



Role of NRN in Effective Mobilization of Economic Diplomacy in Nepal



Ministry of Foreign Affairs



परराष्ट्र मामिला अध्ययन प्रतिष्ठान
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Phone 977-1-4266954
977-1-4266955
Fax 977-1-4266956
E-mail ifa@mail.com.np
ifa7nepal@gmail.com
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Preface

Economic Diplomacy is defined in various ways, thus it lacks single definition. Simply put it is the promotion of national economic interest and businesses in other countries through diplomatic channels. The economic interests through economic diplomacy are fulfilled when countries get success in stabilizing political misunderstanding.

It integrates commerce (trade, finance, energy, investment, aid, technology exchanges, global environment) and foreign affairs (economic negotiations).

Foreign relations are still largely in the domain of governments, but economic relations are formed by the interactions with the private sectors.

The possibility of enlarging the scope of Economic Diplomacy by mobilizing expertise from diversified areas should also be explored as it is no more under single domination of Ministry of Foreign Affairs which, however, has the prime role of coordinating all the diplomatic activities including economic diplomacy.

The role of Non-resident Nepalese (NRN) and the business community in tandem with that of the government is very vital as now NRN is expanded to 65 countries. In this regard, Embassies need to have continuous dialogue, and interact with NRN.

NRN is present in 65 countries and many of those do not have Nepalese embassies. The National Coordination Committee (NCC) can support, facilitate Economic Diplomacy in those countries in addition to those where embassies are based. The NCCs have resources including language knowledge, which can be used for better economic diplomacy. They can support in trade fair and related activities at lower cost than the foreigners. NRN can bring or facilitate FDI singly or in joint venture with foreigners. A good example of this is NCell. Embassies have shortage of staff. NRN (students, wives etc.) can support as volunteer or with small remuneration. Nepal government can facilitate by providing easy multiple business visa to the potential business personal.

Nepal's inability to pursue strong diplomacy is argely due to the political instability and weak economic position. Without sound economy the country can't push forward its economic diplomacy.

Realizing the importance of economic diplomacy, Nepal government in 2013 has constituted a high level committee to implement and monitor the progress on the activities concerned with economic diplomacy. High Level

Economic Diplomacy Implementation and Monitoring Committee has been reviewing the activities and initiatives taken up by Nepalese missions. It has come up with a guideline on economic diplomacy. It is emphasizing to plan country-specific economic diplomacy agenda and provide orientation on economic diplomacy to the MOFA officials to be posted in missions abroad. It is committed supporting few doable and measurable activities in partnership with private sectors and increase the budgets of the missions abroad.

Realizing the gravity of the importance of economic diplomacy in the changed national and international context in dealing with external relations, the Ministry of Foreign Affairs (MOFA) initiated one research on “Role of Non-resident Nepalese in Effective Mobilization of Economic Diplomacy”. MOFA entrusted Institute of Foreign Affairs (IFA) to conduct the research. Dr. Dilli Raj Khanal, eminent economist and ex-member of parliament and member of national Planning Commission and Shyamanand Suman, former Nepalese Ambassador to Qatar, an expert on migrant and NRNA issues were selected for conduction of this research.

IFA and MOFA organized one day interaction program for sharing and feedback to the research findings on October 8, 2013. This publication includes the research findings, and three other relevant articles on the issue by Dr. Rishi Raj Adhikari, ED, IFA; Bhim Udas., Advisor to NRNA and Professor Dr. Bishwambher Pyakuryal, eminent Economist.

IFA extends appreciation to the two researchers, Mr. Kul Chandra Gautam, former Assistant Secretary General, UN, Jiba Lamichhane, President NRNA, Suraj Vaidya, Chairperson FNCCI, Amrit Rai Joint Secretary, MOFA, for presenting their views and enriching the outcome of the deliberation on the issue. Hon. Mr. Madhav Prasad Ghimire, Minister for Foreign and Home Affairs deserves special appreciation for encouraging all concerned with the issue of economic diplomacy and entrusting IFA for this research.

I also wish to thank Mr. Khush N. Shrestha, Deputy Executive Director, IFA, and Sanu Raja Puri Librarian for their overall contribution to the research and publication. Ms. Snayha Basnyat deserves our appreciation for editing the publication, The institute welcomes comments, suggestions and feedbacks so as to refine the future publications of IFA.

Dr. Rishi Raj Adhikari
Executive Director

1. Concept of the Seminar

1.1 Economic Diplomacy: Importance and Scope

Generally, diplomacy that promotes national economic and business interest in other countries is defined as economic diplomacy. As such, how economic relations are conducted with other countries to promote trade, business, investment and market etc becomes the integral part of the economic diplomacy.

As is well known, traditionally the diplomacy was focused on maintaining or improving good political relations with other countries. Now along with fast integration of global economy with increased economic rivalry and competition among nations, the importance of economic diplomacy has increased immensely. It is regarded to be crucial to those countries which are in the early stage of economic development with resource, technology and market constraints among others and at the same time are yet to tap their huge domestic potentials for rapid economic advancement and prosperity.

Economic diplomacy is functional at three levels: bilateral, regional, and multilateral. Bilateral economic diplomacy plays a major role in economic relations. It includes bilateral trade and treaty; employment or avoidance of double taxation; and range of formal and informal economic issues between two countries. In the same vein, there is also a growing tendency of entering into Bilateral Investment Promotion and Protection Agreement (BIPPA) to attract foreign direct investment by ensuring the investment security. Amidst failure of Doha round, the importance and role of regional trade agreements has also increased markedly which provides preferential facilities to the member countries through opening borders and markets vis-à-vis other trading partners. Joining of European Union by many Eastern European states in the 1990s were driven by the aim of fulfilling their larger economic interest. Despite all these developments, the importance of multilateral economic diplomacy within the framework of the World Trade Organization (WTO), the World Bank, the International Monetary Fund (IMF), and UN agencies, however, cannot be undermined.

In this way, along with marked rise in the scope of diplomacy, the complexity and challenges have also increased enormously with economic diplomacy at the centre stage as diplomats are expected to play a catalyst of economic advancement of the country he or she represents. The diplomat has to closely watch developments on the world market that includes bilateral and regional markets and needs regular updates on current trends, scope, types, and quality of similar products of competitor foreign firms or companies besides analyzing the needs and saturation of foreign markets, acceptable prices and deadlines etc. Proven ability to communicate or coordinate in ensuring the foreign investment in priority areas is also essential.

Many of the developing countries lack such capacity or competency due to host of reasons. This is why many countries since long or more recently have tapped non-residents or Diaspora in economic diplomacy very effectively. Many country experiences show that besides investing directly to their country of origin, non-resident citizens have been major vehicle or catalyst of promoting economic diplomacy given their capacity and skills coupled with effective networking with business and entrepreneurial community including their powerful channel of communication.

1.2 Economic Diplomacy in Nepal : Some Positive Developments and Gaps

History shows that economic diplomacy is not new for Nepal. Nepal had established business ties and trading arrangements with Tibet and British India in 18th and 19th century. Thereafter, Nepal remained in isolation for many years. Only in the 1950s a new beginning was made by establishing diplomatic relations with various countries. Simultaneous efforts were also made to become the member of various regional and international organizations. But these moves were guided by traditional diplomacy with little help on the contribution to uplift Nepal from underdevelopment. Lack of focus on economic diplomacy was one of the principle reasons. Recognizing this, in the year 2000, the Ministry of Commerce and Industry organized the first consultation meeting to highlight on the need of economic diplomacy with foreign countries. In 2008, similar attempt was made but with little successes. In the mean time, a Multilateral Economic Affairs Division was established in the Ministry of Foreign Affairs. The Institute of Foreign Affairs also came out with a handbook entitled "Development through Economic Diplomacy".

Since then efforts are underway to divert focus on economic diplomacy. Since 2009/10, budget has also been separately allocated to the diplomatic missions

abroad to carry out economic diplomacy related activities. The documents of the Ministry of Foreign Affairs indicate that the economic diplomacy is being focused on economic aid, foreign employment promotion, tourism development, trade promotion and foreign direct investment in areas like agriculture, education, water resource development etc. In parallel, efforts are also underway to enhance the institutional capacity of diplomatic mission including the capacity of diplomatic personnel in the changed context.

But the challenges are many and multifold. Some of the past negotiations indicate that diplomacy has been failure to a greater extent to safeguard Nepal's interest. Today, also compared to many other developing countries, Nepal is unable to play an influential role on issues of aid, trade, markets and foreign direct investment etc. in multilateral and other similar regional forums. Not only the ground works essential for negotiations are found to be poor but also skills and competency are noticed to be less effective. Nepal has either reaped little benefits from the facilities granted to the LDCs or has not been able to influence developed countries to abide by their commitments. The diplomatic weaknesses have also prevented the prospect of taping investment, trade and tourism potentials bilaterally despite two neighboring countries being the major locomotive of the global economy. The poor information base and absence of institutional coordination are equally working adversely. On the whole in view of poor capacity and paucity of resources, a realization to enhance the role of private sector and NRN is there. As in the other areas, there is emerging trend in augmenting public-private partnership in the realm of economic diplomacy as well.

Indeed, recent developments indicate that some initiatives to enhance the role of private sector in this area are underway. Private sector organizations like FNCCI, CNI and the Chamber of Commerce are not only consulted frequently but also they are represented in many related organizational set ups. More positively, these organizations on their own initiatives are involved in consultation, mobilization and negotiation with multilateral agencies, foreign private sector organizations including government agencies and corporate houses to promote trade, tourism, FDI including joint ventures etc which is an important ingredient of economic diplomacy. But these initiatives are not adequate and sufficient. Still policy clarity is lacking to assign both catalyst and complementary role to the private sector and also how the government could support such organizations in a way to make the economic diplomacy more effective and result oriented is yet to be comprehended properly. Similarly, there is always a big problem of policy and institutional coordination issues needing clarity on distinct, complementary and coordinating role of other

ministries with added adverse effect. One important dimension that is lacking is how the NRN could contribute to that process and then NRN and private sector could play complementary role with each other.

Equally a very positive aspect is that NRNs are now coming forward more aggressively to contribute to Nepal's economic development. There is increased realization on their potential role in the realm of economic diplomacy.

NRNs are not only increasing their investment in Nepal but also are keen to play proactive role in the field of economic diplomacy. The Nepali migrants, who now number over three million and whose remittances now constitute a backbone of Nepal's economy, could be most effective in terms of both means and ends of Nepal's economic diplomacy. Many of the NRN community now are highly successful world class professionals in different fields in some countries where their political clout and influence has also enhanced. They have good networking and social relation. They are recognized for being honest, hard-working, friendly and adaptable. However, despite the growing realization on the need of using their expertise and experience, their capability, knowledge and potentiality most suitable from the standpoint of economic diplomacy is yet to be fully recognized at both policy and institutional levels.

This study has objective to identify the role of NRNs in making economic diplomacy effective and result oriented including finding out the role of the government and the private sector in accomplishing such objective by them by identifying the role of government in making NRN campaign effective and result oriented in the realm of economic diplomacy and tracing out the role of private sector in such a campaign.

In this back drop IFA organized one interaction program at the seminar hall of Ministry of Foreign Affairs (MoFA) with active participation of renowned foreign affairs personalities including senior officers of MoFA and other diplomats. Eminent economists also participated actively in this program by expressing their views on Economic Diplomacy and role of NRN and Private/Business sector visa-a-vis that of government. The NRNA high officials and FNCCI officials also expressed their views as a reponse on the study done by Dr. Dilli Raj Khanal and Shyamanand Suman. IFA Deputy Executive Director welcomed the participants and the program was cordinated and facilitated by IFA Executive Director Dr. Rishi Raj Adhikari.

Welcome Remarks by

Mr. Khush Narayan Shrestha
Deputy Executive Director of IFA

Mr. Chairman

Distinguished presenters and panelists

Distinguished participants

Ladies and Gentlemen,

It is my privilege to welcome you in today's interaction program on "The Role of NRN in Effective Mobilization of Economic Diplomacy in Nepal".

Economic diplomacy has become the hallmark of the present day global diplomacy to achieve the economic goals of any country including Nepal. Having realized the significance of this, the government of Nepal has also accorded topmost priority for accelerating the pace of economic diplomacy. In this scenario, the role of Non-resident Nepali assumes a very pivotal role to generate needed resources for tapping our tremendous potentials. The NRN can play crucial role in promoting trade and business, attracting foreign direct investment, enhancing tourism sector and introducing modern or new technology, key to augment growth and development. The direct role and contribution of NRN in these diversified areas can be equally crucial and important. The Government on its part should build enabling environment to the NRN so that they could play vital role toward raising the competitive capacity of our economy. Various hurdles should be addressed effectively.

At this juncture, I would like to thank the Ministry of Foreign Affairs for assigning this task to IFA as coordinator. IFA is very thankful for the willingness with which the study has been prepared within a very short duration by Dr. Dilli Raj Khanal, an eminent Economist and Former Member of National Planning Commission and Mr. Shyamanand Suman, Former Ambassador to Qatar. I am confident their insights will be very useful of the evolvement of the Government's Strategy to mobilize NRN for the effective use of economic diplomacy. Similarly, I would also like to thank distinguished panelists for their

readiness to contribute further for the refinement of the above study with their suggestions and comments.

Finally, I would again like to thank all the distinguished participants with long association in the government and non-government sectors having contributed their valuable time to the service of the nation and would welcome their interventions and suggestions to further make the study inclusive and comprehensive.

Thank you !

2. Economic Diplomacy: Importance and Scope

- Dr. Dilli Raj Khanal
- Shyamananda Suman

2.1 Economic Diplomacy: Importance and Scope

The management and implementation of Nepal's foreign policy is maintained at three levels. Firstly, it is protective which relates to the matters of security. The maintenance of sovereignty, territorial integrity and national unity are its main ingredients. Secondly, it is principle based relating to the international commitments under the aegis of the United Nations and other global, regional, and bilateral treaties, agreements, covenants and understandings. Thirdly, it is promotional which stands at co-operative relations in economic field popularly known as Economic Diplomacy.

Generally, diplomacy that promotes national economic and business interest in other countries is defined as economic diplomacy. As such, how economic relations are conducted with other countries to promote trade, business, investment and market etc. becomes the integral part of the economic diplomacy. There is increased realization that it is a multi-disciplinary activity and falls under the domain of a number of stakeholders including different ministries of the government, NGO's, business communities, traders, industrialists, socio-economic and cultural groups etc.

As is well known, traditionally the diplomacy was focused on maintaining or improving good political relations with other countries. Now along with fast integration of global economy with increased economic rivalry and competition among nations, the importance of economic diplomacy has increased immensely. It is regarded to be crucial to those countries which are in the early stage of economic development with resource, technology and market constraints among others and at the same time are yet to tap their huge domestic potentials for rapid economic advancement and prosperity. Economic diplomacy is a plural set of practices with a view of advancing the home country's external economic interests (Rana, 2003).

In the era of globalization, economic diplomacy is necessary to penetrate the world's markets. The basic goal of economic diplomacy is to stimulate economic exchange between countries. Economic diplomacy is the best way to give information about our potential, our possibilities, products, and services.

