can never be justified morally since they result in the violation of the rights of large mass

of innocent population (Pomeranz, 2017). It becomes more acute in the case of the imposition of trade embargoes. The ethical grounds of trade embargoes are always weak because it primarily affects the general population rather than the political or military leadership of the targeted country. If the target country has trade relations with multiple countries and partners, then the effect of the trade embargoes on the economy may be less damaging. In cases where any country has only one partner in international trade, the embargo would have detrimental effect on trade and economy of the country. This effect may be more severe in cases where the countries are landlocked and have limited options for access to trade transits.

Landlocked countries occupy more than ten percent of the world's land surface. There are more than four dozen Landlocked States (LLS) in the world. Some landlocked states are surrounded by two or more other neighbouring states, but some states are surrounded by only one other state, also called an "enclave". There are three enclave countries: San Marino, Vatican City and Lesotho (Raton, 1958: 186). The major disadvantages of landlocked states are that they are cut off from sea resources and have limited access to seaborne and international trade. They need to access seaports and international markets through transit countries, which is major reason why inland regions are less developed than coastal ones. The enclaves are suffering from more delicate and serious problems than those of non-enclave LLS (Uprety, 2006: 3–4).

Rapid, reliable and cost-effective international trade is the basic requirement for a modern state's economic progress, which applies equally to LLS. While free trade advocates that, in order to access the international market, all countries should be treated equally, but due to geographical complexities, all countries do not enjoy the same privilege to enter the international market as others do. That statement is especially true in the case of LLS. Over the past few decades, LLS have been advocating in different international forums for special measures in their favour. The situation of landlocked states and the vulnerability that entails has been receiving some special attention in the international community. The international community has recognized the constraints of the landlocked countries and steps to address them through various mediums have been on going. The World Trade Organization (WTO) endorsed the concept of free trade to make all countries capable to compete in the world market (Uprety, 2006: 3). Furthermore, the attitude of the international community is rapidly changing towards LLS and most of the LLS are enjoying special treatment for compensation of their unfavourable geography. According to Supra (1972: 294), this is the result of two complementary arguments:

1. *It is in the interest of the international community that trade be encouraged and barriers to international trade be removed*
2. *The principle of the freedom of the seas, applicable to all the nations, can be enjoyed equally by all land-locked states only if they have a right of transit to the sea over the territory of intervening states.*

While steps have been put forward for the facilitation of LLS' reach to international trade and market, the most important issue for these countries still remains the transit for international trade and commerce. A reliable and inexpensive international trade for a landlocked country is only possible once it has access to the unhampered freedom of transit. Primarily, these countries are highly dependent on their neighbouring countries for access to trade routes and transit, primarily seaports. Many legal and administra-

tive hurdles arise in using the territory of foreign sovereign countries in order to access seaports. Absence of seacoast, their distance and isolation from international markets constrain the economic situation of an LLS, resulting in the majority of LLS being among the poorest countries of the world and being susceptible to manipulation by geopolitical threats and interests of the countries that surround them or are their trade partners (Faye et al., 2004: 40).

Geopolitics and geo-economics of Nepal

Throughout its history, the geography of Nepal has been influential in the political and economic spheres. The geographical position of Nepal between two Asian giants, India and China, not only gives rise to the importance of geopolitics in domestic policy but also in regional and international relations. The compulsion of Nepal is to focus its strategic and foreign policies almost entirely on India and China due to its buffer type geographic location (Laughlin & Anselin, 1991: 58). There is a huge social, political and cultural heterogeneity between India and China and a strong rivalry for a regional power status in Asia. This particular situation between the two immediate neighbours has further heightened the geopolitical status of Nepal. In this situation, every major political and economic decision for a country like Nepal has implications on geopolitics of the region. It is not an easy situation for Nepal, not only to protect its national interest but also to survive as an independent country.

Compared with its immediate neighbours, Nepal is under a geopolitically vulnerable situation. The major factors for determining vulnerability are relative strength in territorial size, level of development and population (Khadka, 1992: 134). Nepal has the least advantageous position in comparison with its big neighbours, India and China, particularly owing to the inaccessibility to seaports and the open border with India. The impact of the change in policies by India and China clearly influence the economy of Nepal. The role of India has especially remained vital because, till 2017, India is the only route for Nepal to connect to the seaport.

