

# Managing Power Asymmetries: A Comparative Analysis of Nepal and Luxembourg in Global Politics Through Small State Theories

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## Abstract

*Small states operate within a global system dominated by larger powers, requiring them to adopt unique strategies to navigate power asymmetries. Small states are often characterized by limited geographic size, population, economic resources, and political influence on the global stage. Despite these constraints, small states have carved out unique roles and strategies to ensure their survival and development in an increasingly complex international system. This study presents a comparative analysis of Nepal and Luxembourg, two small states with distinct geopolitical realities, through the lens of small state theories. While Nepal, a landlocked South Asian state, is positioned between two rising powers, India and China, Luxembourg, a landlocked European state, benefits from institutional integration within the European Union (EU) and NATO. Their contrasting experiences highlight the diversity of small state strategies in global politics. This study also emphasizes various theories associated with small states and how each small state adapts in shaping their survival strategies based on historical, economic, and geopolitical factors. By comparing Nepal and Luxembourg, this research contributes to a broader understanding of how small states manage power asymmetries, offering insights into the diverse pathways available for their security, economic prosperity, and diplomatic engagement in global affairs.*

**Keywords:** *Small State, Nepal, Luxembourg, European Union, NATO, Balancing Act, Integration*

## Introduction

The theory of small states provides a framework for understanding how nations with limited power navigate the complexities of international relations. Despite their size, small states use a variety of tactics to uphold their sovereignty, ensure economic expansion, and expand their influence internationally. According to small state theories like the vulnerability hypothesis and the hedging strategy, small states must use multilateralism, specialised diplomacy, and diplomatic agility to make up for their lack of economic and military might. According to the vulnerability hypothesis, small states must rely on international organisations and alliances because they are inevitably vulnerable to external influences because of their low resources and strategic depth. The hedging strategy, on the other hand, suggests that tiny states strike a balance between major powers in order to reap the greatest benefits while averting direct conflicts. A comparison of Luxembourg, a small state in the West, and Nepal, a small state in Asia, reveals the different strategies these countries use, influenced by their respective

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historical, economic, and geopolitical backgrounds, as well as their dependence on institutional engagements and strategic alignments to secure their survival and prosperity.

## **Theoretical Perspectives of Small States**

### *Defining Small States*

Since their classification varies depending on characteristics including population size, economic strength, military capabilities, and geographic region, small states lack a commonly agreed-upon definition. Some academics define small states as those with populations under 10 million, while others highlight their vulnerabilities, such as their lack of resources, reliance on outside sources, and strategic vulnerability. Notwithstanding their differences, small states have certain traits in common that influence their place in international politics.

The limited economic and military capabilities are among their distinguishing characteristics. Because of their small local markets, dependence on foreign commerce, and vulnerability to changes in the world economy, they frequently find it difficult to sustain economies that are self-sufficient, in contrast to big powers (Hey, 2003). Their reliance on bigger economies for trade, investment, and economic assistance is made worse by the lack of a robust industrial base and technological advancement. Additionally, they frequently lack a strong military, which forces them to look for security through regional organisations, alliances, or strategic collaborations with more powerful countries. Many tiny states choose cooperative security arrangements within international organisations like the United Nations, NATO, or regional defence pacts because of their limited capacity to project force or defend themselves on their own.

Small states' heavy reliance on international organisations and alliances is another important feature. They usually use multilateral diplomacy to raise their voices on international stages because they have little negotiating leverage in bilateral talks. They have the chance to influence international policy, obtain development aid, and create international legal safeguards through their involvement in organisations like the United Nations, the World Trade Organisation, and regional economic blocs (Tang, 2018).

Additionally, because they depend on a rule-based international system to protect their sovereignty and interests, small states frequently play a significant role in establishing global norms like environmental sustainability, human rights, and conflict resolution.

