

## **Economic Diplomacy Strategy for Nepal**

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### **Abstract**

Economic diplomacy has emerged as a crucial aspect for promoting inward Foreign Direct Investment (FDI), facilitating international trade, and enhancing tourism. While the Government of Nepal has implemented various instruments for these purposes, achievements in these specific sectors have not been satisfactory. Economic diplomacy should be given the highest priority, extending its reach across all government spheres. The main focus of economic diplomacy is to attract foreign businesses, investments, new and enhanced technologies, and tourists. Economic diplomacy is closely connected with political, public, and other segments of diplomatic work. The objectives of economic diplomacy can be achieved through meaningful and active engagement with a wide range of concerned stakeholders, including government agencies and private sector umbrella organizations. The major concern today is how to prepare and implement a robust economic diplomacy strategy to reap better economic benefits from bilateral, regional, and global mechanisms as well as engagements, in order to achieve the nation's economic development vision.

The economic diplomacy strategy should be supported and equipped with relevant programs and activities by all concerned agencies. The capacity enhancement of government agencies and private sectors should also be strengthened in line with targeted actions and focused areas of intervention. The economic diplomacy strategy would be backed by dedicated budgets from all relevant ministries, with suitable programs, activities, and events. The economic diplomacy strategy would support achieving milestones such as the reduction of the country's ballooning trade deficit, enlargement of market access opportunities for Nepali products abroad, attraction of more inward foreign investment, integration of domestic production networks into regional and global networks, facilitation of technology transfer into domestic industries, and expansion of investment- and trade-related infrastructure. Spanning from hydropower and renewable energy to sustainable eco-tourism and agriculture, as well as from the service sector to manufacturing, Nepal offers diverse and lucrative investment avenues for investors. Recently, Nepal has made significant improvements in legal, institutional, and procedural reforms to create a conducive business environment.

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## **Introduction**

Diplomacy, in general, is the art of promoting relations with other countries. Hence, economic diplomacy is a strategy for realizing and promoting a country's economic interests. Diplomacy related to economic affairs is known as economic diplomacy. Economic diplomacy can be understood as the ability of entrepreneurial actors to build new bridges complementary to state foreign policy, which ultimately not only serve economic objectives but can also open up new channels of dialogue. Economic diplomacy helps to expedite cooperation mechanisms and make them vibrant and functional; for example, trade and investment framework agreement councils (TIFA), intergovernmental committees (IGCs) of commerce, intergovernmental sub-committees (IGSCs) of commerce, trade facilitation committees, investment facilitation committees, dispute settlement committees, economic cooperation committees, and multilateral negotiation committees, among others.

Diplomacy beyond the political spheres and ideology is generally known as economic diplomacy. An economic diplomacy strategy should be able to forecast global economic crises and cope with them using new economic tools and drivers. In a broad sense, economic diplomacy is an instrument available to a country to protect its economic interests and to promote the country's areas of comparative advantage in order to enhance its economic status and achieve its economic development aspirations and goals. Economic diplomacy supports the enlargement of economic opportunities and maximization of economic benefits for its citizens through bilateral, regional, and multilateral dialogue and negotiations. The main objective of economic diplomacy is to enhance the country's economic status by using diplomatic economic instruments, tools, and skills. Economic diplomacy also covers areas such as the promotion of tourism and cultural assets to the global community. It also addresses a wide range of emerging challenges like food security, energy security, climate justice, and supply chain logistics.

Economic diplomacy has emerged as an important aspect of the economic apparatus for promoting inward FDI, facilitating international trade, protecting and enhancing intellectual property rights (IPRs), as well as preserving the cultural assets of the country. The Government of Nepal has implemented various instruments to enhance the country's economic strength.

After the restoration of multi-party democracy in 1990, economic diplomacy has been embraced with renewed attention as a vital operational instrument of Nepali foreign policy. The fundamental objective of Nepal's foreign policy is to enhance the dignity of the nation by safeguarding sovereignty, territorial integrity, and independence, while promoting economic well-being and prosperity. It is essential to implement the economic diplomacy policy to achieve the economic well-being and prosperity objectives of the nation's foreign policy.

The main focus of an economic diplomacy program is to promote national interests through the intervention of economic activities. In our scenario, expanding investment, trade-related logistics infrastructure opportunities, facilitating export trade, attracting more inward FDI in priority areas, promoting cultural assets, protecting domestic and foreign investment, and safeguarding intellectual property rights are major concerns. Economic diplomacy would be an extended arm of foreign policy. Through the engagement of economic diplomacy, we must protect our fundamental economic interests.