As with every other political and economic dependence created due to its geographical location, Nepal is almost entirely dependent on its neighbours India and China for trade. This is especially true for fuel, which is one of the most important commodities that any economy requires in large quantities. Until 2015, India was the only exporter of fuel to Nepal (Richter, 2017: 49). However, Indian cargo trucks were prevented from carrying fuel into Nepal due to a blockade in the Indo-Nepalese border (Richter, 2017). Nepal suffered from an acute fuel shortage which resulted in the signing of an agreement with China to supply fuel (Richter, 2017). China was also interested to use Nepal's crucial political moment. One interesting thing here is the change in the attitude of China towards Nepal. China had politely declined to help Nepal in 1988–89 when India imposed a similar fuel blockade but in 2015 without any delay, China admitted the demand of Nepal (Richter, 2017: 51). The sudden change in the behaviour of China was attributed to the changing dynamics of the relations between India and China.

Despite the increase in Chinese interest towards Nepal since 2000, trade dependence of Nepal on India is still heavy. There are two reasons. One is the landlocked position of Nepal and the other is the long, open border Nepal shares with India which provides easy access for the flow of goods and services as compared that is shared with China.

An unprecedented trade deficit resulted between Nepal and India due to the heavy trade dependence of Nepal on India. Regarding Nepal's geopolitical and economic situation, Joshi and Rose (1966: 468) did extensive research and observed that "to the educated elite, independence and national sovereignty will never be complete without extensive modifications in the trade structure and reduction of Nepal's exposure to Indian economic domination". This observation was conducted many decades ago, but the current situation of Nepal is no different than what they observed. Despite constantly working to reduce the trade dependence on India and diversify trade routes in order to keep its economy free from any unfavourable effects imposed by geography, Nepal is struggling to avoid the influence of its neighbour and dominant economic partner India.

Indo-Nepal trade: historical ties and transformations

The Indo-Nepal trade relation dates back to the historical relation between two countries. So, what lies at the core of this historical tie and how has it transformed? From ancient and medieval times to modern times, history shows that India has been Nepal's single largest trading partner. This has been possible due to the large range of open borders and the uncontrolled supply of goods. Before 1923, there were no specific trade agreements between Nepal and India. But at that time, India provided Nepal certain trade and transit facilities. Imports from outside of India were not significant. In December 1925, Nepal and Great Britain signed a treaty which permitted Nepal to import free of duty, provided the goods were the property of the Nepal Government and were required for the public services of the Nepal Government and were not for the purpose of any State monopoly or State trade. After 1930, the import policy of Nepal was liberalized, and, at the same time, the establishment of the People's Republic of China and the independence of India were intended towards significant geopolitical change around Nepal (Pant, 1964: 952; Rana, 1971: 652). Meanwhile, the economic involvement of Nepal with India increased. Paradoxically, China's rule over Tibet made a great impact on trade relations with Nepal and finally cut off the fragments of trans-Himalayan trade. This changed the scenario of the northern economy of Nepal. This historical change of the geopolitical dynamics around the countries established the close relations with India (Rana, 1971: 645).

The changing dynamics of Nepal and India concluded in new and more effective trade relations between the two countries. With the aim of establishing a close relation between themselves, the Treaty of Friendship, Trade, and Commerce was signed in Kathmandu on 31 July 1950 (GOI, 1950). The signatories were Nepalese Prime Minister Mohan Shamsheer Jang Bahadur Rana and an Indian ambassador to Nepal as the representative of the Government of India. The treaty came into force with immediate effect. This treaty still forms the base for all other bilateral agreements henceforth signed between Nepal and India. The treaty contains ten articles. The main provisions of this treaty are that Indians and Nepalese have been given "national treatment" in each other's territory, thereby allowing them the right to employment or be engaged in any economic activity, including buying property. Based on the treaty, an important benefit for Nepal is India officially granting transit to Nepal to connect itself to the rest of the world. In this treaty, no preferential treatment was given to Nepalese exports to India (Taneja et al., 2011: 134).

