

# **NRNA POSITION BRIEF ON ECONOMIC DIPLOMACY FOR NEPAL**

**Submitted to:**

**The Multilateral Economic Affairs Division  
The Ministry of Foreign Affairs  
Government of Nepal**



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On behalf of

**Non Resident Nepali Association (NRNA)**

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# NRNA POSITION BRIEF ON ECONOMIC DIPLOMACY FOR NEPAL

## Preface

I wish to thank the Ministry of Foreign Affairs (MoFA), Government of Nepal 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.



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Kathmandu, Nepal  
December 25, 2011

## **NRNA Position Brief on Economic Diplomacy for Nepal**

### **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 interests. 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 addition 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 to support the economic development. As a result, the Ministry of Foreign Affairs (MoFA) has taken a pro-active 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 and 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 trans-national 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-Niño effect or the consequences of tsunamis. 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 Institutions**

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 means 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 interests 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 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 from 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 by some 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 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.

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 NRN's 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 new 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 the 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-resident Indians after the creation of the Ministry of Overseas Indian Affairs.

### **Diaspora Organizations, Cultural and Tourism Centers in Different Countries**

The thousands 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 organizations 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 started 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 houses 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 a 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, FNCCI, 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 NRNs part in promoting Nepal's diplomacy, although some general recommendations are also provided. A successful and streamlines 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 in the world. This report outlines some general recommendations in targeting Nepal's economic diplomacy, and provides 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 the regional and international community by offering Nepal as the most suitable venue for 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 NRNs 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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