Small states are also particularly susceptible to outside shocks, such as environmental problems, political unrest, and economic crises. Global market fluctuations, natural disasters, and geopolitical conflicts pose serious dangers to their economies, which are frequently reliant on particular industries like tourism, agriculture, or resource exports (Hey, 2003). Since many coastal states and island nations are especially vulnerable to extreme weather events, rising sea levels, and climate change, environmental resilience is a key issue in both their internal and foreign affairs.

In light of these limitations, tiny governments strategically use multilateralism and diplomacy to negotiate the intricacies of international politics. They can exercise influence out of proportion to their size by presenting themselves as mediators, defenders of international law, or champions of particular policy areas.

### *Small State Theory: A Framework for Understanding Small States in International Relations*



Despite their inherent limits, small states make significant contributions to the formation of the international order through proactive diplomacy, coalition building, and participation in global governance.

A comprehensive framework for examining the function and conduct of tiny states within the international system is offered by small state theory (Neumann & Gstöhl, 2006). Due to their weaker military and economic capacities, small governments are more susceptible to outside pressure from more powerful nations. However, in order to increase their impact on world affairs, these governments actively participate in diplomatic discussions, alliance-building, and multilateral collaboration rather than acting passively. Keohane (1969) asserts that tiny states rely on strategic alliances and international organisations to further their objectives because they understand that they cannot dramatically change global outcomes by unilateral action. Despite their relative power asymmetry, small states can improve their security, safeguard their sovereignty, and participate in global governance because of their reliance on multilateralism (Keohane, 1969). For instance, nations like Singapore, Norway, and Bhutan have successfully asserted their diplomatic and economic interests through regional blocs, the World Trade Organisation (WTO), and the United Nations (UN) (Pedi, 2019). Thus, the idea emphasises how small nations make up for their structural disadvantages by implementing proactive and flexible foreign policies, establishing themselves as significant players in particular policy domains like human rights advocacy, peace mediation, and climate change.

*Vulnerability Theory: Understanding the Challenges of Small States*

Because of their small population, lack of military power, economic reliance, and restricted geographic area, small states are inherently vulnerable, according to vulnerability theory. Small states are more vulnerable to external shocks, such as economic crises, military threats, and natural disasters, as a result of these structural disadvantages. Small governments frequently rely on international organisations, economic assistance, and external security agreements to reduce these dangers, in contrast to larger states that can rely on their own resources and military might (Keohane, 1969). For example, many Caribbean and Pacific Island countries depend on international environmental agreements and foreign aid to build disaster resilience because they are extremely vulnerable to climate change, rising sea levels, and extreme weather occurrences.

Small governments frequently seek defence alliances with larger powers because they are unable to defend themselves against external assault. For instance, Bhutan maintains a security alliance with India to fend off possible Chinese threats, whereas Iceland, which lacks a standing army, depends on NATO for military defence.

Comparably, in order to maintain economic stability, tiny nations with open economies—like Singapore and Luxembourg—rely on international financial organisations like the World Trade Organisation (WTO) and International Monetary Fund (IMF), as well as international trade networks and foreign investments.

Furthermore, because international organisations give tiny states a voice to speak up for their interests and pursue collective security, vulnerability theory explains why small states place a high priority on multilateralism and participation in these organisations. As small states negotiate global uncertainty by creating strategic alliances and utilising international

institutions to compensate for their structural weaknesses, the idea highlights their adaptability and resilience (Kolnberger & Koff, 2021).

### *Shelter Theory*

In order to make up for their innate weaknesses in security, the economy, and diplomacy, tiny governments look for "shelter" in larger nations, international organisations, or regional alliances, according to Thorhallsson's (2019) Shelter Theory. Small governments deliberately link themselves with more powerful entities to guarantee political support, military protection, and economic stability because of their low resources and incapacity to act freely in international affairs. According to Thorhallsson (2019), there are four main categories of shelter: sociological, political, military, and economic. Whereas military shelter consists of security assurances and defence alliances, economic shelter consists of financial assistance, trade agreements, and market access. Cultural and educational connections that enhance national identity and resilience are examples of societal shelter, whereas diplomatic support in international fora is an example of political shelter. Iceland, which depends on NATO for security assurances and the European Economic Area (EEA) for economic integration despite not having a standing military, is a shining illustration of this idea in action. This idea emphasises how small states use outside alliances to protect their interests and sovereignty while navigating global power imbalances.