After many ups and downs in the relation between the two countries, India and Nepal both signed a Foreign Trade Agreement (FTA) in 1971. Since then, trade between the two

countries took to new heights. The trade treaty offered tariffs and other duty concessions. Another landmark agreement between Nepal and India was the Power Exchange and Trade Agreement in 1971. The aim of this agreement was sharing power trade to fulfil the power requirements in the border areas. This agreement made possible the taking advantage of each other's transmission infrastructure. Further, the power trade agreement was signed between Nepal and India in 1997 to embark the Indian government's investments in Nepal's hydropower. In 2004, India changed their import and export policy of electricity and the Nepal-India power trade was also affected by the policy. In 2007, the eighth meeting of Power Exchange Committee allowed Nepal to purchase electricity from India, but the limit was fixed at 50MW which was not sufficient for Nepal to overcome from shortage of electricity.

Despite planning to produce sufficient electricity within Nepal by 2025, Nepal continued importing electricity from India, however in the absence of high capacity X-Border line and synchronous system integration, these imports by Nepal were in radial mode. In 2010, Nepal proposed a new Power Trade Agreement and sent a draft to India. With the increasing demand of electricity, both countries realized the need of a new agreement to fulfil the demand. Nepal and India signed a Power Trade Agreement (PTA) on October 21, 2014 (GON, 2014). Rajendra Kishore Kshatri, Secretary, Ministry of Energy of Nepal, and Pradeep Kumar Sinha, Secretary, Ministry of power of India, signed the treaty on behalf of their governments.

The PTA contains eight articles and focuses on transmission interconnection, grid connectivity and power trade. Recently, India's Ministry of Power issued guidelines on cross-border power trade, which by nature is discriminatory for private and third country hydropower developers in Nepal and was seen as a way to ensure an Indian monopoly on Nepalese hydropower. It prohibits private and third country investors from exporting electricity to India. The issued guideline states that the companies are only eligible to export power to India if 51 percent or higher of the shares are owned by the Indian government, the public sector or private companies of India (GOI, 2016a). According to the new rules of government of India, the government-owned companies of Nepal also need a one-time approval from Indian authorities. The guideline seems more rigid in the case of private companies owned by Nepalese or third country developers. These types of companies can only export power to India if they get the approval on a case-to-case basis by designated Indian authorities. These guidelines are contradictory with the spirit of the PTA signed in 2014. During the signing of PTA, electricity was treated as a commodity and both countries agreed to give free access to their respective market, but the issued guideline states that electricity is an issue of national, strategic and economic importance (Subedi, 2016). PTA provisions clearly indicate that for the licensed companies, both countries have to allow non-discriminatory access to cross-border interconnections (GON, 2014). This policy of India is not in favour of foreign investors who are willing to invest money in the hydropower production in Nepal targeting a huge market of India. This will discourage foreign investors in Nepal, which is a great loss for Nepal since it is in real need of foreign investors to tap its hydroelectric potential.

Apart from the PTA, several trade treaties were signed in 1978, 1996, 2002 and 2009 between the two countries. Among the treaties, the Indo-Nepal trade treaty of 1996 was the benchmark for Nepal because it gave a new direction in the trade related areas as well as a scope for the trade improvement especially to Nepal. The active involvement of

private sectors, the Confederation of Indian Industries (CII) and the Federation of Nepalese Chambers of Commerce and Industries (FNCCI) peddled the trade treaty in 1996. According to this treaty, India agreed to provide duty-free access to most the products manufactured in Nepal except alcohol, perfumes, cosmetics and tobacco products in the Indian market (Taneja et al., 2011: 134). During 1970 and 1980 exports to India declined, but after the 1996 trade treaty the trend reversed. Since 1996, Nepal's exports to India increased by more than eleven times, and bilateral trade increased more than seven times (GOI, 2016b). The main items of exports from Nepal to India were polyester yarn, textiles, jute goods, threads, zinc sheets, juices, cardamom, wires, mild steel pipes and copper wire rods. Similarly, the main items of exports from India to Nepal were petroleum products, vehicles and spare parts, mild steel billets, machinery and parts, medicines, hot and cold rolled sheets, wires, rods, coils, bars, electrical equipment, cement, threads and chemicals (Taneja et al., 2011: 138).