It is, in fact, concerned with economic policy issues, for which a country needs to monitor and report on economic policies in foreign countries and give the home government advice on how to best influence them. In other words, economic diplomacy is the process through which countries tackle the outside world, to maximize their national gain in all the fields of activity, including trade, investment and other forms of economically beneficial exchanges, where they enjoy comparative advantage (Rana, 2007).

Economic diplomacy is functional at three levels: bilateral, regional, and multilateral. Bilateral economic diplomacy plays a major role in economic relations with other countries. It includes bilateral trade and treaty; employment or avoidance of double taxation; and range of formal and informal economic issues between two countries. In the same way, there is also a growing tendency of entering into Bilateral Investment Promotion and Protection Agreement (BIPPA) to attract foreign direct investment by ensuring the investment security. Amidst failure of Doha round, the importance and role of regional trade agreements has also increased markedly which provide preferential facilities to the member countries through opening borders and markets vis a vis other trading partners. Joining of European Union by many Eastern European states in the 1990s were driven by the aim of fulfilling their larger economic interest. Despite all these developments, the importance of multilateral economic diplomacy within the framework of the World Trade Organization (WTO), the World Bank, the International Monetary Fund (IMF), and UN agencies, however, cannot be undermined. These institutions are heavily influential in shaping domestic policies and providing developing countries with resources and technical help.

In this way, along with marked rise in the scope of diplomacy, the complexity and challenges have also increased enormously with economic diplomacy at the centre stage as diplomats are expected to play a catalyst role in the economic advancement of the countries they represent. The diplomats have to closely watch developments on the world market that includes bilateral and regional markets and needs regular updates on current trends, scope, types, and quality of similar products of competitor foreign firms or companies besides analyzing the needs and saturation of foreign markets, acceptable prices and deadlines etc. Proven ability to communicate or coordinate in ensuring the foreign investment in priority areas is also essential.

Many of the developing countries lack such a capacity or competency due to host of reasons. This is why many countries since long or more recently have tapped non-residents or Diaspora in economic diplomacy very effectively. Many country experiences show that besides investing directly to their

country of origin, non-resident citizens have been major vehicle or catalyst of promoting economic diplomacy given their capacity and skills coupled with effective networking with business and entrepreneurial community including their powerful channel of communication.

2.2 Economic Diplomacy in Nepal: Brief History and Recent Developments

History shows that economic diplomacy has its old roots in Nepal. Nepal had established business ties and trading arrangements with Tibet at around 646 A.D during the Lichhavi reign. The country enjoyed the monopoly of the trade passing between Nepal and Tibet and also of the transit trade between Tibet and India. During the period of Lichhavi king Amsuvarma Nepal was considered as epicenter of trade between Tibet and India. Nepal had unofficial external relations to the South, North and North East Asia during the ancient and medieval period when popularity of Buddhism was heightening. The social and cultural relationships were converted into formal political treaty in the seventeenth century (Upreti, 1996).

But owing to, among others, the land locked nature of the country, Nepal's external economic relation driven primarily by trade was confined to British India and Tibet for centuries despite limited transactions between China and Nepal via Tibet. Since the medieval period, Kathmandu was the epicenter of trans-Himalayan trade with trade flourishing between India and Tibet via this route. Although such a trade was disrupted immensely after the conquest of Kathmandu valley by Prithvi Narayan Shah, still Nepalese merchants continued trade with both India and Tibet. It is reported that many agency houses existed in Lhasa at that time. Trade establishments were operated by merchants in different part of Tibet (Adhikari, 2010). Only in the 1850s Prime Minister Jung Bahadur had visited Europe officially which helped to promote trade with British India.

Thus, Nepal had established business ties with Tibet and British India more particularly during the 18th and 19th century which contributed to flourish trade with them. One of the distinguishing features of trade was such that it was in Nepal's favor resulting from a boost to Nepal's cottage industries. As the evident prove, Nepalese coin was also commonly used in Tibet at that time. The slowdown in trans-Himalayan trade that was taking place after the takeover of Kathmandu Valley received major setback after Nepal signed a treaty with British-India in 1923. This treaty allowed free movement of Indian goods to Nepal with very adverse impact on cottage industries among others. Nepal's isolation which was continuing since centuries from rest of the world further accentuated after such a treaty.

Only in the 1950s a new beginning was made by establishing diplomatic relations with various countries. Simultaneous efforts were also made to become the member of various regional and international organizations. But these moves were guided by traditional diplomacy with little help on the contribution to uplift Nepal from underdevelopment. Lack of focus on economic diplomacy was one of the principle reasons. Recognizing this, in the year 2000, the Ministry of Commerce and Industry organized the first consultation meeting to highlight on the need of economic diplomacy with foreign countries.

In 2008, similar attempt was made but with little successes. Prior to this Economic Relation Coordination Division - ERCD was established. In the mean time, a Multilateral Economic Affairs Division was established in the Ministry of Foreign Affairs. The Institute of Foreign Affairs also came out with a handbook entitled "Development through Economic Diplomacy". Today, a separate division has been created to deal with economic diplomacy and the NRR. A separate advisory committee has also been constituted in the Planning Commission to enhance the multiple role of NRR in Nepal's development through better facilitation in a more coordinated way. As an offshoot, an economic diplomacy related program (operation and management) directive 2013 has also been recently prepared by the Ministry of Foreign Affairs which not only has spelt out the broad objectives of the economic diplomacy but also the areas of economic diplomacy more candidly. The aim of the economic diplomacy stated there are (MoFA, 2013): To improve living condition of the people through rapid development of the country,

1. To promote bilateral and multilateral aid as well as joint work and partnership for rapid economic growth and development,
2. To cope with the challenges of globalization and use the opportunities created by it for building prosperous nation,
3. To play pro-active and constructive role in the global forums to use global economy and global market for the benefits of land locked and less developed countries, and
4. To develop skill and capacity of diplomacy and mobilize it for foreign investment, trade expansion, tourism promotion, foreign employment etc by ensuring preservation of nation's interest.
5. The directive also identifies seven key areas of economic diplomacy. Such seven areas are:
6. Trade promotion

7. Attraction to the foreign investment
8. Tourism promotion
9. Foreign employment management
10. Technology transfer
11. Climate change, and
12. Cultural promotion

It is also noteworthy that in 2009/10 a system of separately allocating budget to the diplomatic mission was initiated which is being continued with the aim of facilitating diplomatic mission abroad to carry out economic diplomacy related activities in a more planned and focused way. Amidst these, continued efforts are underway to enhance the institutional capacity of diplomatic mission abroad including the capacity of diplomatic personnel in the changed context.

But the challenges are many and multifold. Along with fast integration of the global economy, Nepal is confronting with the problem of growing competition among the nations to use economic diplomacy in the country's favor or interest. The fast changes or developments in the global economy including emerging new issues amidst frequent ups and downs or crisis affecting global priority areas or location are also posing additional challenges in way to make Nepal attractive investment and tourism destination. The poor capacity or capability in the areas of economic diplomacy and weak institutional strength amidst resource constraint are added problems. Some of the past negotiations indicate that a lot has to be done to make diplomacy competent enough so that Nepal's interest could be properly safeguarded.

Today also, compared to many other developing countries, Nepal has not been able to play effective or influential role to the desired extent on issues of aid, trade, markets and foreign direct investment etc in multilateral and other similar regional forums due to capacity, institutional and resource constraint related problems, among others. As a result, sufficient ground works essential for negotiations are constrained. It is worthwhile to mention that Nepal has also been less able to reap the extent of benefits that are granted to the LDCs through various special provisions. Continued violation of their own commitments by the developed countries is also partly the result of weaknesses in the realm of economic diplomacy. Among various other internal and external factors, the weaknesses or limitations in economic diplomacy have also constrained the scope of tapping investment, trade and

tourism potentials bilaterally despite two neighboring countries being the major locomotive of the global economy. The poor information base and absence of institutional coordination are also said to be working adversely.

On the whole, in view of poor capacity and paucity of resources, there is increased realization to enhance the role of private sector and NRN in the areas of economic diplomacy. As in the other areas, there is emerging tendency of promoting public-private partnership in the territory of economic diplomacy as well. Indeed, recent developments indicate that some initiatives to enhance the role of private sector in this area are underway. Private sector organizations like FNCCI, CNI, Chamber of Commerce and other concerned organizations are not only consulted frequently but they are also represented in many related organizational set ups. More positively, these organizations on their own initiatives are involved in consultation, mobilization and negotiation with multilateral agencies, foreign private sector organizations including government agencies and corporate houses to promote trade, tourism, FDI including joint ventures etc which are important ingredients of economic diplomacy. Similarly, a new beginning to move ahead jointly or in a coordinated and cooperative way has also begun between the private sector and the NRN.

Not with standing all these positive developments, how to make the economic diplomacy effective as per stated objectives and stipulated areas of economic diplomacy is a major challenge. In this context, there is a need of policy clarity from the standpoint of assuring both catalyst and complementary role of the private sector and NRN. As such, how the government could support private sector organizations and NRN as a part of making economic diplomacy more effective and result oriented is yet to be comprehended properly. As experience shows, there is persistently a big problem of policy and institutional coordination needing clarity on distinct, complementary and coordinating role of various related ministries including ministries like Finance, Industry and Commerce and Supplies. One important dimension that needs clear approach and strategy is related to the mobilization of NRN in the realm of economic diplomacy given huge prospects and potentialities including the clarity on the coordinating and complementary role of the NRN and private sector in that process.

A very positive development is that NRNs are now coming forward more aggressively to contribute to Nepal's economic development. There is an increased realization on their potential role in the realm of economic diplomacy. NRNs are not only increasing their investment in Nepal but also are keen to play proactive role in the field of economic diplomacy. The Nepali

migrants, who now number over three million and whose remittances now constitute a backbone of Nepal's economy, could be most effective in terms of both means and ends of Nepal's economic diplomacy. Many of the NRR community now are highly successful world class professionals in different fields in some countries. Non-Resident Nepalese are beginning to play important role worldwide in economic activities. In some countries their political clout and influence has also enhanced. They have good networking and social relation. They are recognized as honest, hard-working, friendly and adaptable. However, despite the growing realization on the need of using their expertise and experience, their capability, knowledge and potentiality most suitable from the standpoint of economic diplomacy is yet to be fully tapped. The time has come to augment coordinated effort at mobilizing NRR community for accomplishing the objectives of economic diplomacy.

2.3 Objectives of the Study

The main objective of the study is to identify the role of NRRs in making economic diplomacy effective and result oriented including finding out the role of the government and the private sector in accomplishing such an objective by them. The specific objectives are:

- 1.1 Quickly review major economic issues and Nepal's potentialities,
- 1.2 Identify the role of government in making NRR campaign effective and result oriented in the realm of economic diplomacy,
- 1.3 Chalk out the role of NRR campaign to make economic diplomacy effective and result oriented
- 1.4 Trace out the role of private sector in such a campaign, and
- 1.5 Draw major conclusions and provide some important policy recommendations.

2.4 Methodological Approach

The methodological approach of the study is mainly qualitative grounded on analytical and descriptive means. Secondary data, available related information and research study findings are the bases of the study. Some successful country experiences in which the role of non-resident citizens has been critical and important in mobilizing economic diplomacy has also been closely looked into to draw lessons from Nepal's perspectives.

2.5 Structure of the Report

After this introductory chapter, Nepal's economic issues and potentialities have been discussed in Chapter 2. Chapter 3 reviews the government policies including various steps and measures taken in promoting the role of NRR in Nepal and granting them various facilities. In Chapter 4, role of NRR for effective diplomacy has been assessed. Chapter 5 discusses the role of private sector particularly from the standpoint of enhancing coordination and working in partnership with NRR in the areas of investment including economic diplomacy. The conclusions and recommendations are provided in the last chapter 6.

2.6 Nepal's Economic Issues and Potentialities

2.6.1 Economic Issues

In development status, Nepal is one of the least developed countries in the world, having very low per capita income. Nepal is among the poorest countries and currently ranks 157th out of 187 countries on the Human Development Index. Nepalese economy has been growing by a tardy rate of less than 4 percent on average. It is one of the lowest economic growth rates in South Asia. Performance of agriculture and industrial sector, which should be a backbone of economy, has been very dismal and disappointed. Such a low growth rate, among others, is the result of low investment in these sectors which is again due to lack of congenial environment for investment. Added feature is the lack of investment in productive areas despite tremendous scope and potentialities. The prolonged political instability has added problems. Consequently, unemployment has emerged a big problem. Out of around 400 thousand people entering into the labor market annually, more than three fourth of workers are compelled to seek foreign employment. Today, remittance sent by migrant workers has been the main source of economic activities including the primary source of foreign exchange for financing unprecedented rise in trade deficit which has reached above 28 percent of GDP (NRB, 2013). This has increased vulnerability of the external sector amidst drive toward trade liberalization along with accession to WTO, BIMSTEC and SAFTA. There is continuous decline in both exports to GDP and export-import ratios. As of 2012/13, export to GDP ratio has reduced to 4.5 percent and export- import ratio has gone down to 13.8 percent. Nepal's export is not enough even to finance the imports of petroleum products. Nepal lacks. This situation obviously increases unemployment inside the economy.

Along with low growth, supply side bottlenecks and lack of effective demand created through export sector in the economy, Nepal has been facing chronic energy shortage problem since many years leading to more than 16 hours of load shedding per day in dry season. According to Nepal Living Standard Survey 2010/11, still about 44 percent of people are out of access to electricity. Under such a situation, private sector cannot make any long-term investment in manufacturing and other production sectors which needs large volume of energy. Increasing access to electricity in a timely manner is one of the most challenging tasks for Nepal today (World Bank, 2013). In addition, a number of factors such as frequent bandh, strike and adverse industrial relation are also other impediments for increasing productive investment in Nepal. Nepal also lacks the availability or quality of other physical infrastructure such as roads and airports. Nepal's road density is one of the lowest in South Asia. Over one-third of the people in the hills are more than four hours away from an all-weather road (World Bank, 2013).

Despite good progresses made in education and health sector, equitable access to health and education as well as quality education and health facilities are major problems. Access to secondary education (9-12) is still low as reflected by low net enrollment rate of 24 percent at this level (World Bank, 2013). On the other hand, because of lack of policy of attracting health professional and technical manpower, Nepal has been feeling the shortage of doctor and technical manpower in rural areas. Malnutrition is still high – about 47 percent of children under 5 are stunted and 36 percent underweight (World Bank, 2013).

Not with standing steady decline in poverty overtime from 42 percent in 1996 to 25.2 percent in 2011 (CBS, 2011) driven mainly by remittances, poverty rate differs widely across ecological regions and among different castes and socio-economic groups. People living in remote areas, indigenous and underprivileged people have high level of poverty. Multi-dimensions poverty index reveals that poverty is above 44 percent (UNDP, 2013).

Thus, Nepal faces tremendous challenges in many fronts despite huge potentialities and competitive advantages in many areas including agriculture, tourism, water resources, health, education, among others indicating very high growth prospect and economic prosperity in a short span of time.