### *Strategic Hedging Theory*

By maintaining a balance between their relationships with major powers without entirely committing to one side, small states are able to negotiate complex geopolitical landscapes, according to the Strategic Hedging Theory. Small states can preserve their independence, optimise the advantages of economic and security, and reduce the dangers of being overly dependent on one power by using this strategy. In contrast to conventional balancing or bandwagoning tactics, hedging entails a combination of engagement and soft balancing, in which small states develop diplomatic, security, and economic relationships with several major powers in order to provide a buffer against outside pressure. This is especially noticeable in Southeast Asia, where countries like Singapore adeptly handle US-China relations. Through the Enhanced Defence Cooperation Agreement (2015), Singapore upholds strong security connections with the United States while cultivating robust commercial relationships with China, its biggest trading partner. With this two-pronged strategy, Singapore may profit economically from China's ascent while still enjoying the military protection of the United States (Goh, 2005). Thus, strategic hedging ensures small states' survival and influence in a world that is becoming more multipolar by reflecting their flexible and pragmatic foreign policies.

### *Omnibalancing Theory: Balancing Internal and External Threats in Small States*

According to Steven David's (1991) Omnibalancing Theory, small state prioritise internal political stability in addition to external dangers, challenging conventional ideas of the balance of power. Small governments, in contrast to larger powers, frequently deal with authoritarian rule, economic vulnerabilities, ethnic conflicts, and domestic political instability. These issues can pose just as much of a threat to the leadership as external economic or military challenges. Small state leaders, especially those in the Global South, usually side with outside forces to preserve their political survival at home as well as for national security. This implies that regime stability, elite survival, and domestic political considerations are all intricately entwined



with foreign policy decisions, which are not exclusively determined by concerns about international security.

For example, during the Cold War, a number of small governments, like Idi Amin's Uganda or various regimes' Cambodia, sought alliances to maintain the ruling elite's hold on power rather than necessarily for national security reasons (Long, 2022). Similar to this, Gulf monarchs like Saudi Arabia and Bahrain have kept tight security connections with Western nations in order to protect their internal political order as well as to ward off regional dangers like Iran. Thus, by adding domestic political considerations to the analysis of foreign policy, the theory broadens the scope of conventional realism and neorealist viewpoints. Since small governments must manage both internal dissension and external geopolitical pressures to preserve sovereignty and stability, omnibalancing is still important in modern international politics.

#### *Bandwagoning vs. Balancing Theory*

Two important tactics that small states adopt to the changes in the global power system are bandwagoning and balancing. These ideas are related to the neorealist theory of international relations, especially in the writings of Stephen and Kenneth Waltz.

##### *Balancing*

In order to preserve the balance of power and keep any one state from becoming overly powerful, states form coalitions to oppose a dominating or emerging power. This is known as balancing. States that see a possible threat and want to neutralise it through collective security agreements frequently employ this tactic.

##### *Bandwagoning*

On the other hand, weaker powers that support a bigger power rather than oppose it are said to be bandwagoning. This is done to avoid being singled out by the dominating power, to ensure security, or for economic reasons. When the advantages of alignment outweigh the costs of opposition, or when small governments lack the capacity to successfully balance, they may decide to follow the trend.