Modern day relations of Nepal with India were amended after the trade treaty of 1996. After this historical treaty, the access of Nepalese products in the huge Indian market increased, which helped to maintain the trade deficit with India. The trade treaty of 1996 was modified in 2002 with three basic conditions (GON, 2010). First, the treaty re-introduced the value addition norm of 30 percent. Second, articles manufactured in Nepal could qualify for preferential access to the Indian market, provided the manufacturing process led to a change in classification at the four-digit level of the Harmonized Commodities Description and Coding System. Third, a tariff rate quota was imposed on four items – vegetable ghee, acrylic yarn, copper products and zinc oxide under which duty-free access was allowed only up to a certain limit. Beyond this limit, most favoured nation (MFN) tariffs were applicable (Taneja et al., 2011: 146).

After the 1996 treaty, the trade circulation was in a balanced condition until 2002. After 2002 the momentum was lost. Taneja et. al. (2011) argue that this was, first, due to an addition of strict provisions regarding the qualification of export goods and, second, an increase in trade liberalization as well as removal of tariff barriers increased competition in the Indian market.

In 2009, Nepal and India signed another trade treaty. For this treaty, Nepal effectively focused on its potential field of exports like cement, non-timber forest products and high-value agricultural commodities. In this matter, Indian government was positive but was willing to have a time-bound quantitative target for the trade between two countries (Taneja et al., 2011: 131).

Table 1. Nepal's Trade with India (US\$ Million)

Year	Exports to India	Imports from India	Total trade	Trade balance	Exports: Imports a/b
2011–12	549.97	2721.57	3271.54	-2171.60	0.20
2012–13	543.10	3088.84	3631.94	-2545.74	0.17
2013–14	529.93	3592.30	4122.23	-3062.37	0.15
2014–15	639.91	4558.77	5198.68	-3918.86	0.14
2015–16	470.59	3930.09	4400.67	-3459.50	0.12

Source: Directorate General of Foreign Trade (DGFT), Export and Import Data Bank, Ministry of Commerce, India, available at: <http://www.commerce.nic.in/eidb/>.

Looking at the trade figures of the last five years, Indian imports to Nepal outweigh the Nepalese exports to India (GOI, 2016b). There is a huge contradiction between the two economies. India is one of the larger economies of the world, whereas Nepal is a small economy. India has a huge domestic market and has ample amount of resources throughout the country. Trade is not vital in the expansion of gross national product in the country. Being a large domestic market and having ample resources the impact of the international trade is negligible in the entire economy (Chowdhury, 2016). In the case of a small domestic market country like Nepal, international trade has great value in the Nepal's economic growth.

As Table 2 and Table 3 suggest, trade with India is essential for Nepal. Indian goods account for high percentages of all total Nepalese imports while Nepalese goods only account for low percentages of Indian imports (GOI, 2016b). In the case of exports, the percentage of total trade with India is huge for Nepal but it covers a small percentage for India. Hence, the trade relation between Nepal and India reflect the unilateral dependence of Nepal with India.

Table 2. Percentages of Nepalese Exports and Imports in total Trade of India

Years	Nepal's import in total trade of India	Nepal's export in total trade of India
2011–12	0.1124	0.8895
2012–13	0.1107	1.0282
2013–14	0.1177	1.1426
2014–15	0.1428	1.4690
2015–16	0.1235	1.4984

Source: Directorate General of Foreign Trade (DGFT), Export and Import Data Bank, Ministry of Commerce, India, available at: <http://www.commerce.nic.in/eidb/>.

Table 3. Percentage of Indian Exports and Imports in total Trade of Nepal

Years	India's imports in total trade of Nepal	India's exports in total trade of Nepal
2011	63.3	67.7
2012	65.2	68.2
2013	66.5	66.4
2014	65.9	64.0
2015	61.0	61.5
2016	55.1	58.1

Source: Trade and Export Promotion Centre (TEPC), Export and Import Data Bank, Ministry of Commerce and Supplies, Nepal, available at: <http://www.efourcore.com.np/tepcdatabank/>.

Secondly, until 2016, India is the only country providing Nepal with a transit route for trade with other countries of the world. This gives India the monopoly over Nepal's ability to trade with other countries. On 21 March, 2016, Nepal and China signed on

the Transit and Transportation Agreement, but the agreement has yet to come to effect (GON, 2016). After hardships caused by the blockade of 2015, Nepal realized the burden of India's monopoly over Nepal's trade transit route and, after a rigorous dialogue, then finalized the Transit and Transportation agreement with China. It was an important milestone in Sino-Nepal relations. Some political analysts have regarded the transit agreement as a "major geopolitical shift" (New Spot Light News Magazine, 2016). According to the agreement, China will give access to the sea via the Chinese Port of Tianjin, which is 3,000 km away from Nepal.