2.6.2 Potentialities

Nepal is naturally very beautiful country with a lot of potentialities in different areas. It is rich in biodiversity comprising eco-system, species, and

a broad variety of topography. It has a youthful population and untapped opportunities for trade and investment. Nepal, a Shangri-La of the World, is endowed with gorgeous mountains, magnificent panorama of flora and fountains, beautiful lakes, valleys and basins, medicinal herbs, precious stones, and sub-tropical forest (Dahal, et.al. 2008). Amidst these, Nepal has tremendous potentiality in hydropower because of having more than 6000 rivers and rivulets. The hydropower potential is estimated to be 83,000 MW, and per capita hydropower capacity is assumed to be second highest next to Brazil. The nation possesses 2.3 percent of the world's hydro resources (Dahal, et.al. 2008). There is a huge market for hydropower. India is hungry for Nepal's potential energy. Despite this, Nepal, so far, has harnessed less than one percent of the hydropower potentiality. As a result, a large chunk of people (more than 44 percent) are out of reach of electricity and people who are getting, are also facing 16 hours of load shedding daily in dry season, badly impacting economic activities.

Because of diversity in climate with three different topographies – Terai (plain area), Hill and Mountain, there is a high potentiality of diverse agricultural products and agro-based industries. But, ironically, Nepal a major food exporting country a few decades ago has turned into one of the major food importing countries in South Asia. So far, Nepal's agriculture is featured as traditional, subsistence and rain-fed. Only about half of the arable land has access to irrigation and lacks modern seeds, fertilizer and methods. Nepal has potentiality in some cash crops which have high demand in the world markets. Such products include tea, coffee, sugar and herbs etc. There is also increasing internal demand for vegetables and fruits. The prospect of agro and live stock based industries which meet both internal and export demand is equally high. Such industries include industries producing juice, sauce, sausage, dry meat, dairy products and pickle etc. With the varied ecology due to its compressed altitudinal range, Nepal is a house of a large variety of valuable herbs that can be sustainably harvested, processed and directly exported to the lucrative markets in Europe and North America at high price (Adhikari et al. 2011).

More importantly, Nepal has enormous advantages and competitive edges to create a most popular tourist hub and global destination. Natural beauty, geographical and cultural diversity has enhanced such a potentiality. The highest peak in the world, Mt. Everest, lies in Nepal. In addition, there are many tall mountain peaks with attractive panorama and natural scenes. Because of availability of mountains and hills, there exists a vast potential for heritage tourism, white-water tourism, eco-friendly tourism, mountain tourism and adventure tourism. Nepal is the birth place of Lord Buddha which is the most

prestigious religious site for a large number of Buddhists living in different parts of Asia such as Japan, China, Thailand, Myanmar. Janakpurdham is also highly potential to tourism industry which is located in the heart of Madhesh. Rich cultural heritage, pagoda and stupa style art and architecture, gateway to Tibet and Bhutan, pleasant climate in most parts of the country are basic and prominent characteristics to attract a large number of tourists in Nepal (Dahal et. al. 2008).

Nepal is in very strategic location being situated between India and China, two giants Asian countries with more than a billion people in each country. Nepal can get benefits from huge markets available in these countries. Nepal's location between these two emerging power houses of the 21st century enhances the prospect of Nepal being the epicenter of many economic activities benefiting not only Nepal but also both India and China.

Given the amicable weather, close to huge markets and cheap labor, Nepal can develop itself as a hub for providing quality education, health service and information technology by utilizing advanced technology.

Nepalese economy is liberalized and is open. As being the member of WTO with preferential facilities granted through duty free and quota free arrangements and member of regional free trade regimes such as SAFTA and BIMSTEC, there exists many opportunities. Major challenge to Nepalese economy is how to maximize the benefits. To build the economy, Nepal must compete in the region and the world, looking for new markets and new opportunities. For this Nepal needs effective economic diplomacy, among others, aimed at augmenting socioeconomic development at a rapid rate for bringing prosperity as fast as possible. Harnessing available potentialities, Nepal needs huge investment ranging from production to infrastructure and services. This, in turn, demands a lot of financial resources and technical expertise.

2.6.3 Liberal Policies and Investment Environment

Nepal began market oriented policies since the mid 1980s amidst foreign exchange crisis and intensified from early 1990s. The liberal policies ensure property rights and guarantee the investment in line with MIGA, WIPO, and WTO provisions. Like in other countries, free trade, foreign exchange and banking-sector deregulation and privatization have been the major ingredients of the economic liberalization policies. As an offshoot, Foreign Investment and Technology Transfer Act, 1992 guarantees 100 percent repatriation of capital and profit earned. Similarly, industrial policy allows up to 100 percent foreign equity participation in all areas except in a few areas

for security and health reasons. These Acts has attractive incentives in terms of tax holiday and deduction and has a provision of providing facilities through one-window system. The Government of Nepal has also taken the initiative to establish 'Special Economic Zone' and Export Promotion Centre with a view to attracting foreign investment. Recently, a high level Investment Board under the chairmanship of the Prime Minister has been established to attract and channelize higher level of foreign direct investment through one-window system more effectively in a time bound. Nepal's average import-tariff rates are the lowest in the South Asian region (GON, 2004 and Khanal, 2012).

Efforts are underway to attract investment of NRN. As per the NRN Act 2064, NRN cardholder can open bank account in foreign currency in any of commercial banks in Nepal. NRN can repatriate to his/her country of residence the amount in foreign currency, which is equivalent to investment plus the net profit earned. NRN can enjoy unrestricted business rights at par with Nepali citizens and tax exemption on capital investment. Nepalese are allowed to take loan up to two lakh US dollar from abroad from their relatives and NRN.

There are also continuous efforts at liberalizing the capital flows despite increased external vulnerabilities. The exportable industries can take loan in foreign currency from the Nepalese banks. Under the condition laid down, areas like infrastructure, information technology, education, health, tourism and electricity which require higher level of capital can obtain loan from other countries. Under collective investment fund regulation, Nepalese are allowed to invest up to 25 percent out of the total project cost of a company abroad through stock market. Similarly, commercial banks can invest 30 percent of their deposits in foreign agency banks in foreign financial market instruments.

But the irony is that despite liberal policies and other measures aimed at mobilizing or attracting investment domestically as well as externally, not only the level of investment is very low amidst predominance of unproductive nature but also there is increased resource gap which is additionally constraining the prospects of augmenting investment. Latest estimates show that in 2012/13 the share of gross fixed investment in GDP was about 21.2 percent and the share of domestic saving was only 9.4 percent leading to the resource gap of as much as 11.4 percent (CBS, 2013). Paradoxically, the level of national saving driven by remittances is relatively high at 41.1 percent in 2012/13. This means that besides the difficulty of diverting available resources toward productive areas there is also serious problem of mobilizing such resources which could primarily go to the areas which could contribute to remove supply bottlenecks and tap Nepal's tremendous potentialities key to enhance higher growth and sustainable development. This reveals that

there are serious policy lapses and short comings in the institutional set ups and arrangements for attracting foreign investment and technology including those from NRN.

Many international reports clearly indicate that the structural and institutional problems linked to effective implementations including administrative procedures are very clumsy and adverse with negative effect on attracting foreign investment. A comparative study shows that in terms of infrastructure facilities, technological readiness and ease of access to loan Nepal ranks at 139, 134 and 88 respectively out of 139 countries included in the ranking. Similarly, in terms of level of corruption also Nepal ranks at 143 out of 180 countries. This is the highest ranking in South Asia after Afghanistan. In terms of constraints to doing business also Nepal is at the highest ranking at 161 after Afghanistan out of 183 countries considered (SAWTEE, 2011).

2.7. Government and NRN

The role of NRN in economic diplomacy is relatively a new concept in Nepal. It was only after the report of High Level Task Force formed in 1996 an economic relations and coordination division (ERCD) was established in MOFA to look after the affairs of economic diplomacy. Since then, numbers of committees were formed to submit reports and provide policy advice to the government. Some of them include:

- High Level Task Force Report 1996
- Policy on Economic Diplomacy 1998
- Policy Study Group Report on ED 2002
- Nepal's Foreign Policy in the changed context 2006
- O & M survey of MOFA 2007
- Institute of Foreign Affairs Report on ED 2008
- High Level Economic Diplomacy Execution and Monitoring committee 2008
- Pursuit of Economic Diplomacy: Prospects and problems by AFCAN 2009

A quick review of all these reports and policy papers shows that no serious thoughts on the role of NRN were given. None of them could properly comprehend their likely contribution to the socio-economic and cultural development of Nepal

On the other hand, after the enactment of Foreign Employment Act 1985, establishment of manpower agencies was started with the aim of facilitating people to go abroad in some systematic way. After liberal environment in 1990, a phenomenal rise in the establishment of man power agencies took place which contributed immensely for the outflow of people in search of employment particularly in the Gulf countries. Now it is estimated that there are about 3.5 million Nepalese people working out of the country (excluding India). With immense role of Diaspora in Nepal's economy along with increased importance of economic diplomacy in the aegis of globalization, an Economic Diplomacy and NRN division has been established in the Ministry of Foreign Affairs. As an offshoot, there is also High Level Economic Diplomacy Implementation and Monitoring Committee under the chairmanship of the foreign minister. In that various concerned agencies, stakeholders and experts are represented. The NRN is also represented there. In this fiscal year 2013/14, a directive has been prepared to make the economic diplomacy functioning and monitoring committee more effective and operational.

Since 2009/10, a system of allocating separate budget to the diplomatic mission abroad to facilitate carrying out of economic diplomacy has also been started. Various documents of the Ministry of Foreign Affairs indicate that the economic diplomacy has now primarily been focused on economic aid, foreign employment promotion, tourism development, trade promotion and foreign direct investment in areas like agriculture, education, water resource development etc. which is a good beginning. Still a more coordinated and wide-ranging effort tapping especially the net-working, expertise and potential contribution of the NRN, among others, is yet to be comprehend, made operational and effective. Here both legal and institutional arrangements come to the forefront.

Indeed, the government had initiated a new legislation with the aim of, among others, to legalize the Non-Resident Nepali Association (NRNA) which was established in 2003 by some prominent and like-minded Nepalese residing in different parts of the globe. A new NRN Act 2007 was introduced in the parliament after the consent of NRNA in which it was agreed that NRN will be those who are residing abroad (besides SAARC countries) for more than 183 days. On the same basis, the National Coordination Councils were established and registered in many countries and are working based on the same provision. However, when the bill came out as an act, the NRN definition was amended by keeping the provision of two years instead of 183 days to become an NRN. Thereafter, the dispute has continued leading to lack of formal registration of the NRNA. A sudden change in the provision without

consultation with NRN is seen as one of the major lapses on the part of the government. This, indeed, has become one of the major hurdles to get NRN's organization registered in Nepal*.

Even in the lack of official registration of NRN's organization in Nepal, the role of Diaspora to Nepal's Development has markedly increased. Today, the share of remittances in country's GDP has exceeded 25.5 percent of GDP (NRB, 2013) with multiple contributions to the various spheres of the Nepalese economy. Apart from availing the foreign exchange to meet ever increasing trade gap, it has contributed to enhance both custom and internal revenue mobilization. The mushrooming of banking and financial institutions and augmenting of their lending capacity and above all reduction of poverty has been primarily due to the contribution of remittances. It is obvious that had there not been remittances, the fate of the Nepalese economy would have been disastrous. Notwithstanding such a contribution, the role of Diaspora from the standpoint of long term sustainable development, however, is yet to be enhanced which in turn requires investment in productive areas.

As obvious, the main aim of NRN Act is to attract investment, skills, technology from the Nepalese origin people living abroad permanently or in a long term basis. From that standpoint, the role has to be judged in relation to NRN's contribution to total FDI in Nepal. Although no reliable data on actual FDI are available in Nepal as such data published by the Department of Industry furnish information only on approved FDI, a detailed analysis made by SAWTEE based on UNCTAD data shows that it is in the neighborhood of 2.5 percent of total gross fixed investment which is one of the lowest compared to other South Asian countries (SAWTEE, 2013). Out of this also, how much is the actual contribution of NRN is not readily available**.

The utilization of remittances shows that to the extent it could be used for the betterment of the economy and people have not taken place. The problem is that most of inflows are used in consumable items and hence very little

* *Now this problem has been resolved as after NRN Sixth General Assembly (19th Oct, 2013) deciding to abide by two year's provision NRN has been duly registered*

** *Some scanty information show that it is now in the range of one billion Rs. in a year which is increasing especially after the establishment of a company by the NRN. Another dimension is that the low level of investment is also mainly in quick yielding but less productive areas. From the potentiality point of view, it is necessary to find out not only the nature of investment coming in but also the level and areas of such investment by NRN' in their respective host countries where they have been residing. Similarly, from the standpoint of mobilization of NRN in different areas, it would useful to create data base and institutionalize information flow system pertaining to the extent of expertise of NRN in different areas including information on number of CEOs and industrialists from NRN community in the residing countries.*

goes to the productive sectors and activities. Out of limited investment also, it is diverted to the non productive assets with no lasting impact on the country's growth and development. Government policy parleys, institutional and governance related factors are regarded to be mainly responsible for this. A quick assessment indicates that if a proper and or enabling environment is created by the government, the contribution of NRR could be wide-ranging and substantial. The potential areas of contribution, among others, could be:

- Capital investment in productive sector
- Transfer of technology and international know-how
- Expertise on entrepreneurship
- Access and linkages to international investment communities
- World- wide contact in broader aspects of economic diplomacy
- Entice foreign investors and working as comfort factor
- Enhancement of national pride and prestige
- Human resource development
- Creation of jobs and well being of Nepalese people
- Spread of Nepali culture
- Collection of information on Nepali origin people
- Helping hand of government of Nepal to assist Nepali who are in need

Thus, despite huge potential areas, the NRR's contribution lags far behind the expectation and plentiful opportunity. The potential areas of investment could include hydro-power, banking, health care, education, transportation and communication, tourism, community based integrated projects, bio projects, food processing, manufacturing etc. The reason for the poor show of NRR's investment in productive sector is many but first and the foremost is the crisis of confidence in the government and its policies.

The prolonged political instability and uncertainty have worked very adversely in Nepal. Therefore, without stable, responsible and effective political leadership, conducive atmosphere for long term investment is less likely. Very unhealthy industrial relations and sometime politically motivated factors also interrupt the projects and programs with very adverse long term effect. Interlinked very weak governance and political instability are also hurdles toward handle or settling disputes in time.

Lack of technically and vocational trained labor force also pose problems

in implementing projects. A weak and complex procedures of governance coupled with bureaucratic red-tapism also pose big hurdles. Although, the government has had announced a one window system of grievance dispensations, in practice it does not exist. Rather a potential investor can turn away very easily from the cumbersome official procedures of the government departments and agencies and also because of the un-cooperative attitude and behavior of the bureaucratic system. The system of omission and commission (i.e. corruption) is rampant across government structure. The security to safe investment and smooth implementation of the project are other negative dimensions. The NRN act also does not specifically speak about the avoidance of double taxation.

The establishment of high level Nepal Investment Board (NIB) is very timely and appropriate step in a way to create enabling environment to Nepalese Diaspora and foreign investors. However, despite some positive signals initially, its effectiveness is yet to be realized. So far government has also not been able to bring about some paradigm shift in NRN's investment priority from quick profitable charitable areas to real investment leading to sustained growth and development.