Bilateral, regional, and multilateral economic diplomacy platforms play a major role in the enhancement and integration of the country's economic spheres into the global economic picture. Now, economic affairs and key economic agendas of any country have become major determinants of the country's foreign policy. Nepal already has trade and investment relations with its neighboring countries, India and China, as well as other countries. The major issues for us are: Why is our economic diplomacy policy not delivering well? Why is our export basket not expanding? Why is our inward FDI as a percentage of GDP the lowest in South Asia? How can we reap economic benefits from relationships with neighboring countries and memberships in international and regional institutions like the World Trade Organization (WTO), World Intellectual Property Organization (WIPO), United Nations Conference on Trade and Development (UNCTAD), United Nations Industrial Development Organization (UNIDO), Belt and Road Initiative (BRI), World Bank (WB), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), South Asian Association for Regional Cooperation (SAARC), South Asia Free Trade Area (SAFTA), South Asia Sub-regional Economic Cooperation (SASEC), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), among others? The economic diplomacy strategy and initiatives would support achieving the national vision "Prosperous Nepal, Happy Nepali."

The Ministry of Foreign Affairs and missions abroad should be equipped with talented human capital to deal with emerging economic issues and be able to coordinate with relevant economic ministries in the capital. The economic diplomacy division of the ministry should be strengthened in such a way that it can coordinate with missions and private sector umbrella organizations for effective implementation of economic diplomacy policies and programs. Economic diplomacy supports increasing the inflow of foreign investments, including inward FDI, grants, concessional loans, and the transfer of technology and know-how, which also work as catalysts for enhancing the domestic investment environment and expanding the country's comparative advantage opportunities.

If economic diplomacy agendas are handled effectively, economic diplomacy programs can significantly support the promotion of Nepal's international export trade, attract more inward foreign investment, facilitate increased grants, accelerate technology transfer to domestic enterprises, help secure more financial aid from international economic organizations, enhance Nepal's tourism sector branding, and expand its benefits and opportunities to the international community. It is equally important to strengthen our institutional capacity and regulatory environment to facilitate economic

diplomacy initiatives in the changing context. There is an urgent need to re-strengthen and revitalize the Investment Promotion Board, the Department of Industry, the Company Registrar's Office, Inland Revenue Department, Nepali missions abroad, and the National Trade Facilitation Committee to create a better investment and trade environment in the country and ensure the effective implementation of economic diplomacy programs and activities. Economic diplomacy activities should be refocused to attract more investment in green production technologies, resilient infrastructure development projects, climate-smart agriculture projects, and Green Industrial Zones.

### **Why Economic Diplomacy Matters?**

- To support the economic development vision of the country.
- To attract more inward FDI, facilitate technology transfer to domestic industries, and provide linking services of SMEs to MNCs.
- To better negotiate for grants and concessional loans for the country's infrastructure development projects.
- To reduce heavy dependency on foreign assistance.
- To enhance the country's bilateral, regional, and multilateral international trade engagement and explore opportunities from these arrangements.
- To reduce the ballooning trade deficit.
- To diversify export trade.
- To negotiate market access for Nepalese products.
- To expand the market for Nepalese tourism products and cultural assets.
- To explore latent comparative advantages as well as overseas markets and business opportunities for Nepali entrepreneurs.
- To better utilize the available opportunities generated from Free Trade Zones, Bilateral Trade Agreements, Bilateral Investment Treaties, Trade and Transit Agreements, and Trade and Investment Framework Agreements (TIFA).
- To regain the knowledge, capital, and expertise of NRNs into the country.

### **Areas of Economic Diplomacy**

- Enhancing bilateral trade and economic cooperation between Nepal and other countries.
- Infrastructure development activities related to investment and trade facilitation.
- Investment promotion activities, focusing on attracting more inward FDI to establish manufacturing, energy (hydro), and other value chain creation industries.
- Support for implementing investment, trade, and transit-related treaties.
- Tourism product and natural world heritage promotion programs.
- Tangible and intangible cultural heritage promotion, exchange events, activities, and programs.
- Export market linking services for Nepalese products, goods, and services.

- Support for integrating Nepali products and services into regional and global value chains, and assistance in maintaining the global supply value chain.
- Counseling investors by organizing "Invest in Nepal" forums, investor seminars, and B2B meetings.
- Promoting and protecting the country's Intellectual Property Rights, including trademarks and product brands.
- Facilitating the transfer of technology to the home country's domestic industries.
- Economic cooperation and employment promotion.
- Digital economic cooperation and climate change financing.
- Energy trade and cooperation, green economy finance, technical assistance, and logistics support.
- Education and scholarships related to human capacity building assistance and support.
- Other commodity grants-related support.