Apart from the fact that Nepal is highly dependent on Indian exports and India is the only active transit route for third country trade, Nepal's contemporary trade relation with India is plagued by other different problems. Regular increase in prices in the middle of contract execution, the supply of low-quality products and delivery time are some of the other major problems.

Trade embargoes and their impact on Nepal

In spite of the socially, politically, culturally, and religiously close relations between the two countries, Nepal and India have faced an acrimonious and unfriendly relationship at regular intervals of time (Ojha, 2016). Throughout their relationship, India has imposed three trade embargoes on Nepal.

In 1969, the relation between Nepal and India became strained when Nepal proposed a review of the existing mutual security arrangement and withdrew Indian security check-posts and liaison groups from Nepal's northern territories. There were 18 Indian military check-posts on the northern frontier of Nepal inside Nepalese territories delegated on 9 June 1952 and sent back to India by Nepal on 20 April 1969 (Shrestha, 2003: 50). The then Nepalese Prime Minister Kriti Nidhi Bista on June 25, 1969, in an interview with the *Rising Nepal*, said, "No doubt, at the behest of King Mahendra, that since India had not consulted Nepal either at the time of the 1962 Sino-Indian armed conflict nor during the 1965 Indo-Pakistani War, the commitments with regard to mutual security based on the 1950 Treaty of Peace and Friendship had fallen into disuse and by the same token were no longer binding on either party" (Cowan, 2015). Bista expressed Nepal's resentment of the term "special relationship" and stressed that "Nepal could not compromise its sovereignty for India's so-called security" (Cowan, 2015). A specific demand was made for "the immediate withdrawal of both of the Indian 'wireless operators' from the check-posts on the Nepal-China border and of the Indian Military Liaison Group" (Cowan, 2015).

In addition, Nepal proposed a review of the Treaty of Peace and Friendship of 1950. India showed unwillingness and a blockade was imposed by India, which remained active only for 24 hours. According to another interview with Bista with the *Republica* on 7 October 2015, the intention of the blockade was only symbolic and was an act of a threat to prove that India was a power which could do anything at any time. Finally, India withdrew its military check posts and liaison group but avoided the review of the treaty of 1950.

In 1989 India imposed the second blockade for a 15-month span against Nepal. A series of events culminated in the run up to the imposition of the blockade. In 1975, India forcefully took control over the Kingdom of Sikkim. According to Indian writer Asoka Raina, in 1971, New Delhi had taken the decision to annex Sikkim. To complete the mission,

India strategically mobilized the Research and Analysis Wing (RAW), India's primary espionage agency, in Sikkim to create a situation in favour of India within Sikkim. (Gupta, 1975). Initially, India established good relationships with the Nepalese origin Hindu people of Sikkim and later they were used against Buddhist king and elites. India influenced Prime Minister of Sikkim, Kaji Lendup Dorji and he appealed to the parliament of India for the annexation of Sikkim by India. With reference to Dorji's appeal, the Indian army took control over Sikkim and the king's palace. A referendum was held under the control of the Indian army and 97.5 percent voted against monarchy in Sikkim and in the support of annexation of Sikkim with India (Gupta, 1975). Finally, on 16 May 1975, Sikkim became the 22nd state of the Indian Union and the monarchy of Sikkim was abolished (Gupta, 1975).