2.8. Role of NRN for Effective Economic Diplomacy

2.8.1 Growing numbers of NRNs

Along with the pace of globalization resulting from considerable advancement in communication and transportation technology, the movement of people across national borders in search of opportunities for better livelihood has also tremendously increased. In Nepal, like many other developing countries, out migration has been on rise on account of a variety of factors both voluntary and involuntary. Some of the involuntary factors include a decade long conflict and lack of domestic employment. Similarly, many voluntary factors such as trade, study, tourism, various opportunities etc have played important role for the tremendous rise in outmigration. Nepal has opened up more than 108 countries to go for foreign employment. Many students are also going to advanced countries for higher studies in a bid to become globally competitive and make progress in the field of knowledge and research.

By utilizing the selective migration policies in some advanced countries for skilled workers, many educated Nepalese have been successful in obtaining permanent residency in these countries. In addition, against the background of decade long internal conflict and prolonged political instability, many Nepalese people have obtained refugee status in many advanced countries.

As a result, many Nepalese families have been migrating to these countries. Diversity visa program of the US has also helped many Nepali of various backgrounds to get access in the US. As a result, Nepalese Diasporas have been thriving abroad in more than 65 countries. In modern times, fuelled by the forces of globalization, Nepalese are emigrating mainly for economic reasons to obtain work and enjoy a better standard of living in the more developed countries. The result of these waves of movement has been the creation of a significant Diaspora community of Nepalese abroad which has strong links and family ties to their motherland.

The NRN community is the human face or image around which their respective host country nationals form their perceptions and attitudes about Nepal. Good behavior, achievement and reputation amounts to the benefit of Nepal image while bad behavior, crime and negative reputation harms Nepal's image. Today the Diaspora community is held in high regard due to their contributions to poverty reduction in their families and the national economy through remittances and other investments. Hence, the role of NRN has increased substantially in different aspects including economic diplomacy.

As stated already, along with massive outflow of Nepalese people, a non-government global body named Non-Resident Nepali Association (NRNA) was established by some prominent and like-minded Nepalese residing in different parts of the globe on October 11, 2003. Now, it has become relatively a large network organization with its national coordination councils in 65 countries. Its first Global conference was organized in 2003 in Kathmandu in coordination with the Government of Nepal and Federation of Nepalese Chamber of Commerce and Industries. The main objectives of NRNA are:

- To promote and protect the rights and interests of Nepalese residing outside Nepal
- To co-ordinate Nepalese Diaspora globally and establish a common platform for their representation
- To mobilize the knowledge, skill, capital and other resources of the Diaspora for socio-economic development of Nepal
- To preserve and promote Nepalese culture globally and helping tourism industry of Nepal
- To act as a catalyst in attracting and facilitating the Foreign Direct Investment in Nepal
- To promote and protect the rights and interests of Nepalese residing outside Nepal,
- To co-ordinate Nepalese Diaspora globally and establish a common

platform for their representation,

- To mobilize the knowledge , skill, capital and other resources of the Diaspora for socio-economic development of Nepal,
- To preserve and promote Nepalese culture globally and helping tourism industry of Nepal, and
- To act as a catalyst in attracting and facilitating the Foreign Direct Investment in Nepal

Keeping in view the importance of the contributions of NRN, the government of Nepal enacted the NRN act 2007 and NRN Rules 2009 which govern and facilitates global networking of NRN. Despite the establishment of NRNA 10 year ago with the consent of the government, it has been registered only recently.

2.8.2 Roles of NRN for Economic Diplomacy

Economic diplomacy encompasses four broad objectives such as promotion of trade, networking for trade and investment as well as technological acquisition, country promotion, and regulatory and negotiation (Rana and Chatterjee, 2011). NRN can play vital role in promoting such an economic diplomacy through different channels or ways. Some of these channels are as follows.

1. They help to promote trade across national boundaries by acting as middlemen and providing market information and preferences of consumers in both host and origin countries.
2. They are instrumental in knowledge exchanges, transfer of skills and technology between host and origin countries.
3. They promote the image and culture of the origin country.
4. They promote friendship and cooperation between the host and origin country through their personal contacts and networks.
5. They can provide remarkable support to Nepali missions and business associations with their knowledge and local associations.
6. Social and business contacts made by the NRN in their host countries can be helpful if made available to Government in accessing and building external partnerships for development.

To tap Nepal's potentialities, Nepal needs huge amount of investment and acquisition of modern technology. As pointed out briefly above also, attracting Foreign Direct Investment to Nepal has not been an easy task because of

political instability, policy conflicts and uncertainty, structural and institutional impediments and worsening macroeconomic environment. Nepal being a land locked country is additionally handicapped by the disadvantages of remoteness, cumbersome and costly transits affecting trade competitiveness and limited access to international markets. Several efforts to attract foreign direct investment have resulted in minimal impact so far. In the five years to 2009, net FDI in Nepal averaged only 0.1 percent of GDP as compared to an average of 1.9 percent for low income developing countries (World Bank, 2013). The NRN community can provide a good opportunity to increase Nepal's networking with the international community to promote trade and investment through contacts they make in countries they have settled in. Nepal can still rise in the ranks of the globalization game, skillfully using new diplomatic vehicles – using NRN in economic diplomacy - to attract positive attention, investment and clout. NRN can popularize the Nepalese products in the countries of their residence. Disseminating correct information on various aspects of Nepal in the communities they live with a view to projecting better image of the country. NRN communities can involve in organizing trade fair, studying market demand in host countries, advertizing Nepalese products in foreign markets, and providing useful information to the Government of Nepal and the private sector.

The Government of Nepal does not have enough resources to depute economic counselors in Nepali missions abroad. This is where NRNs can support Nepali missions by offering their local contacts, knowledge, expertise and language skills. NRNs can even volunteer at Nepal's missions and provide financial resources. Many Nepali students and even professionals could happily volunteer to help the Nepalese embassies, free of charge.

For exporters in Nepal, external markets pose several kinds of problems. First, they do not know the basic environment in foreign states, and do not have the capacity to invest in exploration of the external market. Second, foreign regulations on safety and environmental standards, and other norms laid down by potential markets are little understood by home exporters, and pose real nontariff barriers (NTBs) to entry. Third, home exporters lack credibility with potential foreign customers, and this becomes a chicken-and-egg syndrome, making it difficult to break this cycle of unfamiliarity (Rana and Chatterjee, 2011). In this situation, NRN can really play the role of providing necessary local information to Nepalese exporters. Even in foreign capitals where only a handful of NRNs are to be found, they are partners of choice, for the local knowledge they possess, and the leads they can provide in relation to opportunities, be it in the economic, cultural, or even the political arena.

In fact, NRN can play five significant roles as investor, customer, supplier, ambassador, and philanthropist. In addition, they can act as “cultural brokers,” “communication highways,” “politicians,” and “transnational citizens” besides being “economic investors” (El-Aziz, 2005). They can contribute more directly to the quality of teaching and research, of infrastructure and our services sector with the aim of making Nepalese education, healthcare, financial services and tourism all world class.

There now are many highly successful, world class Nepali professionals in different fields in quite a few countries. Nepal should be bold enough to use them as our informal Goodwill Ambassadors. NRN can involve in organizing in cooperation with the Nepalese missions abroad, where possible, Nepal Festival and other promotional events to showcase Nepalese culture, food and exportable products.

NRN can encourage friends and local people to visit Nepal and utilize important occasions/forums to highlight business and investment opportunities in Nepal. In addition, NRN can explore job opportunities for Nepalese nationals in overseas markets. They themselves can make individual or collective investments in the productive sectors of the Nepalese economy.

NRN can be engaged in transferring knowledge and skills on an individual basis or through networking. They can invest in setting up quality educational and training institutes. Providing and garnering support for educational and social upliftment in the far flung areas of the country and for the marginalized communities is expecting generous help from NRN community.

NRN community has some comparative advantages because of having good knowledge of the local markets as well as foreign markets. NRN has a global network with International Coordination Committee and National Coordination Committees. Such a network can be utilized for effective economic diplomacy as well as for overall economic development of Nepal.

2.9 Private Sector and NRN

For effective economic diplomacy, the relation between the government and NRN is not enough. There should be final positive impacts on the economy from economic diplomacy for which there should be effective relationship between private sector and NRN communities. From economic diplomacy involving NRN, it is the private sector which should get benefit finally. Foreign direct investment, export expansion, tourism promotion, and mobilization of aid as part of economic diplomacy help to affect private sector positively. NRNs can also work together with Nepali business associations (FNCCI, CNI,

CoC) to explore markets for Nepali products and to organize 'trade fairs' in the country of residence, and promote joint venture investment in the economy. Under the facilitation of the government, NRN and the private sector can make close contact to each other for the benefit of Nepalese economy. NRN can bring modern technology and large investment in partnership with private sector.

For effective economic diplomacy, there should be two ways communication and sharing of information between NRN and private sector in Nepal. NRNs have been investing in different sectors including education, health, banking, telecom, hydropower, tourism, media and garment. Recently, they have also registered a company, NRN Investment Limited. Instead of direct involvement, which may not be feasible, NRN can get benefit from collaboration or joint venture with local private sector. If locals and NRNs make investments with an open heart, the country can progress to be a developed country within the next 10 years.

Economic diplomacy is best carried out through public-private partnership forum. The role of the Federation of Nepalese Chamber of Commerce and Industries (FNCCI), Confederation of Nepali Industries (CNI), Nepal Chamber of Commerce (CoC) and Nepal Tourism Board (NTB) is integral in promoting trade, tourism, cultural exchange and attracting FDI in the country. These business associations should develop a concrete mechanism to establish effective working relation with various associations of NRN communities.

For benefit from economic diplomacy, there should be a high level of trust among private sector, NRN and the government. Specially, private sector should build a high level of trust to make cooperation with NRN. Private sector needs to be trustworthy and credible and should follow business ethics with long term goals. In addition, Nepal has yet to develop genuine corporate culture. Private sector needs to develop corporate culture with international standard accounting system and corporate governance to seize the benefit of economies of scale and diversify risks. Such a standard corporate culture can attract investment from NRN as well as other foreign investors. So far, there are mainly family based or dominated business houses. The share market is mainly dominated by banks and financial institutions and they are yet to be opened for NRN. For enhancing corporate culture and diversify and augment capital market also close coordination and partnership between the private sector and NRN will be highly productive and contributory.

2.10 Conclusions and Recommendations

2.10.1 Conclusions

1. Despite several potentialities, Nepal has not been able to develop economically. Nepal is still one of the least developed countries in the world. Hence, economic diplomacy has now become indispensable for Nepal's economic development in this competitive world of globalization. In the changed context, traditional diplomacy has lost its relevancy. However, conducting effective diplomacy for economic benefits of Nepal requires multi-dimensional approaches; the government alone cannot execute economic diplomacy effectively. There should be the role of private sector and NRN communities. In recent years, with the process of globalization and liberalization, out-migration has been increasing because of various reasons, resulting in expanding Nepalese Diaspora communities abroad in more than 65 countries. Foreign employment and remittance inflows have been the backbone of the Nepalese economy.
2. Nepal can get benefit from utilizing NRN communities in conducting economic diplomacy through which Nepal can promote trade and investment, tourism, foreign aid and foreign employment. Through NRN communities, Nepal can get not only precarious foreign exchange, but also knowledge, technique and widespread network. NRN communities can act as a "Goodwill Ambassador" for Nepal's benefit if the government can utilize them by framing right policies and mechanisms. Through various ways, NRN communities can involve in promoting Nepal's economic diplomacy effectively because they know local language, market information, and have knowledge related to rules and regulation of host countries.
3. Recognizing the likely crucial role of the NRN, numbers of steps have been taken by the government in general and Ministry of Foreign Affairs in particular in recent years. Today, a separate division has been created to deal with economic diplomacy and the NRN. A separate advisory committee has also been constituted in the Planning Commission to enhance the multiple role of NRN in Nepal's development through better facilitation in a more coordinated way. As an offshoot, an economic diplomacy related program (operation and management) directive 2013 has also been recently prepared by the Ministry of Foreign Affairs which not only has spelt out the broad objectives of the economic diplomacy but also the areas of economic diplomacy more candidly.

4. A quick review of various interrelated issues, however, shows that there are many hurdles. The dispute between the government and NRN on the definition of NRN conditioned in the NRN ACT, 2007 without consultation of NRN has been one of them which has been resolved only recently after almost one decade.
5. There is another issue linked to the continuity of citizenship to NRN's that NRNA has been advocating since long. Many countries of the world do provide either dual citizenship or continue the citizenship to its non-resident nationals. Un-resolving of this issue is also a bigger problem.
6. Despite many positive steps accompanied by institutional arrangement, an effective mechanism to involve NRN in economic diplomacy is yet to be developed. Given the resource constraint and lack of capacity, without using the NRN selling of Nepal's potentialities in the world to promote trade, attract FDI and promoting of tourism for the benefit of Nepal and Nepalese will be extremely difficult as the experience of the past indicates.
7. Although a closer cooperation and partnership between the private sector and NRN has been duly recognized with joint initiatives in many areas gradually, taping of Nepal's huge potentialities jointly is yet to be realized.

2.10.2 Recommendations

1. There was an urgency of settling the dispute between the government and NRN linked to NRN Act 2007 and Rules 2009. That has been settled. Now time has come to create more favorable or enabling environment to the National Coordination Councils that are operating in almost 65 countries.
2. The issue of continuity to the Nepalese citizenship to the NRN has also to be resolved with guarantee of such provision in the New Constitution. Needless to add, many countries of the world have provided dual citizenship or other facilities to their non-resident nationals. Although the government has made several legal provisions for the benefit of the NRN, it may be advisable that instead of just an identity card, a card could be issued which may allow the NRN and PNO to engage in all activities except political activities. Even a passport mentioning "Passport of NRN and PNO may be issued. A PNO (as defined in legal terms) should be allowed on it or expertise basis to engage in any job, except jobs of government sectors. Its provisions and processes should be made easier. While doing so Nepal's unique and sensitive position may also be taken into special consideration.

3. There are enough provisions for PNO's to buy and own properties in Nepal. However a provision that for buying land tells a PNO to bring the records of all 75 districts stating that the said person does not possess land. This process seems cumbersome and should be made easier. The land revenue office or the district administration office in Kathmandu should have some mechanism to help in such cases. The process started to simplify has to be expedited.
4. The working of NRN Investment Ltd should be monitored by the competent authority of the government and the process for inflow of funds should be made easier.
5. There is a need of making newly created Division more resourceful with flexibility of hiring competent experts to undertake its responsibilities more effectively. The Nepalese diplomatic missions should also be geared up for providing quick and required services to NRN's. They should have constant touch with the NCC where they can initiate and pursue the government's economic diplomacy.
6. There is a provision of an advisory board (clause 15 of NRN act) which is supposed to facilitate the coordination and activities of NRNA with the government. This board should be supported with well staffed Division in the Ministry of Foreign Affairs for better understanding of the NRN affairs and smooth settlement of differences of opinion of NRNA and the government.
7. In the circumstances where potential investors meet with different kinds of bottle necks and hurdles unexpectedly, it is difficult to mobilize NRN's resources to the desired extent. The government has taken some steps but they are yet to be implemented pragmatically. Unless there are strong political commitments and efficiently dedicated policies, investments from NRN or Nepalese Diaspora in general will remain as elusive in future as it is now. The government has to create conducive circumstances not only at home but also abroad through its diplomatic missions and representatives.
8. Nepal's government should make positive steps to reach-out and engage its Diaspora community to make a contribution to economic diplomacy and national development. There should be clear NRN engagement framework. The government should provide a platform for wider consultations and exchange of information, for which the government should organize Trade and Investment Nepalese Diaspora conference inviting selective businessman and investors from NRN community in some regular interval

to appeal to the Diaspora to mobilize the international business Community to invest in Nepal, to explore investment opportunities, expand business partnerships with home counterparts, and visit their family and friends.