An example for this is India-Bhutan Alignment in today's geopolitics, bandwagoning is exemplified by Bhutan. Bhutan has continuously maintained a strong strategic alignment with India, even in the face of China's growing influence in the Himalayan area. Strong diplomatic, economic, and security ties define this relationship. India and Bhutan have a tight defence connection and provide substantial military and economic support to each other. This was especially clear during the 2017 Doklam standoff, when India stepped in to stop Chinese infrastructure construction in Bhutanese territory (Pardesi, 2019). In order to secure its survival and national interests, Bhutan aligns itself with a dominating regional power rather than balancing against China, as seen by its reliance on India for economic development, security, and diplomatic support.

#### *Norm Entrepreneur Theory*

According to the Norm Entrepreneur Theory, small states can operate as norm entrepreneurs and significantly influence international standards despite their modest material resources. These nations have an impact on global governance and policy formation by promoting international norms and policies inside international organisations.

One well-known example is Costa Rica, which, despite its small size, has actively supported human rights and disarmament (Kolnberger, 2023). Leading efforts like the “Treaty on the Prohibition of Nuclear Weapons” the nation has been an outspoken supporter of nuclear disarmament. Additionally, by supporting organisations like the Inter-American Court of Human Rights, Costa Rica has been instrumental in furthering human rights standards, especially in Latin America.

Martha Finnemore and Kathryn Sikkink (1998) thoroughly examined the idea of norm entrepreneurship. They contend that new norms are promoted by norm entrepreneurs, who are frequently influential individuals, small states, or non-governmental organisations (NGOs), and that this causes the norms to be widely accepted and internalised within the international system. The three stages of the norm life cycle are internalisation, cascade, and emergence, according to Finnemore and Sikkink. Through the mobilisation of international support and the introduction of new norms into global discourse, small states can play a critical role in the emerging stage.

### *Asymmetry Theory*

In international relations, asymmetry theory describes how weaker governments handle their connections with much more powerful states. According to this view, the stronger and weaker states have different perspectives and approaches as a result of the power disparity. The weaker state views the relationship as essential to its survival and sovereignty, whereas the stronger state views it in more general strategic terms. Smaller governments use tactics including economic dependency, diplomatic flexibility, and utilising international legal systems to balance relations with major countries in order to overcome these asymmetries.

For instance, by retaining diplomatic neutrality, forming economic alliances with both countries, and using regional and international organisations to establish its sovereignty, Nepal strategically handles its relations with both China and India. Nepal reduces the dangers that come with its location between two powerful nations by doing this.

One important researcher in this area is Brantly Womack (2016), who formally established asymmetry theory and highlighted the structural and perceptual variations in asymmetric interactions. As stated by Womack, "the management of asymmetric relationships requires an understanding of mutual dependence, rather than simple dominance by the stronger party".

### **Nepal's Small State Diplomacy**

While Luxembourg, a small European state, uses its economic might and EU membership to sustain its influence, Nepal, a landlocked nation sandwiched between two regional giants, China and India and it balances its foreign policy through strategic neutrality.

This comparative case study looks at how Nepal and Luxembourg handle unequal relationships in different but similar ways. This study examines the various ways tiny states exercise agency in a global system influenced by power imbalances by examining their foreign policy decisions, economic plans, and institutional involvements. The results support more general debates on small state diplomacy and the relative merits of various strategies for handling international geopolitics.

*Nepal: Obstacles and Solutions of a Small South Asian Nation*





Situated between China and India, two regional superpowers, Nepal is a landlocked nation. Nepal, a small state with a population of about 30 million and a GDP of about \$40 billion, faces several challenges. Nepal is heavily influenced by the outside world due to its location between China and India. Its reliance on India for transit and trade has frequently resulted in political and economic problems.

#### *Geopolitical Vulnerability of Nepal*

Nepal's landlocked location between China and India, two regional superpowers, makes it geopolitically vulnerable. Due to its advantageous location, Nepal is vulnerable to outside pressures as both of its neighbours aim to increase their sway over South Asia. While China has been making more and more economic investments, especially through the Belt and Road Initiative (BRI), India has always maintained close political, economic, and cultural relations with Nepal. Nepal is frequently forced to perform a delicate balancing act as a result of this competition, leaving it open to outside intervention.