By learning the lesson from India's move over the Kingdom of Sikkim, King Birendra of Nepal proposed to declare Nepal as a "Zone of Peace" at the Summit of the Non-aligned Movement in Algiers on September 1973 (Duquesne, 2011). The main purpose of the "Zone of Peace" was to protect the sovereignty of the country and make it off-limits for military activities. Most countries of the world highly praised the concept and endorsed Nepal as a "Zone of Peace", but India refused to accept it and campaigned against it. In 1987, India forcefully deported Nepalese settlers from different states of India. In response, Nepal announced a work permit system for Indian nationals working in Nepal. In 1988, the relations between the two countries sank to a new low. In the same year, the Treaty of Trade and the Treaty of Transit of 1978 were to be renewed. India refused to renew the treaties as it wanted to merge both treaties into one, but Nepal refused to do so. After the refusal of India to renew the treaties, Nepal strongly advocated on international forums for its transit privileges, as per the UN Charter which states that transit privileges are "a fundamental and a permanent right of a land-locked country" (UN Article 125). Meanwhile, Nepal cut the relation of its own rupee with the Indian rupee, restricting the free circulation of the Indian rupee in the Nepal. In response, India refused to provide port facilities in Calcutta to Nepal. Furthermore, on 23 March 1989, the two treaties expired and, as a result, Nepal suffered an economic blockade of India until late April 1990. The Nepalese population suffered from shortages of coal, fuel, oil, medicine and spare parts. The economy was badly affected, and the GDP growth rate declined from 9.7% in 1988 to 1.5% in 1989. The position of Nepal was set in the league of the world's poorest nation from one of the most vibrant economies in Asia. In order to resolve the Indian blockade, Nepal strongly used diplomatic channels to circulate the information to the world society about the situation of Nepal and campaigned against India's move.

Subsequently, during these years, Nepal was preparing for a modernization of their military and China offered to sell required arms needed to modernize Nepal's military to Nepal for many years, but Nepal had consistently denied, preferring to continue relying on India. Amidst weakening relations between Nepal and India, Nepal went ahead with purchasing arms and ammunition from China at a reduced price. India strongly opposed Nepal's decision to buy weapons from China. From the Indian perspective, the arms trade with China was against the Indo-Nepal Treaty of Peace and Friendship of 1950 as well as the Promotion and Protection of Investments Agreement of 1965 with Nepal. In response to this claim by India, Nepal replied that the 1950 treaty was rendered mute by India's actions of not consulting Nepal during the 1962 Sino-India armed conflict and 1965 and 1971 Indo-Pakistan war. On the occasion of the Non-Alignment Movement Summit in

Belgrade in September 1989, King Birendra argued with Prime Minister Rajiv Gandhi to not link trade and transit with security, but Gandhi refused and emphasized on reviewing the entire gamut of relations, including security perceptions and the Treaty of 1950 (Garver, 1991).

The major impact of the blockade was seen in the political system of the country. Owing to the deterioration of economic and social condition, King Birendra was forced to institute a parliamentary democracy and end of the authoritarian Panchayat system. After the formation of the democratic government, the trade and transit dispute were finally resolved in June 1990. Krishna Prasad Bhattarai, who became the Prime Minister of Nepal under strong pressure from India, took many decisions in favour of India, such as abolition of work-permit requirements for Indians in Nepal, various concessions regarding India's commercial privileges, and withheld delivery of the last shipment of weapons from China. Besides these, Nepal also agreed to harness the waters of common rivers of India and Nepal such as Gandaki, Koshi, and Mahakali for mutual benefit and in protecting and managing the environment. In fact, the lift of the embargo was possible only after Nepal had agreed to fulfil most of the demands of India (Crossette, 1990). With the new Nepali government reversing the previous decisions from the Panchayat government and accommodating new demands from India, the previous two treaties on trade and transit were renewed, and the embargo was lifted.

On 25 April 2015, Nepal suffered from an earthquake of 7.8 in magnitude and another major aftershock on 12 May 2015 with a 7.3 magnitude. Nearly 9,000 people lost their lives and more than 20,000 were injured. Hundreds of thousands of people were displaced. Across many parts of the country, many world heritage sites were destroyed. Amidst Nepal trying to recover from this crisis, India imposed the third and the most recent blockade in September 2015. Although unofficial in nature, the blockade created humanitarian crises in Nepal (Acharya, 2015).

On September 18, two days before the promulgation of the constitution of Nepal, the Indian foreign secretary visited Kathmandu to request postponing the promulgation, citing the reason that the Madhes-based parties of Nepal were not on board with the constitution making process (Bhattarai, 2015). In spite of Indian pressure to halt the promulgation process, major parties of Nepal went ahead with the promulgation of the constitution of Nepal on September 20, 2015. The response statement issued by the Indian foreign ministry expressed an unenthusiastic tone and "welcome" was not used in their response. India wanted to include Madhes-based parties of Nepal during the process of promulgation of the Constitution of Nepal, but it was not possible, and India was disappointed. Furthermore, the statement said, "we note the promulgation in Nepal today of a constitution" (GOI, 2015).