9. The government may also involve NRN directly or indirectly while dealing with foreign countries. Moreover, Nepali students abroad are interested to voluntarily work for six to 12 months in Nepali missions as interns (Udas, 2011 and 2013). The government should make a provision to accept internship in Nepali missions and provide trainings as per their requirement.
10. NRN's Social and Professional Associations and groups in the host countries are the main points of contact and communication between the NRN community and the Government of Nepal. The economic diplomacy and NRN division should have institutional linkages and contacts with such associations and groups and be utilized them in economic diplomacy.
11. Government needs to work on setting up a data collection mechanism and building up a database for her nationals in the Diaspora and their profile as well as their Associations. In countries like India, there is an Investment Information Centre (IIC) as a free "single-window" agency for advice on nearly all issues associated with investing in India. It works with Indians, foreign investors and NRIs and is considered the "nodal agency" for promoting investment in India by NRIs. It provides "all necessary services" for NRIs in setting up their investments, including explaining government policies and procedures, available incentives, necessary data for project selection, and assists in obtaining government approval. Similar institutional arrangement may be essential in the Nepalese context as well.
12. For successful economic diplomacy, there are some key ingredients for which the government should play active role (Rana, 2007). First, economic engagement abroad involves more than the ministries of foreign affairs, commerce and industry; it is the business units of the country, associations of industry and chambers of commerce, the financial sector, business schools and think tanks, the tourism industry and a host of domestic actors that are both the stakeholders and the prime movers. The state agencies need to take initiatives to create viable, innovative public-private partnerships. Second, the structures of foreign affairs and external economic management need to be integrated or harmonized. Third, the twin immediate priorities of economic diplomacy are export promotion and mobilization of inward foreign investment. Export promotion involves

helping home commercial enterprises to seek out foreign markets; market studies, visits by business delegations, participation in international trade fairs, and buyer-seller meets are among the standard devices for helping exporters. For mobilizing FDI involves, first of all, sensitizing potential foreign investors on the opportunities in the home country, and thereafter undertaking targeted promotion. Fourth, the regulatory framework is squarely the responsibility of governments which aim to create the conditions needed to advance trade and investments. The home economic agencies and the diplomatic network have to proactively identify the priority areas, and negotiate the required agreements, keeping in view the mutuality of interests. The government should use NRN from different perspective to make economic diplomacy effective.

13. There could be even separate Ministry of Nonresident Nepalese (NRN)/ Persons of Nepalese Origin (PNO) affairs to facilitate greater interaction between the Nepal and Nepalese abroad. With the right incentives, many NRNs may be willing to invest a portion of their portfolio in Nepal. This will require ensuring that the investment has the potential of profitability, security, and financial and legal stability in Nepal. Legal framework in Nepal, such as bi-lateral tax treaty and other legislative regime will greatly facilitate the investments from NRNs (Adhikari et. al, 2011).
14. It is also recommended that the larger diplomatic outposts of Nepal have a NRN desk to facilitate the involvement of NRNs in the work of economic diplomacy. It will give payoff in future. There are some success examples of economic diplomacy such as the Chinese economy has in the recent past received a major fillip from more than \$55 billion in annual investments made by overseas Chinese communities. Recognizing the importance of this group, the Overseas Chinese Affairs Office has been quite active in facilitating their interaction with the Chinese state, specifically by maintaining contacts with all overseas Chinese organizations, ensuring a smoother path for overseas investment, proposing and implementing policies at the provincial level to provide educational facilities within China for the children of overseas Chinese, enabling members of the Diaspora to reconnect with their ancestral villages, and facilitating their return to the mainland" (Varadarajan, 2010)
15. The practice of economic diplomacy will require research, and gathering data and information about how Nepal can best benefit by situating itself in the regional and world arena, and how it can effectively negotiate favorable trade, commerce, aid and financial terms to promote its interest. For accomplishing such a role strengthening of Institute of Foreign Affairs

may be better viable option in which a separate Economic Diplomacy wing can be established there for the same purpose.

16. The government in fact, needs to develop small but effective groups from NRN community to promote Nepal's agendas, comprising of influential Nepalese as well as locals from different walks of life to support the process of economic diplomacy. Such a group can assimilate scattered information, promotional documents, statistics, data, etc. and come out with short term, long term plans and country/product specific programs. The world is highly competitive when it comes to investment. We must be able to reach out to people and draw their attention and that too at the right level in the right country for the right product/activity.
17. There is also need of enhancing "rule of law" in the country from the standpoint of attracting investors. Investors want the courts to rule promptly and fairly based on laws and precedent, not personal predilections or kickbacks. The legal system must work better and more efficiently, not only for victims of crime, but also victims of contract fraud and intellectual property theft. Documentation of liberal policies in paper is not enough. It is critically important that they are implemented in practice. Process culture in bureaucracy should be changed into outcome culture.
18. Equally important is that the government trains young diplomat on economic diplomacy, by providing knowledge of Nepalese economy, its needs, potentialities and constraints. Diplomats should be able to disseminate available potentialities in Nepal to foreigners and to NRN communities to get their help.
19. Establishment of High Level Committee comprising of representatives of the government, NRN Association (NRNA) and Federation of Nepalese Chambers of Commerce and Industry is a right step. But it is essential that its effectiveness is enhanced through better coordination and accountability system. This body should identify and attend to the issues of Nepalese working abroad and explore possibilities for smooth transfer of funds and knowledge of NRNs into the country. This will additionally help bridging the communication gap between the private sector and Nepalese living abroad.
20. The government also needs to streamline investment procedures for NRNs. There should be a "fast track system" so as to reduce the number of barriers that usually keep potential Nepali investors at bay. Nepal should

also open investment in stock exchange by NRN. Developed capital market can attract foreign direct investment in a simplified way. In addition, there should be effective contract enforcement mechanism, and law and order situation.

21. The private sector should also take further initiative to use network, knowledge and technique of NRN. The private sector should be open to embrace fellow NRN in economic activities by sharing information each other, being trustworthy and developing corporate culture. Particularly, business organizations like FNCCI, CNI, and Nepal Chamber of Commerce should take a lead and establish a mechanism to make economic diplomacy effective by utilizing the benefits that can be gained from NRN communities.
22. On the part of NRN also, instead of publicity, they will need more concrete steps to augment their investment in Nepal in such areas which contribute to augment Nepal's sustainable growth and development. Experience indicates that for this more concerted effort will required in coordination with both government and private sector.

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3. Summary of the Program

An interaction program was held on the topic "Role of NRN in Effective Mobilization of Economic Diplomacy in Nepal" on Ashoj 22, 2070 (8th October, 2013) at The Ministry of Foreign Affairs in Singha Durbar, Kathmandu. Executive Director of The Institute of Foreign Affairs, Dr. Rishi Raj Adhikari, chaired the program. A research paper on the topic had been commissioned by IFA that was prepared jointly by Dr. Dilli Raj Khanal and Mr. Shyamananda Suman. Eminent personalities from different fields were present at the program such as: Economist Dr. Dilli Raj Khanal, Former Ambassador Mr. Shyamananda Suman, President of Federation of Nepalese Chambers of Commerce and Industry (FNCCI) Mr. Suraj Vaidya, Joint Secretary of MOFA Mr. Amrit Rai and President of Non-Resident Nepalese Association (NRNA) Mr. Jiba Lamichhane. They provided their valuable feedback on the paper, and perspectives regarding the topic on hand.

Mr. Khush Narayan Shrestha, Deputy Executive Director of IFA, called Dr. Rishi Raj Adhikari to take the Chair and welcomed him along with the above-mentioned guests. He said that economic diplomacy had become the hallmark of present day global diplomacy and was important to achieve the economic goals of any country including Nepal. NRN could play a crucial role in promoting trade and business, attracting foreign direct investment, enhancing tourism sector and introducing modern technology, which he said was the key to augment growth and development. Mr. Shrestha said that government should help NRN to play their role by effectively addressing various hurdles. He thanked the speakers, distinguished participants and the audience and asked for their interventions and suggestions to make the study inclusive and comprehensive.

Executive Director of IFA Dr. Rishi Raj Adhikari, who also chaired this interaction program, spoke a few words next. He told the audience about the main aim of the program that was to get feedback on the study conducted regarding economic diplomacy and NRN. He said that it was a process to understand the essence of these topics and invited all those present to actively participate in the program and give their feedback. Citing the famous quote, "Only those questions are dumb questions which are not asked", Dr. Adhikari requested the resource persons to present the paper.

Dr. Khanal spoke next stating that the program would be more in the format of discussion/feedback and asked the panelists as well as other members of the audience for their concrete suggestions and input. He said that in the paper, the writers had tried to recapitulate what economic diplomacy means, its importance, and interlink pertinent economic issues and discover the potentials of our country in terms of economic diplomacy. Dr. Shymanand Suman would present the second half of the paper, he said, that focused on the government and Non-Resident Nepalese Association (NRNA). Dr. Khanal then proceeded to present his paper, followed by Dr. Shymanand Suman and once again picked up and concluded by Dr. Khanal. (The final paper has been included in this book).

Mr. Jiba Lamichhane, President of NRNA, talked about the various prospects and scopes of NRNA and government relationships in terms of policy etc. (Mr. Lamichhane's paper has been annexed to this book.)

Other distinguished guests present at the seminar also gave their opinions on economic diplomacy, role of NRN etc. There were a few suggestions and opinions that commentators thought should be added to the paper as well.

Mr. Amrit Rai, Joint Secretary, MOFA

- The highly discussed subject of NRN needs to be defined properly
- Role of NRN should be clearly outlined
- Important thing to add in paper – NRN investment in Nepal vs other countries
- Nepal can have an NRN desk/office in each embassy

Mr. Suraj Vaidya, President, FNCCI

- Included data for non-resident Chinese and non-resident Indians and their investments in the context of FDI in these countries. He used 2002's data, maybe in the paper, more recent data can be used to show how non-residents of other countries are contributing to economy, GDP etc.
- What kind of incentives can be given to NRNs to invest in Nepal?

Mr. Purushottam Ojha, former Secretary

- Give an outline of the proposed governance structure of the organization
- Mention important things NRNs can do e.g. help in Nepalese trade; display/exposure of Nepali products; NRN experts can give

suggestions on bi/tri/multi lateral trade negotiations; link investors, government agencies and businesses; ensure safe immigration and protect migrants' rights; technology/expertise transfer; image-building of Nepal etc.

Mr. Bishnu Prasad Luitel, Federation of Cottage and Small Industry

- Include in paper what NRN has done so far, what needs to be done
- NRN should take an active role in information dissemination
- Paper writers should take input from traders in Nepal as well to direct the kind of goods to be produced

Ms. Saroj Joshi, UN Women

- Mention in paper – what is the target of economic diplomacy?
- NRN should be mobilized as a trusted partner

Padam Lal Bishwakarma, MP and Former Chair, Parliament Committee on Foreign Relation and Human Right, Former Board Member IFA

- Economic and foreign policies are made by the government, so mention in paper what the government of Nepal can do to promote the cause
- Perhaps build various mechanisms in each embassy to gather knowledge, facilities and cooperation from NRN as well as to facilitate them
- New constitution should have provisions regarding dual citizenship
- What can the foreign ministry as well as other ministries do to help? Mention in paper

Rameshwar Shah, Former Vice Chairman, NRNA

- What kind of legal protection and status can be provided to NRN?
- To promote E.D. through NRNs, experts from foreign countries should be involved
- MOFA should take more initiative in involving Nepalese people of different expertise as well
- Political involvement of NRN should not be curbed

Surendra Bir Malakar, Former President , Nepal Chamber of Commerce

- NRN has not been able to move forward
- Budget of MOFA is too low

Dr. Mohan Man Sainju, Former Vice Chairman, NPC

- How can we use economic diplomacy to be effective in this changing world
- Good studies should be conducted by educated teams

Mr. Ganesh Gurung, Migration Expert, Chairman, NIDS

- What went wrong so far with NRN, how can corrective measures be applied
- Framework and NRN definition to be defined
- Be specific on the things that we need to do – the next step/the doable things

Mr. Kedar Bhakta Mathema, Former Ambassador

- The need of the hour is to have a clear understanding of what role NRN wishes to play in furthering economic diplomacy
- Better understanding of NRN community's strengths and wishes: e.g. Some NRN community may have good corporate world linkages while others may have political clout to lobby for policy change in favor of Nepal
- Only after clearly understanding NRN's wishes and assess their strength, can we prepare a plan for collaboration with the government, Nepal's private sector and NRN

The program concluded with the presenters promising to include the valuable suggestions received from the audience. High tea was served.

Annexure:

Annex: 1

"Economic Diplomacy: From Political Era to Economic Era"

Dr. Rishi Raj Adhikari

Background

Diplomacy that promotes national economic and business interest in other countries is defined as economic diplomacy. It includes how economic relations are conducted with other countries by using political influence towards promoting trade and investment and to find a market for its products and services. It encompasses trade, business, and market and investment promotion through political diplomacy. In the past the diplomacy was focused on maintaining status quo or improving political relations with other friendly countries. However, with the onset of democratic movements and globalization political diplomacy has emerged in the form of economic diplomacy. It has been observed influencing massive political changes in some countries such as erstwhile soviet bloc countries and newly emerged democracies around the world.

Economic diplomacy is concerned with economic policy issues. Economic diplomats are supposed to monitor and report on economic policies in foreign countries and offer advice to the home government on how best to influence them. This is sometimes called "Economic Statecraft". Economic diplomacy is decision making, policy making and advocating business interest of the sending state. It requires technical expertise that analyses the effects of country's economic situation on its political climate and on the sending state's economic interest. Economic diplomacy is essentially a process of mainstreaming economic dimension into our foreign policy perspective with the objective of further promotion of our economic interests with cooperation of outside world through well informed negotiations.

The importance of economic diplomacy has increased manifold with the accelerated integration of economies and enhanced economic rivalry and competition among nations. Economic diplomacy is more crucial to socio-

economically poorer countries which have technology, market and capital constraints. Countries like Nepal with huge untapped resources such as water and tourism, economic diplomacy could be a key to its employment generation, poverty alleviation and overall socio-economic development. In our country we have to shift our focus from aid to trade, tourism, and employment generation with the private sector playing major role and Ministry of Foreign Affairs and our missions in various countries acting as facilitator of this process. Thus, economic diplomacy has to be a pillar of our foreign policy.