Nepal's vulnerability is further increased by economic dependency. Since India is a major stop on many of its supply and trade lines, any disruption, like the blockade in 2015, may have dire economic and humanitarian repercussions (Bhattarai, 2024). Furthermore, Nepal's ability to exert strategic autonomy is weakened by its inadequate economic diversification and reliance on remittances.

Nepal's geopolitical vulnerability is also influenced by security and environmental issues. Climate change, glacial melting, and natural calamities regularly disrupt the nation's infrastructure and economy. In the meantime, issues with cross-border security, like illicit trade and border disputes, exacerbate instability.

Nepal implements a policy of diplomatic flexibility in order to lessen these vulnerabilities, utilising regional and international organisations to preserve sovereignty and cultivate strategic and commercial alliances with China and India.

#### *Economic Constraints Faced by Nepal*

Being a landlocked and developing nation, Nepal faces major economic obstacles that impede its progress. Its lack of direct access to seaports makes trade mostly dependent on China and India, two of its neighbours, which is one of its main problems. This reliance makes supply chain management more vulnerable and raises transportation expenses (Bista, 2011).

Another significant obstacle is poor infrastructure. Economic growth and foreign investment are constrained by inadequate industrial capacity, inadequate transportation networks, and a limited electrical supply. Economic diversification is further constrained by the nation's dependence on agriculture, which employs around two-thirds of the workforce and exposes it to climate change, low productivity, and seasonal swings (KC & Dahal, 2024).

Nepal likewise has significant labour migration and unemployment. Its workforce largely leaves for jobs in countries like India, Malaysia, and the Gulf, creating a brain drain in addition to an economy that depends on remittances (Bhattarai, 2024). Furthermore, economic policies are disrupted and foreign direct investment (FDI) is discouraged by political instability and governance problems. Nepal has to prioritise policy stability, economic diversification, and infrastructure development in order to overcome these obstacles and guarantee sustainable progress.

### *Political Instability in Nepal*

Due to numerous changes in government, constitutional issues, and sociopolitical disputes, Nepal has endured protracted political instability. After the monarchy was abolished in 2008 and a federal democratic republic was established, Nepal has had challenges with party division, governance, and institutional weakness. In the last 20 years, the nation has seen more than a dozen changes in government, most of which were the consequence of power battles between political parties rather than election mandates (Pathak, 2022)

Fragile coalition politics, when frequent alliance changes interrupt policy continuity, are a primary source of instability. Furthermore, there were protracted disagreements throughout the creation and execution of Nepal's 2015 Constitution, mostly related to federalism and minority rights, which sparked demonstrations and blockades, particularly in the Madhes region (Tang, 2018). Instability is made worse by corruption and ineffective governance, which erodes public confidence in democratic institutions. Furthermore, Nepal's geographical location between China and India adds even more complication because outside forces might exacerbate internal political conflicts (Adhikari, 2021).

Nepal continues to advance democratically in spite of these obstacles, as seen by recent elections that showed a dedication to political changes. But maintaining stability over the long run necessitates bolstering democratic institutions, encouraging political agreement, and tackling socioeconomic disparities.

### *Major Strategies of Nepal in Managing Asymmetric Relations*

Nepal uses a variety of tactics to manage its asymmetric geopolitical situation as a small nation sandwiched between China and India.

One important tactic is diplomatic balancing, in which Nepal avoids becoming overly dependent on either China or India by maintaining a policy of strategic neutrality and non-alignment (Ranjan, 2023). This is demonstrated by Nepal's involvement in regional groups like BIMSTEC and SAARC, which aid in broadening its range of diplomatic contacts. Another tactic is economic diversification, in which Nepal aims to increase trade and investment ties with other partners in order to lessen its reliance on one nation. This endeavour is demonstrated by China's Belt and Road Initiative (BRI) and Nepal's growing commercial connections with other international partners.