Domestically, a coalition of Madhes-based parties dissatisfied with the new constitution instigated protest movements in some of the parts of Nepal. After a few days of protests, the Madhes-based parties started demonstrations at border of India and Nepal from 24 September (TKP, 2016). While this was going on, partial restrictions on goods coming into Nepal via India had already begun since September 20, 2015 (Baral, 2016). India blamed the disruption in supply on the demonstration and unrest on the Nepalese side by the Madhesi parties and that the Indian trading companies were hesitant to cross the border. (VOA News, 2015). But Indian officials were keen on sending trucks carrying vegetables, fruits and other perishable items yet they disrupted the supply of oil and

gasoline (VOA News, 2015). The Indian side was ready to take risk sending transporting perishable goods to Nepal but was not keen on sending much needed and scarce energy resources such as oil and gasoline that the Nepalese economy entirely depends on. This reveals that the reason for the protests was conveniently used by India to hide the fact that it was imposing an unofficial blockade on Nepal. Considering these events, it can be highly ascertained that the undeclared blockade was India's silent support to the Madhes protests and a response from India to Nepal promulgating the constitution despite India's wishes to postpone it.

According to Nepal Rastra Bank, the national bank of Nepal, Nepal's trade with India was 34.3 percent in 1988–89, which reached 63.7 per cent in the 2014–15 fiscal year (NRB, 2015). Due to high trade shared with India, Nepal's economy suffered more from the third blockade than compared to previous two blockades. Thousands of people lined up for as long as 12 hours in the streets of different cities of the country for foods, gasoline, cooking gas and necessary commodities. Families from poor economic background suffered the most due to the lack of kerosene to cook meals. Transport in most cities in the country was paralysed; schools, campuses and university remained closed. The nation's pharmaceutical industry was badly affected and in the absence of vital medicines, many people succumbed to death. Most of the industries dependent on diesel fuel remained closed.

The blockade ended in a similar vein as it started. The affected Raxaul-Birjung border was opened on February 3, 2016, by the unilateral decision of India. Soon after the decision of India to open the border, Madhes-based parties officially decided to lift the sit-in protests at the border on February 8, 2016 (THT, 2016). After almost five month-blockade, the Indian government realized that the embargo was counterproductive. First, the Communist Party of Nepal (United-Marxist Leninist) led the government in Nepal and attempted to address the demands of the Madhes-based parties by tabling a bill in parliament to amend the constitution. The bill put forward proportional representation of Madhesi Community, women, Dalits and Janjatis in state organs and electoral constituency demarcation based on the population by retaining at least one constituency for each of the 75 districts. Furthermore, to redraw the boundary of federal provinces, the government decided to form a high-level political mechanism which included high-level government official and experts (TKP, 2015). But the Madhes-based parties did not agree with the bill and demanded more from the government. The government did not succumb to the further demands of the Madhes-based protests and, instead, anti-Indian sentiments grew stronger among the Nepalese populace.

Secondly, the move to continue the blockade of Nepal received huge criticism inside India. Opposition lawmaker Mani Shankar Aiyar (Asia Times, 2015) wrote, "The best the rest of us could do is to apologize to the Nepalese for the atrocious behaviour of our establishment and wish them all the best for a stable future". The critics argued that the policy of blockade was pushing Nepal towards China and China was more than willing to grab the opportunity to become more influential in Nepal economically and politically (Asia Times, 2015). An example of that was the Transit and Transportation agreement signed between Nepal and China during the period of embargoes.

Why the embargoes?

From the discussion in the above sections, two themes can be observed in the relationship between India and Nepal. First, Nepal is unilaterally dependent on India for economic activity, primarily trade, and entirely for transit trade routes to other countries. India contributes around two-thirds of all imports coming into Nepal and, hence, Nepal runs a huge trade deficit with India. Furthermore, until now, India is the only country that provides Nepal a transit route for its international trade through the sea.

Second, India has been consistently willing to impose restrictions on trade as well as Nepal's right to transit routes, including trade embargoes and suspension of agreements. Since its independence, India has imposed a trade embargo on Nepal three times. From a 24-hour trade embargo in 1969 to the most recent one in 2015 that lasted for nearly five months.