The economic relations between two countries such as bilateral trade and its protection, employment, avoidance of double taxation, and range of other formal and informal economic issues including Bilateral Investment Promotion and Protection Agreement (BIPPA) are integral part of economic diplomacy. Nepal as a "friendly-bridge" between two of the world's fastest growing economies, its bilateral agreements with India and China are of utmost importance. Nepal can and should explore a possibility of trilateral economic diplomacy with these friendly countries. However, we need to be vigilant of its geographic reality, national interest, socio-cultural settings and economic dimensions.

Nepal had been exercising economic diplomacy since 18th and 19th century as it had business relationship and effective trading partnership with Chinese Tibet and British India. Thereafter, Nepal remained in isolation for many years. Only in the 1950s a new beginning was made by establishing diplomatic relations with various countries. Simultaneous efforts were also made to become the member of various regional and international organizations.

National Attempts in Boosting Economic Diplomacy

An initiative was taken by the Ministry of Commerce and Industry in 2000 by organizing a consultation meeting to bring the concerned stakeholders to a common understanding of economic diplomacy and reemphasize its importance. The meeting was successful in instilling the feeling amongst the diplomats that they were Economic Diplomats in their destination countries in addition to their traditional roles as political diplomats. Awareness was expected to work for a broader economic interest for Nepal by increasing trade and attracting foreign investment.

Another attempt was made by establishing a Multilateral Economic Affairs Division in the Ministry of Foreign Affairs. Then, the Institute of Foreign Affairs in 2008 also came out with a handbook entitled "Development through

Economic Diplomacy". Initially, there was an increase in foreign investment. However, in 2009, amidst global economic crisis, Ministry of Foreign Affairs and Labor and Transport Management organized a seminar to discuss about economic diplomacy and issue of remittances. Nepalese envoys from labor destination countries and other related stakeholders participated and shared their side of the story emphasizing on better management of migration and remittances.

Since then efforts are continued to divert focus on economic diplomacy. Since 2009/10, budget has also been separately allocated to the diplomatic mission abroad to carry out economic diplomacy related activities. The economic diplomacy is being focused on financial aid, foreign employment promotion, tourism development, trade promotion and foreign direct investment in areas like agriculture, education, water resource development etc. In parallel, efforts are also underway to enhance the institutional capacity of diplomatic mission including the capacity of diplomatic personnel in the changed context.

Recent Initiative of the Government

Realizing the importance of economic diplomacy, Nepal government in 2013 has constituted a high level committee to implement and monitor the progress on the activities concerned with economic diplomacy. High Level Economic Diplomacy Implementation and Monitoring Committee has decided on the following:

- Review the activities and initiatives taken up by Nepalese missions around the world this fiscal year. It was observed that there was lack of strong and effective monitoring mechanism.
- Reconstitute the committee including higher level members from representing organizations
- For effective management of economic diplomacy the committee decided to prepare and issue a guideline on economic diplomacy.
- Emphasize to plan country-specific economic diplomacy agenda.
- Provide orientation on economic diplomacy to the MOFA officials to be posted in missions abroad
- Support few doable and measurable activities in partnership with private sectors.
- Form a permanent mechanism for economic diplomacy including Mission head, NRN and bi-national chamber.
- Increase the budget for economic diplomacy for central office and missions

Non-Resident Nepalese (NRN) and Economic Diplomacy

- World Bank believes that foreign remittance is better than FDI if used in productive projects. The collective investment of Non-Resident Nepalese (NRNs) can improve the country's economy and development. It has increased foreign currency reserve and balance of payment, reducing poverty level, increasing domestic consumptions, including education and health sectors. It is high time to use remittance for saving and productive development projects.
- Nepalese embassies can benefit by NRN as they can provide local contacts, knowledge, expertise and language skills. Nepali students abroad can work voluntarily in Nepali missions as interns.
- NRNs can also work together with Nepali business associations (FNCCI, CNI, and CoC) to explore markets for Nepali products and to organize 'trade fairs' in the country of residence.
- A very positive aspect is that NRNs are now coming forward more aggressively to contribute to Nepal's economic development. There is increased realization on their potential role in the realm of economic diplomacy.
- NRNs are not only increasing their investment in Nepal but also are keen to play proactive role in other fields of economic diplomacy.
- The Nepali migrants, who now number over three million and whose remittances now constitute a backbone of Nepal's economy, could be most effective in terms of both means and ends of Nepal's economic diplomacy.

Strength and Weakness of Economic Diplomacy

Strength

- Budget is being allocated and this year there has been manifold budgetary increases
- It is being recognized as integral part of foreign relations
- The process of planning, implementing and reporting has been initiated at the ministry and missions abroad
- Coordination and interactions with related ministries, private sector including business community has been initiated
- It is being treated as long term investment
- Government is involving private sector in consultation, mobilization and negotiation with multilateral agencies, foreign private sector

organizations including government agencies and corporate houses to promote trade, tourism, FDI including joint ventures etc.

- The long awaited Economic Diplomacy Guideline is being finalized.

Weakness

- Absence of guidelines for organized, regular and uniform planning, implementation, monitoring and reporting
- Absence of country-specific and sector-specific strategy for economic diplomacy
- Lack of continued effective coordination, and interactions amongst MOFA, other related ministries, private sector and Nepalese missions abroad.
- Financial audit issues
- Weak planning, reporting, monitoring and evaluation

Challenges of Economic Diplomacy

There are many and multifold challenges towards success of economic diplomacy.

- Nepal has had dismal successes in the past in negotiations to the extent to safeguard Nepal's interest.
- The failures are grounded on poor or lack of ground works essential for negotiations and also the skills and competency are noticed to be less effective.
- Nepal has to improve to play an influential role on issues of aid, trade, markets and foreign direct investment etc in multilateral and other similar regional forums.
- There is also dearth of data and information and poorer institutional coordination.

Conclusion

Economic diplomacy is exploring and tapping the financial or other economic resources that are available in bilateral or multilateral environment and that are available within the country. It is not only something that is given by the donors or financial institutions to the poorer and weaker countries like Nepal. It is also mobilizing the untapped resources on our own terms and for our own projects. The examples could be to effectively lobby to mobilize resources for our projects of vital importance and of national importance such as Nijgadh

airport, fast track roads, East-west railways, rehabilitation of flood affected communities in the far-west, climate change, etc. It needs well experienced and trained officials that have acumen to negotiate and are well prepared with necessary data and information.

Recommendation

- Nepal needs to have more effective economic diplomacy and economic affairs should not be handled on an ad hoc basis.
- The need of the hour is that we must focus our diplomacy from political to trade, tourism, investment, joint ventures and employment generation.
- The focus of Nepali diplomacy has to shift from mere political relations and foreign aid to trade, tourism, investment, joint ventures and employment generation.
- Economic diplomacy should be focused on country-wise and sector –wise prioritization.
- The role of the private sector could be significant in economic diplomacy that involves decision-making and negotiations at global, regional and bilateral competitive markets.
- The government should make a provision to accept internship in Nepali missions and provide trainings as per their requirement.
- Our officials at concerned ministries such as Foreign Affairs, Commerce and Industry, Finance etc. need to upgrade their skill in negotiation and equip themselves with required data and prepare with thorough home work.
- Similarly the private sector also must be well versed in different affairs related to economic diplomacy and have, necessary data, information and strong negotiation skill.
- Government and non-government sector should apply for calls on proposals of large projects internationally.

(References: Dr. Dilli Khanal, Bhim Udas, Krishna Dhakal, IFA publication)

Annex: 2

Economic Diplomacy and Role of Nepali Diaspora

- Mr. Bhim Udas

The emergence of democracy and globalization has transformed the role of political diplomacy towards economic diplomacy. Before the late 1970s, South Asia was one of the most highly regulated economies outside the communist block. Sri Lanka was the first to liberalize its economy in 1977, followed by Bangladesh in 1980, Nepal in 1986, Pakistan in 1989 and India in 1991.

Diplomacy that employs national economic interest and business in other countries is defined as economic diplomacy. It is associated with trade, business, market and investment promoted through political diplomacy. Economic diplomacy depicts how states conduct their economic relations with other countries by using political influence and promoting trade and investment to find a market for its products and services.

There is a growing realization that economic relationships have a strong impact on political diplomacy. The end of the cold-war, emerging democracy and development are the products of economic diplomacy. For instance, many Eastern European states joined the European Union in 1990s to fulfill a larger economic interest among European countries.

Economic diplomacy functions at three levels: i) Bilateral, ii) Regional and iii) Multilateral.

Bilateral economic diplomacy plays a major role in economic relations of two countries. It includes bilateral trade and treaty, agreements on investment and employment, avoidance of double taxation and range of formal and informal economic issues between two countries. Bilateral Free Trade Agreements (FTA) have been the order of the day and, it is being followed by many countries in the world.

Being a sandwiched and land-locked country, Nepal's bilateral trade agreements with India and China are of paramount importance. While talking

about bilateral relations Nepal should always be aware of its geographic reality, national interest, socio-cultural settings and economic dimension.

Regional cooperation is a growing importance in economic diplomacy. National interest and economic liberalization is easily accepted when it is dealt with a particular region. Opening of borders and markets become easier within a regional framework. For example, ASEAN, South Asian Free Trade Agreement (SAFTA), European Commission, Canada-USA-Mexico have altered the business model at the regional level, based on their economic requirements and geographic set-up.

Multilateral economic diplomacy takes place within the framework of World Trade Organization (WTO), World Bank, International Monetary Fund (IMF), UN agencies et al. With the establishment of WTO, there has been a policy shift in global trading system to promote economic activities. However, there is a challenge in sustaining competitiveness in multilateral and bilateral trade agreements. Nepal, so far, has not been influential on issues of aid, trade and FDI in multilateral development forums, such as the World Bank, IMF, WTO and UN agencies, due to its weak negotiation capability.

For Nepal, economic diplomacy is not a new phenomenon. In 18th and 19th century, Nepal had established a business ties and effective trade system with Tibet and British India. It was created as a result of strategic alliance and based on economic interest rather than political relationship. With the rise of democracy in Nepal, however, political agenda came in front and economic affairs did not get priority in the government's plan of action.

Foreign policy needs a strong and broader national consensus as it pertains to national interest and sovereignty. Nepal's foreign policy is guided by the Charter of the United Nations, the principles of Panchasheel, co-existence, non-interference, respect for sovereignty of its neighbours and solidarity with other small, least developed and land-locked developing countries.

The success of political diplomacy is a reflection of economic dimension. Today, Nepal does not have economic diplomacy and economic affairs are handled on an *ad-hoc* basis.

In the year 2000, the first consultation meeting was organized by the Ministry of Commerce and Industry to emphasize the need of Nepal's economic diplomacy in foreign countries. The purpose of this consultation was to provide an economic hat to political diplomats and to work for a broader economic interest by increasing trade and attracting foreign investment. It was attended by Nepali Ambassadors, Honorary Consul-Generals/Consuls

from thirty five countries, government officials and business community. It resulted in increasing foreign investment for few years but could n't last long due to the lack of interest from the successive governments.

In 2008, another attempt was made to engage political diplomacy for economic interest by attracting foreign investment and expanding foreign employment. Due to the global economic crisis at its peak Nepal could not gain much from this consultation. There was, however, growing interest to manage foreign employment better and look for new destination countries. Currently, foreign remittance contributes more than 24 percent to Nepal's Gross Domestic Products (GDP) officially. It is estimated that this figure might go up to 33 percent if, the remittances coming from India and informal channels are accounted.

The focus of Nepali diplomacy has to shift from mere political relations and foreign aid to increasing trade, tourism, investment, joint ventures and generate foreign employment. The incomes coming through the UN Peace Keeping missions to Nepal is significant and it needs to be registered in the government's record. The role of the private sector could be significant in economic diplomacy that involves decision-making and negotiations at global, regional and bilateral levels .

Though Nepal's economic growth went high aftermath the first Janaandolan and election of the democratic government in 1980s it went down during a decade long civil conflict and prolonged transition period from 1990s. **Political affairs were given high priority by the government as well as political leaders thus, economic issues got over shadowed.**

The good news is that the current election government has adopted economic diplomacy as its primary focus in its foreign relations. Unfortunately, the environment is not conducive to attract FDI due to prolonged transition period and prevailing political uncertainty in the country. It is evident that bilateral and multilateral development partners as well as foreign investors will not come up with big assistance package until the election of the second Constituent Assembly is completed and a stable political government is formed.

In the present context, Nepal should consider implementing economic diplomacy in the following manner:

1. At the national level, the Government should continue to engage Nepal Economic Forum (NEF) to coordinate and attract FDI and to increase bilateral and multilateral development assistance. This

Forum could be co-chair by Minister for Finance and Minister for Foreign Affairs with participation of concerned ministries, semi-government agencies, bilateral and multilateral development partners, representative organizations of private sector, such as, Federation of Nepalese Chamber of Commerce and Industries (FNCCI), Confederation of Nepalese Industries (CNI), Nepal Chamber of Commerce (NCC) and Nepal Business Initiative (NBI).

2. At the diplomatic level, the Government should establish a Department of Economic Affairs within the Ministry of Foreign Affairs in order to coordinate business and economic activities in foreign countries. This Department should closely coordinate with Ministry of Commerce and Industry, Nepal Tourism Board, private sector and Non-resident Nepali Association (NRNA). It should be recognized that **the role of private sector is vital to promote economic activities abroad** while MoFA and Nepali Embassies act as 'Facilitators'.
3. Private sector should have a lead role in economic activities. Economic diplomacy is best carried out through **public-private partnership forum**. The role of FNCCI, CNI, NCC and Nepal Tourism Board (NTB) is integral in promoting trade, tourism, cultural exchange and attracting FDI in the country. **Economic issues should come in the forefront of people's daily affairs rather than politics**. Business leaders must advocate for Nepal's long-term economic interest before satisfying short-term vested interest of political parties and its leaders.
4. According to the World Bank, foreign remittance is better than FDI if, it is used in productive activities. Foreign remittance has, so far, helped the government in improving its foreign currency reserve and balance of payment, reducing poverty level, increasing domestic consumptions and investing, to some extent, in education and health. It is high time to use foreign remittance for saving and productive development projects. **The collective investment funds**, initiated by NRNs, can improve the country's economy by investing in productive and development activities. It can also help improve economic status of Nepali people and enhance their quality of life.
5. The Government of Nepal does not have enough resources to depute Economic Counsellors in Nepali missions abroad. This is where NRNs can support Nepali Missions by offering their expertise,

knowledge, local contacts and language skill. Nepali students abroad are interested to work in Nepali Missions as interns and volunteers for six to 12 months. The GoN should take advantage by hiring NRNs temporarily for which MoFA should make a provision to accept internship in Nepali Missions and provide trainings as per their requirements.

6. NRNs can also work together with Nepali Business Associations (FNCCI, CNI, CoC) to explore markets for Nepali products abroad and to organize 'Trade Fairs' in foreign countries. The collaboration between NTB and NRNs to campaign for Nepal Tourism Year-2011 was a good example in this respect.

NRNs can provide remarkable support to Nepali missions and business associations with their knowledge and local contacts. Unfortunately, Nepali business associations have not taken enough initiative to tap NRNs' skills and resources as much as the political parties have used them to voice their own political agenda through sister associations outside Nepal.