Additionally, Nepal uses multilateral diplomacy and international legal processes to defend its interests and maintain its sovereignty. This is especially evident in Nepal's efforts to fortify its stance in border conflicts and water-sharing agreements through its participation in international treaties and the UN.

Last but not least, Nepal uses its rich cultural legacy, tourism, and international renown as the birthplace of Buddhism to foster goodwill among nations through soft power diplomacy.

## **Luxembourg: A Model of Western Small State Success**

A common example of a small state that has successfully negotiated the international system by utilising its strategic advantages is Luxembourg. Luxembourg has maintained political stability, economic prosperity, and a strong global influence despite its modest size and





population. The nation's diplomatic tactics, economic policies, and integration with regional and international organisations are all responsible for its success.

The success of Luxembourg can be attributed in large part to its robust economic model. The nation is a global centre for banking and investment because of its highly developed financial sector. It has more of a business-friendly rules and advantageous tax policies, Luxembourg has drawn in international firms by giving it access to a sizable market and economic stability mechanisms, membership in the European Union (EU) and the Eurozone has further enhanced its economic resilience.

A strategic foreign policy founded on multilateralism and active involvement in international organisations is another tactic used by Luxembourg. By joining with more powerful nations in a rules-based international system, Luxembourg, a founding member of the EU, NATO, and the UN, strengthens its security and influence. Its diplomatic approach is centred on upholding close ties with its neighbours and promoting small-state interests in regional and international organisations (Ó Súilleabháin, 2014).

Luxembourg makes significant investments in innovation, education, and human capital. Despite having a small population, the nation has one of the greatest GDPs per capita in the world, demonstrating its capacity to maximise economic output (IMF, 2022). Its focus on knowledge-based economies and technical developments guarantees competitiveness and steady economic growth.

#### *Strategies of Luxembourg's Small-State Success*

Through a combination of strategic initiatives, Luxembourg has effectively established itself as a wealthy and powerful state despite being a small state. Economic diversity, diplomatic involvement, multilateralism, and legal adaptation are some of the main reasons for its success.

From a steel-based industrial economy, Luxembourg has developed into a major worldwide financial centre. In order to draw in multinational firms, investment funds, and financial institutions, it has made use of its advantageous tax laws, strategic location within Europe, and highly qualified workforce (Kolnberger, 2023). To guarantee steady economic growth, the nation has also made investments in cutting-edge fields including finance, space technology, and digital innovation.

#### *Diplomatic Engagement and Multilateralism*

Luxembourg is an active member of both regional and global organisations, including the United Nations (UN), NATO, and the European Union (EU). It uses multilateral diplomacy to raise its profile on international problems like international commerce, human rights, and climate change (Braun, 2020). Despite its tiny size, its dedication to European integration has increased its importance within EU decision-making processes.

#### *Regulatory and Legal Flexibility*

The legal system in Luxembourg is set up to draw in companies and international capital. The nation is a desirable location for corporate headquarters and financial services due to its open legal system, business-friendly laws, and stable regulatory environment (Long, 2022). Luxembourg has been able to sustain its competitive advantage in international markets thanks to this flexibility.

### *Social Cohesion and a Strong National Identity*

Luxembourg embraces multiculturalism while retaining a strong sense of national identity. Its inclusive social policies and trilingual (German, French, and Luxembourgish) educational system promote economic productivity and national cohesion. The nation's stability and ability to withstand external crises are bolstered by this social cohesion.

### *Niche Diplomacy of Luxembourg*

The tactic used by small states to influence international affairs by focussing on particular policy areas where they might have a big impact is known as niche diplomacy. Small states use their knowledge, standing, and strategic location to influence international debates in certain fields, in contrast to major powers that practise broad-spectrum diplomacy. By concentrating on topics like financial regulation, human rights, environmental advocacy, or conflict mediation, they are able to outperform their peers in the field of international relations.