So, why does India impose embargoes on Nepal? Issues such as trade are not just primarily economic but political in nature and their impact. In a similar way, political issues are not just political but are increasingly economic in nature and their impact. Furthermore, the environment created by trade among nations also contributes to increase or decrease in political or military conflict between countries. From the discussions in above sections, it can be asserted that the trade embargoes imposed by India on Nepal were more political in nature and their impacts were both political and economic. In all three embargoes, India responded to Nepal's political decisions, primarily domestic but also international. The embargoes were rather a result of political disputes rather than economic ones.

The first embargo of 1969 came about as a result of bargaining on security and political issues. The embargo came as a response to Nepal purposing a review of existing mutual security arrangements, including the withdrawing and closing of Indian security check posts in the northern part of Nepal and liaison groups in Kathmandu. The issue related to both Nepal's sovereignty as well as India's perceived security threat from China.

The second embargo of 1989 and third embargo of 2015 came as a response to Nepal's choice of domestic policy or political decision-making, which India did not agree to. The second embargo from India came as a response to three key political disagreements. The first disagreement being Nepal's proposal to declare itself as a "Zone of Peace", essentially protecting Nepal from any outside military and political meddling, such as such what happened in Sikkim under India. Second, the refusal from Nepal to combine the Treaty of Trade and the Treaty of Transit of 1978 did not sit well with Delhi. Third, India was dissatisfied with King Birendra's decision to purchase arms from China. Therefore, the trade embargo was used to deter the king Birendra's manoeuvre in international and domestic politics and stamp India's claim on what it perceives as its' sphere of influence. One of the impacts of the embargo was the change in the political system of Nepal, whereby the King dissolved the party-less Panchayat system and installed multi-party democracy.

The third embargo can be seen as India's dissatisfaction with the process of promulgation of the new constitution of Nepal. The unofficial blockade was India's way of signalling to the three major parties of Nepal that it sought some say in the matters of the constitution of Nepal. India's statements and behaviour during the embargo reflect that it is ready to pursue its interest in Nepal through the use of domestic actors and is ready to go to great lengths to support them.

The embargoes were a result of political dissatisfaction of India towards Nepal. These embargoes were used as a means to either remind or fulfil India's interest in Nepal. The fact that the embargoes were placed at all resulted in the rise of anti-Indian sentiments among the Nepali populace. Furthermore, the nature of trade and economic relation between India and Nepal has been questioned more and more due to embargoes.

Conclusion

Trade is the most important factor for the economic development, especially for landlocked countries. Disruption in trade not only affects the economy of the country but also has a great impact on the entire political system. The economic history of Nepal shows that India has been its single largest trading partner and is the only active trade transit route. In spite of the socially, politically, culturally, and religiously close relationship between the two countries, Nepal and India have faced an unfriendly relationship in regular intervals of time. In many such situations, in order to fulfil its interests, India has used economic restrictions, including trade embargoes as a key tool.

India imposed trade embargoes in 1969, 1989 and 2015. In all three occasions, the unilateral economic dependency was exploited to fulfil India's political interest in Nepal. Especially whenever Nepal has attempted to conduct policies that represent Nepal's exercise of sovereignty such as removing Indian military check posts from within Nepali territories, promulgation of its constitution, international recognition as a "Zone of Peace", opening up trade relations with China and so on. These embargoes were lifted after most of India's interests were accommodated by Nepal, at times as in 1989 after change in regime. The 2015 embargo was different. The embargo ended after heavy domestic criticism and India's own realization that the policy was counterproductive.

India's willingness to pursue embargo on trade with Nepal reaffirms the fact that the possibility of a trade embargo being imposed becomes high if the predicted economic effects of the embargo on the initiator country are low. In India's case, owing to its own vast domestic market, India had less to lose from a trade cut off with Nepal. Whereas Nepal, as LLS, had all to lose owing to its dependence with India for trade and trade transit to other countries. Furthermore, compliance, deterrence and subversion were at the heart of India's multiple unilateral embargoes on Nepal. Despite domestic opposition and international outcry over the ethical ground of the embargoes, the Indian state's pursuance of this policy reflects the LLS' susceptibility to manipulation by geopolitical threats.

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