Economic diplomacy of Nepal should go beyond political relations that would help pave the way to make Nepal prosperous and developed in coming 10-15 years.

Annex: 3

Issues in Economic Diplomacy*

- Prof. Dr. Bishwambher Pyakuryal

Context

Globalization has not only helped in accessing global markets, but has also complicated economic relations between the nations. Often times it has failed to ensure equal economic opportunities among WTO member countries. In some cases the famous proverb that “big fish swallows small fish” has really worked. Economic diplomacy (ED) from this perspective has become instrumental to normalize and mitigate obstructions especially in bilateral relations. The diplomacy has really worked through bilateral, regional and multilateral means to diffuse misunderstandings.

Ye Hao in his note on “Some thoughts on deepening economic diplomacy” published in the China Institute of International Studies, states, as Japan lacked a voice and influence politically, militarily and in other traditional areas of diplomacy after its defeat in the Second World War, economic diplomacy was first proposed as a concept by the Japanese. China may be taken as a test case in facilitating economic diplomacy based on her patterns, missions and contents prepared specifically for fostering global economic relationships.

In Nepal, economic diplomacy has been a buzz word since early 1990s to promote economic interest through country's foreign policy. Historically, the key agenda in Nepal's foreign policy with regards to ED has been to expand trade, create congenial environment for Foreign Direct Investment, develop hydropower, and promote tourism. Contrary to this, as categorical working modality always remained in the backstage, not much progress could be made in these priority areas through ED.

We have number of evidences that show ineffective implementation of economic diplomacy in Nepal. For example, just take the case of trade whose

* *The observations are based on authors' series of lectures at the Administrative Staff College, Kathmandu.*

performance is embarrassing. According to Trade Export Promotion Center (TEPC), the review of Foreign Trade Balance of Nepal during first six months of the FY 2013/14 reveals that total foreign trade has reached Rs. 380 billion. The export stands at Rs. 45.21 billion (as against Rs. 38.65 during previous year) whereas import constitutes Rs. 334.83 (compared to Rs. 294.20 last year). As there has been 13.3 percent increase in import during the review period, total trade deficit within the period of six months alone, stands at Rs. 289.62 billion. The trend shows by the end of the fiscal year, total trade deficit could reach above Rs. 550.50 billion.

The economic diplomacy may have been key element in facilitating the working of unused land offices provided by India. It is experienced that out of 28 land offices (Department of Customs), 90 percent trade volume flows through only 6 offices. Nepal also faces high transport cost both in the export and import. Being a landlocked least developed country, unlike other LDCs Nepal incurs almost 50 percent higher costs. It necessitates proper economic diplomacy that can encourage the use of broad-gauge railway lines from Kolkata to Raxaul instead of land route where 20 ft container by road, costs approximately 30,000 Indian Rupees as against IC 15-20,000 from rail road.

Not much progress has been made in integrating regional market as well as neighboring markets in the North and South. The reason why both bilateral and regional trading agreement has not been working as desired is because trade facilitation has been interpreted only as an instrument for control and enforcement. Nothing much has been done to diffuse the constraints through economic diplomacy.

Nepal faces huge trade deficit of about Rs 62 billion with China. The rate of growth of Nepal's trade deficit with China is higher than with India. China provides zero tariff facilities on 7,787 Nepali products by China; however, in reality only 366 products have been benefited from such arrangement. The businessmen dealing with China trade complain that besides non-tariff barriers in Nepal-China trade, Nepali goods with comparative advantage are not included in the zero-tariff list.□

The problem also lies with investment. In the FY 2013/14, out of the total foreign investment commitment, China represents 60 percent. Historically, there is a huge gap between commitments and disbursement. We need to put up especial effort in realizing the commitments by properly diagnosing inherent constraints lying in both the countries. The concern is why economic diplomacy has not played significant role to realizing the committed benefits from China?

Lately, Nepal has however, paid a great deal of attention to redesign the modality for economic diplomacy. The Ministry of Foreign Affairs has constituted a High-Level Economic Diplomacy, Monitoring and Evaluation Committee to review current status and prepare a roadmap for future policy decisions.

Defining the Term

There is no single definition on ED. The simplest understanding is the promotion of national economic interest and businesses in other countries through diplomatic channels. During 1950s and 60s, there was a wave of nationalization of industries. Since persuasion and negotiation skills were expected to sell products of these industries, the term 'Economic Diplomacy' began to evolve from 'Trade Diplomacy'.

The high-flying diplomats used to be involved in political tasks because ED was considered as a secondary career track as it involved commercial activities. But at later stage ED began to reflect the importance of economics in diplomacy. To a greater extent, economic interests through economic diplomacy are fulfilled when countries get success in stabilizing political misunderstanding. The best example is the dramatic reduction in value added component of Nepal's export by India during Nepal's Prime Minister K.P. Bhattarai's formal visit after almost 18 months long bilateral stalemate.

ED integrates commerce (trade, finance, energy, investment, aid, technology exchanges, global environment) and foreign affairs (economic negotiations). These activities should have covered both the bilateral, regional and global issues. Unfortunately, for many years, as SAARC Charter did not consider economic issues for regional policy discourse, the achievement in regional economic cooperation was less than satisfactory through economic diplomacy.

Foreign relations are still largely in the domain of governments, but economic relations are formed by the interactions of the private sectors. On ED, British economist and diplomat, Nicholas Bayne opines, "...method by which States conduct their external economic relations, it embraces how they make decisions domestically, how they negotiate internationally and how the two processes interact."

Works in the Past

In the past, several documents have been prepared to strengthen the case for economic diplomacy. These studies include, "Reports of the Ministry of Foreign Affairs in the Changed Political Context: Report of the High Level Task

Force”, February, 1996; “Reports on Implementation of the Policy on Economic Diplomacy”, 1998; “Nepal’s Economic Diplomacy”, 2002; “Enhancing Economic Diplomacy (For Trade, Investment and Employment)”, 2005; “Nepal’s Foreign Policy in the changed Context: Report of the High Level Foreign Policy Task Force”, 2006; and “A Generic Guideline for Development through Economic Diplomacy”, 2008. In this regard, some additional works have also been completed to encourage investments from Non-resident Nepali (NRN).

Nepal’s Role at the Regional Level

Nepal is a coordinator of the United Nations LDCs Consultative Group. The country is ready for assuming the chair of Secretary-General, SAARC. Nepal’s credibility and also the visibility will depend on how it excels as a regional player. The role of economic diplomacy needs to be revisited with regards to strengthening the working of LDCs Consultative Group and anticipated role of the Secretary General, SAARC. We should look into the possibility of making multilateral trade more effective and beneficial to Nepal through LDCs Group.

Cross-cutting issues

- In economic diplomacy the challenge is to reconcile the tension between economic priorities and political considerations.
- The questions that *what does a country try to achieve by engaging in economic diplomacy* & *why does commercial activity between mostly private companies require the intervention of diplomats* need to be discussed.
- There is a need to address carefully the two extremely important schools of thought –
 - i) External assistance on economic reform can eventually lead to democratic development and
 - ii) Economic assistance props up the undemocratic governments at the expense of limited resources for support of democratic reform.
- Governments negotiate the international operating rules and regulations but whether they are followed in the real economy is beyond their scope.
- ED becomes ineffective when political diplomacy fails since it becomes ineffective in a political vacuum.
- When economic interest converges, political mistrust is normalized.

- Global policy influences domestic policy-making. Therefore, ED involves in global economic issues as well.

Challenges

- Except increased dependency w/India, no satisfactory progress is made in sustaining growth through ED. It is sad to observe that trade facilitation is de-linked with economic diplomacy.
- Nepal does not have adequate numbers of highly professional and knowledgeable executives & negotiators who understand both domestic interest and global policy and processes.
- The private sector at times becomes conservative towards government's decision to open up national economy for international community. Safeguarding domestic interest by complying with international regulations and giving space in domestic market to foreign business players through consensus is a challenge.
- NRN's desire to increase investments is being seen lately that necessitates simple policy for entry & exit.
- Decisions made under political consideration may at times go against economic interest of the nation. The question of balancing between politics and economics through ED is such example. For instance:
 - i) the case of 2008 Olympic game in China & Tibetan refugees' protest Versus GON's policy
 - ii) US's allegations of trade piracy by China & uninterrupted flow of Chinese goods into US market
 - iii) EU & Chinese arms deal

Recommendations

- As in diplomacy politics holds the primacy over economics, balancing Nepal's foreign policy with political & economic diplomacy should be our priority.
- Pending works on "Transit Economy" & the development of "Off-shore International Financial Center" in Nepal needs to be completed.
- Initiatives to retain South Asia Regional Offices should be taken rather seriously by making Kathmandu, a SAARC capital.
- Efforts to create product-specific regional industrial hub should

immediately be initiated – hydro in Nepal; natural gas in Bangladesh; automobiles in India etc.

Conclusions

Against the background of sustained economic contraction, the need for external assistance and need to expedite ED cannot be undermined. Global integration has extended the scope for ED beyond country's borders, and therefore, influenced by NGOs, Civil Society Organizations, private sector organizations etc.

ED has prevented conflict, for example, EU has shown strengthened and mutually beneficial economic bonds and interests, where conflict is almost unthinkable between the member states. It has reduced costs and risks of cross-border transactions. From this perspective, Nepal as a member of LDCs group can learn some lessons from EU's experience.

There is a myth that economic diplomacy is conducted by only diplomats or officials of foreign affairs. In other words, diplomacy is elitist, conducted by an establishment of privileged officials. The possibility of enlarging its scope by mobilizing expertise from diversified areas should also be explored. The reason why this idea may make some sense is the fact that diplomacy applies to informal negotiations and voluntary cooperation, but not to rule-based systems and legal commitments. The politicians lack economic thinking and economists lack political vision. This indicates the need for extended areas of cooperation from experts; for example, the need for initiating collaborative work on economic diplomacy by both the diplomats-cum-politicians and private sector-cum-economists.

To conclude, the players involved in economic diplomacy should keep in mind that “democratic socialism may fail because it conceals political truth; the classicists’ capitalism may fail because it hides economic truth; and economic diplomacy may fail because it reveals political truth”.

Annex: 4

NRNA Postion Brief on Economic Diplomacy for Nepal

Preface

I wish to thank the Ministry of Foreign Affairs (MoFA), Government of Nepal and Institute of Foreign Affairs for inviting the Non-Resident Nepali Association (NRNA) to contribute comments and proposals to enhance economic diplomacy of Nepal. MoFA constituted a High-level Economic Diplomacy Operations and Coordination Committee, and invited several stakeholders including NRNA in its meeting. MoFA subsequently sought inputs and suggestions from each invited stakeholder.

NRNA is pleased to submit this brief to the ministry for their consideration, particularly emphasizing the NRN related elements for economic diplomacy for Nepal.

NRNA is proud to be an active partner with MoFA and several other agencies of Nepali Government on issues related to the economic development of Nepal. NRNA is also honored to be a member of the Prime Minister's advisory council on Economic Development.

I want to express my gratefulness to the report preparation team consisting of Dr. Ambika P. Adhikari (Co-ordinator), Dr. Drona Rasali, Mr. Kul Gautam and Prof. Surya Subedi, which prepared this brief report on behalf of NRNA. I appreciate the swift work by the team to meet the short deadline.

Finally, I want to thank all the NRNA colleagues who provided valuable input and advice into this brief.

Jiba Lamichhane
President, NRNA-ICC
Kathmandu, Nepal
December 25, 2011

Introduction and Background

The concept of economic diplomacy has now taken a center stage in nations' quest for economic development, and in furthering of their trade and commerce interest. Establishment of World Trade Organization (WTO) in 1995 has created a central and global platform for economic diplomacy focused on trade and investment, where nations can more effectively promote their multilateral economic diplomacy. In addition to the WTO, countries practice economic diplomacy in various other arenas, which include multilateral organizations such as the UN system, the World Bank, regional development agencies, such as the Asian Development Bank, bi-lateral agencies, international non-government and private organizations and in nation-to-nation dealings. In international negotiation arenas, such as in UN sponsored agreements on climate change agreements or Bio-diversity conservation, Nepal enjoys emerging opportunities to gain financially and support climate mitigation and bio-diversity conservation programs. The practice of economic diplomacy must expand to such international opportunities in additions to the traditional and conventional talks on investments, trade and commerce regimes, For example, the climate negotiations entail significant resources that are available to developing countries as support from the rich countries to devise emission offsetting programs and climate mitigation initiatives.

Nepal has lately recognized the benefits of practicing economic diplomacy support the economic development. As a result, the Ministry of Foreign Affairs (MoFA) has taken a proactive role in advancing Nepal's economic diplomacy capabilities, and has reached out to other organizations and agencies to support this initiative.

During the past three global conventions of NRNA, the Government of Nepal (GoN) and NRNA have jointly organized sessions to discuss economic diplomacy recommend ways to improve Nepal's internal capacity in this field. Much learning has occurred in these meetings, which can be gainfully applied to the real life situations.

NRNA appreciates the initiative taken by the MoFA to create a High-level Economic Diplomacy Operations and Coordination Committee. NRNA also greatly welcomes the opportunity to be a part of the committee and be able to provide its input into the formulation of the program. It wishes to be an active partner in the development and implementation of Nepal's economic diplomacy efforts.

Although economic diplomacy is the primarily the function of the state, other national and transnational actors (non-state players) have been increasingly

important partners in this effort. Such actors include the business groups (e.g. FNCCI, NCC), civil society, Nepali NGOs, Political parties, Diaspora and other relevant entities. The state function can be carried out by several state agencies, and can also include the future state governments once Nepal is divided into federal states. As a growing force representing some ten percent of the Nepali population, the Nepali Diaspora can be a critical group to support Nepal's efforts in economic diplomacy. The Diaspora is represented by NRNA, which is fully committed to be part of this important effort.

Some General Recommendations

Benefiting from Heightened Interest in Nepal

Nepal is a growing focus of interest by its neighbors, world powers and the international community. Nepal can benefit from the heightened competition for influence in Nepal among its immediate neighbors and other major powers. Competition among other nations for Nepal's natural resources has the potential to increase its bargaining power and bring in more revenues for the country. For example, a growing Chinese interest in Nepal, together with the already keen interest in Nepal by India, could be an opportunity for Nepal to enhance its prosperity. A significant growth in economic activities with China and India may mean the development of more railroads, vehicular roads and other means of transportation. This can be a blessing for a land-locked country like Nepal, which can open up the colossal Indian and Chinese market for Nepalese goods and services.

The good time during which Nepal prospered on the basis of trade with Tibet with China may come back. Since India itself has agreed to open the Nathula Pass with China and is looking to expand its transportation network with China, there should be no reason why they should be concerned if Nepal tries to do the same. If Nepal were to develop appropriate business acumen and diplomatic skills, it could do well by exploiting its geo-strategic status.

Maximizing Benefits of Land-lockedness

It was not long ago that the land-locked states felt safer when the pirates used to terrorize people in coastal countries. Only when the carriage of goods by sea became popular and economical that land-locked countries have felt disadvantaged. However, with the prospect of sea level rise and corresponding climatic hazards in the coastal areas, land-locked countries should feel insulated from such potential adversities.