By utilising its advantages in financial services, European integration, and diplomacy, Luxembourg is a prime example of niche diplomacy as a small state. Luxembourg, a founding member of the European Union, has been instrumental in fostering political and economic cooperation throughout the continent. With a focus on tax laws, investment funds, and banking rules, it has made a name for itself as a global financial centre (Kolnberger, 2023). Furthermore, Luxembourg actively supports multilateralism by participating in development and peacekeeping missions through the European Union and the United Nations. Despite its tiny size, Luxembourg strengthens its global presence by concentrating on three key areas.

## **Contemporary Challenges Faced by Luxembourg in the Modern Era**

Dominance of the Financial industry is one of the foremost challenges faced by the country because Luxembourg's economy is so dependent on its financial industry, it is susceptible to foreign shocks, EU legislative changes, and worldwide financial crises. Lack of Economic Diversification is another challenge. Despite having a robust financial sector, Luxembourg struggles to diversify its economy in order to lessen its need on banking and investing services.

Limited Military Capabilities pose another challenge since Luxembourg's national defence is dependent on NATO and EU security frameworks due to its small size and low defence budget. Its security may be affected by any changes in international security alliances or dangers to European stability. As an EU member, Luxembourg has to manage intricate geopolitical factors, such as its relationships with more powerful nations like France and Germany, while upholding its own national interests.

There is a high reliance on foreign workers: French, Belgian, and German cross-border workers make up a sizable section of Luxembourg's employment. This reliance makes it difficult to manage social security, taxes, and labour laws. The ageing population of Luxembourg, like that of many European nations, could put a strain on the country's healthcare and social welfare systems. The cost of living in Luxembourg is among the highest in Europe, and citizens are having trouble affording the escalating cost of housing. Many people find homeownership challenging since there is a greater demand for houses than there is supply.

Urbanisation, high carbon emissions per person, and the requirement for sustainable energy and transport policy are some of Luxembourg's environmental problems. The nation must



control economic growth while adhering to EU climate targets. Compared to larger EU members, Luxembourg's diplomatic and administrative resources are limited due to its small size. This makes it difficult to negotiate advantageous trade or financial laws within the EU and to influence global policymaking.

## **A Comparative Analysis of Nepal and Luxembourg in Small State Diplomacy**

The comparison between Nepal and Luxembourg reveals the diverse experiences of small states in international politics, showing how geography, history, political systems, and external power dynamics influence their foreign policy orientations, economic paths, and strategic decisions. Although Nepal and Luxembourg are both tiny states, they handle power imbalances differently, which reflects the variety of small-state experiences.

### *Differing Geopolitical Realities*

Luxembourg and Nepal are located in different geopolitical regions. South Asia's landlocked nation of Nepal is positioned between China and India, two emerging superpowers. Nepal must strike a careful balance between these regional powerhouses in order to preserve diplomatic neutrality while pursuing strategic and economic benefits from each.

In contrast, Germany, France, and Belgium are the three strong neighbours of Luxembourg, a landlocked European nation. Instead of being enmeshed in a power struggle between rival regional hegemony, Luxembourg is able to take advantage of its small size for diplomatic and economic advantages since it functions inside the stable institutional framework of the European Union (EU) and NATO, unlike Nepal.

### *Foreign Policy Strategies: Balancing Act vs. Institutional Integration*

Nepal maintains connections with international organisations like the United Nations (UN) and the Non-Aligned Movement (NAM) while pursuing a policy of strategic hedging, striking a balance between its relations with China and India. Because of its location, Nepal is subject to intense geopolitical influences and must continually negotiate its autonomy. Nepal must use a cautious diplomatic approach to prevent upsetting either of its neighbours because of the China-India rivalry, which has turned the country into a battlefield for influence.