Nepal will not have to erect coastal defenses spending billions of dollars to cope with the sea level rise nor will have to manage population transfer from one area to another to save them from the impact of sea level rise. Nepal will not have to deal with the El-Nino effect or the consequences of tsunami. Highland land-locked states may be perceived as safer places for investment, residence and other business than the low lying countries such as Bangladesh or the Maldives. However, Nepal will have to worry about the glacial melting and thawing out of the Himalayan Snow. But for climate protection too, Nepal will need to practice economic diplomacy in the area of climate negotiation, and for getting aid for climate mitigation programs.

Nepal should also consider how the economy of an India-locked country could be transformed into an India-opened economy. With rapidly growing prosperity and the middle-classes in both her immediate neighbors, each of which has a population of more than one billion, Nepal has a ready-made and very large market at her doorsteps. Nepal is poised to enjoy increased prosperity provided that the country is able to design and implement keen economic diplomacy to exploit such opportunities.

Development of Nepal as a Hub of Regional and International Institution

Nepal already houses headquarters of several regional organizations. Nepal can build on this and attract even more international and regional institutions by exploiting the traditional image of a neutral and non-aligned country. Nepal can take cue from the Netherlands which has developed its capital city. The Hague, as the legal capital of the world exploiting its status as a relatively neutral country. Geneva and Nairobi are other examples. Geneva has benefited so much not only as the centre of financial services activities but also as the home of so many international institutions, and Nairobi enjoys the positive financial and diplomatic impacts of the large hub of UN related agencies and other international institutions. For example, nearly two-thirds of the actual business activities of the UN are carried by the UN agencies located in Geneva. If the physical infrastructure in Kathmandu is drastically improved, Nepal would be well placed to develop as a regional hub of international legal and international relations activities such as the regional arbitration centre and regional think tanks.

Presence of such international institutions will have a positive direct and indirect impact on Nepal's national security and economy while helping develop its capacity. Rather than facing the prospect of becoming a theatre of proxy war between its immediate neighbors or other global powers, Nepali

diplomatic machinery could actually be developed as a smart, and skilful service capable of facilitating resolution of disputes among the states of the region by acting as a capable mediator, trusted conciliator and competent arbitrator. These are not utopian dreams, but are realizable objectives and aspirations.

Establishment of a Nepal Center for Economic Diplomacy

Practice of economic diplomacy will require research, and gathering data and information about how Nepal can best benefit by situating itself in the regional and world arena, and how it can effectively negotiate favorable trade, commerce, aid and financial terms to promote its interest. Establishing a Center for Economic Diplomacy will greatly help Nepal in building the national capacity in this area. There are different models that Nepal can study towards establishing such an institution. One of them is the Bangladesh Institute of International and Strategic Studies closer to home and the Institute of International and Strategic Studies in London or Fletcher School of Diplomacy in Boston. India too has several such institutions and any of them could be a good model to follow for Nepal. To devise the ways and mean of exploiting the opportunities offered by the geo-strategic factors of Nepal and to rise to the challenges in this fast changing region, Nepal could do well by having such an expert professional institution which is independent but fully funded by the State. Such a center can be supported by Nepal's universities, civil society organization and NRNA can also be one of the partners of the institution.

Nepal needs to improve its pre-service and in-service training program for diplomats on issues related to economic diplomacy. Nepal's existing Institute of Foreign Affairs has only limited capacity for such a task, and needs to be significantly strengthened with adequate staffing, budget, and ability to collaborate with relevant national and international academic and training institutions. The proposed center can be of great help in this task.

NRNA AND NEPAL'S ECONOMIC DIPLOMACY

NRNA wishes to propose some strategies to enhance Nepal's economic diplomacy in the global arena, and would like to play an important role towards this objective. Since its inception in 2003, NRNA has been making efforts to be a valuable partner in the economic development of Nepal. To this end, it has been working in the areas of foreign investment, skills and technology transfer and in promoting Nepali interest abroad in addition to many other initiatives. With some three million Diaspora worldwide, and with

its National Coordination Councils established in almost sixty countries, NRNA has an extensive global network to promote Nepal's economic diplomacy.

The following ongoing activities and new initiatives constitute a direct part of the economic diplomacy efforts for Nepal that are directly relevant to NRNA. Some recommendations to enhance NRNA's effectiveness in this activity are also included in this brief report'

Remittances from Nepali Workers and Immigrants Abroad

The remittances from NRNs have been a critical component of Nepal's economy, contributing some 22 percent of the Gross Domestic Product (GDP) of the country in 2011. The current methods of transferring the remittances to Nepal are less than optimal, as substantial sum of money is sent to Nepal informally, depriving the government of the benefits of foreign currency transfer. GoN and NRNA can work to streamline the remittance transfer mechanism to optimize benefits for GoN, while making it easy and safe for the NRNs to transfer monies to Nepal. IN this regard, the safety and welfare of the workers in the Middle East, Malaysia and other employment countries are of paramount importance. The Economic diplomacy of Nepal will be greatly buttressed by NRNA and GoN working together to promote the welfare of the workers. This will include a strong support by GoN in the safety and welfare of the Nepali workers in foreign lands, and enhanced programs by NRNA to help the compatriots.

Nepal can benefit even more from the Nepali workers abroad if they had more education and training in the areas of skills in demand in the countries where the labor is required. Although Nepal's trade schools are already doing a good job of providing opportunities for skill development, the NRNA initiated Open University of Nepal program, for example, can contribute even more in enhancing the education level of the Nepali workers abroad even when they are living in foreign countries. In developed countries, such as in Europe, North America and Oceania, NRNs will do much better with education, trainings and professional skills that is harmonized with the requirements on those countries. For example, Philippines provides nursing and medical education to their citizens, which are in keeping with the systems in US, Canada and elsewhere. As a result, Filipinos with nursing or medical degrees who migrate to these countries are readily accepted into the profession and command higher wages. Further. Philippines, Sri Lanka and Thailand, have enhanced the remittances form their workers in the Gulf region and Malaysia, by training them in higher level of skills in trades, and also by investing in their education.

Foreign Direct Investment (FDI)

NRNA can partner with GoN in increasing the FDI from the Diaspora members, and promoting Nepal as destination for all forms of FDI. In addition to many individual investments numerous NRNs have already made in Nepal, NRNA is mobilizing collective investments from all NRN groups to bring new investment and business to Nepal. GON and NRNA can promote and enhance this program to help Nepal. The collective investment system sought by NRNA will make all interested NRNs stakeholders in the business investment in Nepal. NRNA is currently preparing documents to provide a comprehensive framework for such an investment and is actively soliciting inputs and expressions of interest from Diaspora members. If NRNA can mobilize a part of NRNs retirement and savings for profitable investments in Nepal, this can result in a significant investment in Nepal. For example, at about 15 billion US dollars, the total annual income of the NRNs in North America alone is estimated to be almost equivalent to the yearly GDP of Nepal in exchange rate. Even if a small fraction of this annual income can be mobilized for investment in Nepal, it can be a substantial amount for Nepal. In addition, most NRNs in advanced economies also keep retirement and pension funds in savings and investment funds. With right incentives, many NRNs may be willing to invest a portion of their portfolio in Nepal. This will require ensuring that the investment has the potential of profitability, security and financial and legal stability in Nepal. Legal framework in Nepal, such as bilateral tax treaty and other legislative regime will greatly facilitate the investments from NRNs.

NRNA has already made significant investments in hydro-power, mobile phones, banking and construction sectors. These investments have been quite successful. NRNA wishes to leverage more investments in Nepal by showing the showcase projects in Nepal.

Another area with significant potential to benefit Nepal is the controlled processing and export of the many medicinal herbs that Nepal produces. With the varied ecology due to its compressed altitudinal range, Nepal is a house of a large variety of valuable herbs that can be sustainably harvested, processed and directly exported to the lucrative markets in Europe and North America for high process. Nepal can effectively negotiate with governments and private companies in foreign countries to maximize the benefits of such exports and to ensure that the farmers and villagers benefit most from such ventures.

In addition to the financial investment, Nepal can benefit from the knowledge investment from NRNs who have gained exceptional knowledge, technology

and skills in their field. NRNA, though its task force, has been working with several organizations in Nepal to promote the transfer and exchange of knowledge and technology between Nepal and the Diaspora. Efforts to enhance economic diplomacy will greatly benefit from such exercises.

Nepali Diplomatic Missions Abroad

Nepal is a low income country with limited interest in many global affairs, and thus has only a limited number of full-time diplomatic missions deployed across the world. These missions are supported and sometimes complemented by the appointment of Honorary Consular Generals (HCG) in important cities worldwide. Some of the appointees for HCG have already been the Persons of Nepali Origin (PNOs). PNOs understand Nepal well, have strong emotional linkage to Nepal and can play a role often more effectively in mobilizing trade, investments and businesses in Nepal from the countries of their residence. It is recommended that the GoN appoints more PNOs as Honorary Consular Generals in many cities globally.

It is also recommended that the larger diplomatic outposts of Nepal have a NRN desk to facilitate the involvement of NRNs in the work of economic diplomacy. The outposts in countries where significant number of Nepali workers reside must have a special desk to oversee the welfare of the Nepali workers living there. It is especially true for the Nepali missions in the countries in Gulf, Southeast Asia and North Africa.

Securing better working conditions for Nepali migrant workers, and assuring their well-being, ought to be a prime job of Nepali diplomats in most countries. With Nepali migrant workers now numbering close to three million and their remittances now constituting the backbone of the country's economy, Nepali diplomats ought to be proactively involved in various international forums where issues of migration and development are discussed and negotiated, such as the Global Forum on Migration and Development (GFMD).

Nepali diplomats can benefit more by being more knowledgeable about the working methods and decision-making structures of key bilateral aid and investment institutions as well as of Nepal's key international development partners, particularly multilateral development agencies like the World Bank, IMF, WTO and UN agencies. Nepal's diplomats also need to be substantively well-versed on issues of aid, trade and foreign direct investment in favor of developing countries like Nepal, which enjoy certain special privileges as a Least Developed Country and a Land-Locked Developing Country.

Within the Government, besides MoFA, other ministries such as Finance, Industry and Commerce, Water Resources, Labor and Tourism and Planning Commission can be involved in developing, implementing and monitoring our performance in economic diplomacy. But MoFA diplomats must be able to play the lead role.

The GoN can provide more focused and effective liaison with the Diaspora by creating a separate Ministry of NRN Affairs. For example, the neighboring India has been more successful in building rapport with the non-residential Indians after the creation of the Ministry of Overseas Indian Affairs.

Diaspora Organizations, Cultural and Tourism Centers in Different Countries

The thousand of Nepali associations based particularly, in the more developed regions of the world, such as North America, Western Europe, East Asia and Oceania can be fully tapped to promote Nepal's economic diplomacy. These organizations often include a large number of PNOs who are the citizens of the adopted country and can vote in the elections there. These individuals and organization can be mobilized to support the economic development of Nepal through effective lobbying and expansion of good will for Nepal. Although most associations cannot be involved in political activities, they can support economic development and technology transfer functions in Nepal.

Lately, many of Nepali Diaspora groups have stated to establish Nepal cultural centers in major cities of the US, Canada, Australia and Europe. Nepal House in Moscow, Nepal Cultural Center in Washington, Nepal Cultural Center in Sydney and many other planned Nepal house around the world are some examples. These cultural centers have great potential in organizing business functions, trade shows, business promotion and similar activities to buttress Nepal's economic diplomacy.

These centers can be utilized as venues for organizing substantive forums in economic development, investment and technology transfer. For example, with the accelerated growth of banking and financial sector institutions in Nepal, it is important to understand the experience of other countries which have recently gone through the failure in their banking and financial sectors and devise appropriate policies in Nepal, so that such failures are prevented. The cultural centers and Diaspora organizations can be valuable partners for Nepali policy makers in organizing forums and conferences to discuss and analyze experiences from other countries.

Tourism has potential to significantly boost Nepal's economic development and will remain a major agenda in the country's economic diplomacy for a long time to come. The Diaspora associations in many countries and the network of NRNA can serve as important resource centers in promoting Nepal's tourism. NRNA already has task forces to support Nepal's tourism and promotion in the global arena.

In addition, an important recommendation in this regard is that the immigration and welcome section in the Tribhuvan International Airport needs to be drastically upgraded to make the entry of tourists easy, comfortable and smooth and also to have a separate NRN desk in the airport to facilitate the travel of NRNs and make them feel welcome back to their motherland.

NRN's Involvement in Supporting Economic Diplomacy and in Development Projects

Economic Diplomacy is best carried out through public-private partnership. Accordingly, regular consultation by MoFA with NRNA, CNI, NTB and the Chamber of Commerce can yield better results in economic diplomacy. MoFA can avail their advice in promoting trade, tourism, cultural exchange and to attract FDI.

Several developing countries such as the Philippines, during their negotiations on bilateral and multi-lateral cooperation, seek the appointments of their Diaspora members in the positions in the teams of expatriate technical advisors and consultants, in bilaterally or multilaterally funded projects in the country. Highly qualified and competent technical advisors and consultants from Nepali Diaspora arriving in Nepal in a team of expatriate experts are assets that would have added value of understanding the ground reality in Nepal. The Diaspora experts also better understand the strategic interests of the donors providing a win-win situation. The NRNA strongly urges GoN to adopt a policy to involve PNOs and NRNs as consultants in the economic development package negotiated with the multi-lateral and bilateral agencies.

In some countries, it is conceivable that the NRN movement might be able to help the Nepali embassies with some equipment, and even part-time volunteer staffing, if the embassies were deliberately made more NRN-friendly and welcoming.

Conclusions

This brief report mainly deals with the NRN's part in promoting Nepal's diplomacy, although some general recommendations are also provided. A

successful and streamline economic diplomacy has the potential to catapult Nepal into a more prosperous nation. As indicated in the introductory paragraphs of this report, the GoN will need to mobilize a multi-pronged approach to enhance its economic diplomacy and provide some specific areas where NRNA can be a partner in strengthening Nepal's economic diplomacy capacities.

The general provisions include recognizing the heightened interest in Nepal by the international community and utilizing the opportunity to enhance Nepal's economic diplomacy. More extensive trainings for diplomats, collaboration with other private and non-profit organizations and establishing a research and training center for economic diplomacy will be helpful to Nepal in this regard. Further, Nepal can also utilize the increased interest by locating the headquarters of regional and international organizations. Nepal already has several regional organizations headquartered in Kathmandu, and expanding this trend will have additional economic impact in the country.

The GoN must take steps forward to get the NRNA and NRN's involved in the country's economic diplomacy efforts to reap additional benefits in its economic arena. Some immediate actions such as, creating NRN desks in Kathmandu airport, in the diplomatic missions and undertaking strategic collaborations with NRNA will solidly help in enhancing Nepal's economic diplomacy. The establishment of a center for diplomacy in Nepal will also help towards this end. Similarly, having separate Ministry of NRN Affairs will help streamline the liaison between the Nepali state and the growing Diaspora.

NRNA will also expand and enhance its programs related to economic diplomacy providing valuable assistance to Nepal. NRNA fully supports the GoN initiative going forward to enhance its economic diplomacy. NRNA is committed to be an active and reliable partner in this effort and is willing to mobilize its resources and global network to ensure that the initiative succeeds.

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