In contrast, Luxembourg is firmly rooted in multilateralism. As a founding member of the EU, it has profited from political cooperation and economic integration with larger European governments. Security is guaranteed by its membership in NATO, which lessens the need for an autonomous military stance (Kolnberger & Koff, 2021). By securing its security and economic prosperity through formalised relationships rather than direct geopolitical manoeuvring, Luxembourg has effectively positioned itself as a financial centre and an advocate of European integration.

### *Aid Dependence vs. Financial Hub*

Another crucial component of tiny state longevity is economic resilience. The economy of Nepal is mostly dependent on international aid, tourism, and remittances. It faces challenges in economic diversification and infrastructure development, frequently relying on aid from China, India, and multilateral organisations. Geographical limitations including challenging terrain and no direct access to seaports prevent it from growing economically.

By using its modest size to establish a business-friendly financial environment, Luxembourg, on the other hand, has effectively established itself as one of the wealthiest nations in the world. Benefiting from the stability and economic advantages of the EU, it is a significant hub for banking, investment funds, and European financial services. Through institutional cooperation and astute economic strategies, Luxembourg prospers as an economic powerhouse, in contrast to Nepal, which must manage foreign dependencies.

#### *Strategic Vulnerability vs. Collective Security*

For small states, security is crucial, but Nepal and Luxembourg have taken different tacks. To protect its sovereignty, Nepal prioritises diplomatic contacts and pursues a non-aligned posture. Instead of joining a large military alliance, its security strategy centres on neutrality and involvement in UN peacekeeping operations.

However, Luxembourg benefits from being a member of NATO, which ensures its security without requiring a sizable military force. This enables Luxembourg to shift its attention from military spending to diplomatic and economic endeavours. Because of its geopolitical location, Nepal does not enjoy the luxury of Luxembourg's protection from possible threats, which is guaranteed by NATO's collective security structure.

#### *Multilateralism and Global Governance*

Although they take different approaches, Nepal and Luxembourg are both important participants in global governance. Nepal frequently supports Global South problems, takes part in UN peacekeeping operations, and speaks out for the needs of landlocked developing countries (LLDCs). It views multilateralism as a way to increase its influence in international affairs and promote climate action and sustainable development.

Being a wealthy nation, Luxembourg has a distinct position in world governance. It supports international humanitarian assistance, financial transparency, and European unity. It is able to use soft power that is out of proportion to its size because of its contributions to international organisations, which include large pledges of foreign aid.

### **Conclusion**

The comparative analysis of Nepal and Luxembourg underscores the diverse ways small states navigate power asymmetries in global politics. Their geopolitical positions, economic models, security policies, and foreign policy orientations show notable differences in how they handle opportunities and demands from the outside world, even though they are all classified as small states. With China and India as its neighbours, Nepal is always faced with strategic conundrums. In order to preserve independence in a fiercely contested geopolitical arena, its foreign policy is distinguished by diplomatic balance, non-alignment, and strategic hedging. Nepal's interactions with major powers are further shaped by its economic vulnerabilities, reliance on remittances, and infrastructure issues. Nepal, in contrast to Luxembourg, has to continually use regional and global alliances to protect its sovereignty. In contrast, Luxembourg has successfully used institutional integration, economic specialisation, and a dedication to multilateralism to turn its modest size into a strategic advantage. It benefits from economic success and security as a key member of the European Union and NATO, which lessens the existential dangers that small states in unstable areas frequently face. It exemplifies how small states may exert influence beyond their borders by serving as a financial centre and



an active player in global governance. This study emphasises that small states are adaptive rather than passive participants in global politics. Luxembourg demonstrates the advantages of institutional integration, whereas Nepal is a prime example of a small state grappling with geopolitical limitations. Their divergent experiences highlight the complexity and agency of small states in international relations by showing that they can employ a variety of tactics to deal with power imbalances.

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