## **Economic Diplomacy Strategy for Nepal**

To make Nepal's foreign trade more stable and enhanced, we need to continue exploring new markets while protecting our existing markets in neighboring countries and abroad. This strategy is crucial because the Indian and Chinese markets are very large and the most viable and potential markets for Nepali traders and exporters. Regarding commodity structure, IT and Business Process Outsourcing (IT & BPO) exports are growing fast, but traditional industries' product exports are shrinking. Light industries such as synthetic thread, ready-made garments, and consumer goods sectors face significant challenges from India, China, and third countries. There is an urgent need to overcome the technology bottleneck to make progress in technology transfer and technology upgradation in SMEs. Another pressure for Nepali producers and exporters is how to link with regional and global production networks and their supply value chains. To address this challenge, Nepal must create a better market environment, foster fair competition, and focus on market-oriented reform initiatives.

Fragmented and uncoordinated trade and investment policy approaches lead to uncertainty for investors, producers, and exporters, and also hinder bilateral and international trade. Hence, integrated trade and investment policies coupled with solid infrastructure would be the solution for enhancing healthy commercial, trade, and investment activities, as well as fostering market competition and the transfer of technology. In recent years, both market structure and commodity structure have been changing rapidly; as a result, Nepal's investment and trade sector facilities and incentives should also be reviewed in line with the changing context. With the growing international competitiveness of Nepal's energy sector, especially with the rapid increase in investment in the hydropower sector, more efforts are needed to harness those opportunities.

More focus should be given to strengthening the negotiation capacity of team members involved in negotiation processes with international agencies to clearly articulate the country's actual needs and

maintain a clear position during negotiations. It is also necessary to engage the Non-Resident Nepali (NRN) Network as an extended arm for the implementation of economic diplomacy programs and activities. An economic diplomacy policy with targeted goals and milestones should be formulated and implemented effectively to address complex economic issues in the changing context of regionalism and globalization. The economic diplomacy policy should be able to project the country's economic position to strengthen its negotiation stance and secure more economic assistance and support. Economic diplomacy programs should be implemented through an integrated approach to maintain synergistic effects among concerned ministries, institutions, and private sector organizations. Foreign assistance and FDI absorption capacity should also be re-strengthened by reviewing existing rules, laws, and procedures. It is also necessary to strengthen the investment and trade-related capacity of Nepal's private sector organizations to enhance economic diplomacy through a Track-2 approach.

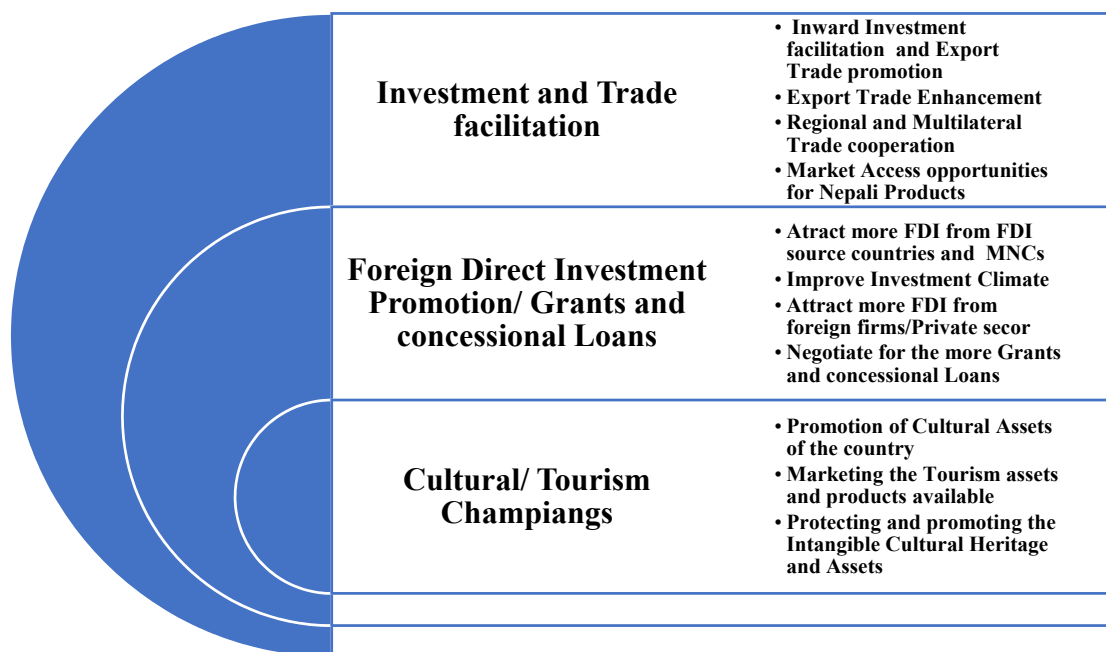
To make our economic diplomacy policy workable, the following reforms and initiatives should be implemented:

- I. It is essential to formulate and implement a comprehensive economic diplomacy policy.
- II. Improve the institutional capacities of economic affairs ministries such as the Ministry of Industry, Commerce and Supplies; Ministry of Finance; Ministry of Agriculture Development; Ministry of Forest and Environment; Ministry of Energy and Water Resources; Ministry of Culture, Tourism and Civil Aviation; Investment Board Nepal; Department of Customs; Department of Industry; and other concerned agencies, as well as private sector organizations.
- III. Enhance the negotiation capacity of Nepali teams for bilateral, regional, and multilateral negotiations.
- IV. Reorient our missions abroad to handle economic diplomacy activities, such as showcasing Nepal's opportunities and offers to foreign investors, promoting what Nepal produces for global markets and consumers, and highlighting the significance of Nepal's tourism within the global tourism industry network and value chain, among other emerging economic agendas.
- V. All economic diplomacy programs and activities should be steered by a high-level economic diplomacy committee.
- VI. Strengthen cooperation and coordination among sectoral ministries, the Ministry of Foreign Affairs, and the missions for the effective implementation of economic diplomacy programs and activities, backed by a dedicated budget.
- VII. Nepal should enter into more Bilateral Investment Treaties (BITs) with potential FDI source countries.

- VIII. Utilize the Non-Resident Nepali (NRN) diaspora and their network for the promotion of inward FDI, NRN expertise and knowledge, as well as to enhance Nepal's export trade to the international market by streamlining economic diplomacy programs and initiatives.
- IX. Promote Nepal's Intellectual Property Rights, intangible cultural heritage and diversity, as well as traditional knowledge and practices.

### Three Strategic Pillars for Nepal's Economic Diplomacy

The three major strategic pillars for Nepalese Economic Diplomacy would be explained by the following diagram:



Now, the economic diplomacy strategy should be targeted and focused on attracting more FDI in greenfield infrastructure projects. It is also urgently necessary to attract more resource-seeking MNCs in order to better utilize the available resources for investment.

### Dimension of the Economic Diplomacy

The Economic Diplomacy will be explained through the three dimensions with the help of the following table:

**Table No.1**

Dimensions of the Economic Diplomacy developed by the writer

Dimensions	Spheres	Instruments/Tools of Economic Diplomacy	Remarks
<b>Bilateral Economic Diplomacy</b>	Bilateral issues: trade, investment, tourism, and other areas of economic interest, cross border infrastructure development	Bilateral Investment Treaties (BITs); Country-specific economic diplomacy policies/programs/agendas	Engagement through bilateral mechanisms: Nepal–India Economic Diplomacy; Nepal–China Economic Diplomacy; Nepal–UK Economic Diplomacy; Nepal–US Economic Diplomacy
<b>Regional Level Economic Diplomacy</b>	Regional issues: regional trade and investment, regional free trade zones (FTZs)	Regional-level strategies and programs	Engagement through regional level organizations: BIMSTEC; SAARC; SAFTA; SASEC; ICIMOD, SCO and other regional organizations.
<b>Global Level Economic Diplomacy</b>	Global issues: climate change, global value chains, supply chains and logistics Integration, food security, energy security	Global institutions and forums: World Bank, WTO, WIPO, WHO, UN agencies and Other global forums	Better utilization of the available global level forums for the better integration of the Nepal's economy its trade and investment opportunities.

## Legal and institutional Framework for the enhancement of Investment and trade sector

The Legal and Institutional arrangement for the facilitation of FDI and export trade is shown by the following table.

S.N.	Institutional Arrangements	Legal Instruments	Treaties and Agreements	Remarks
1	<ul style="list-style-type: none"> <li>• Ministry of Foreign Affairs and Missions Abroad</li> <li>• Ministry of Finance</li> <li>• Ministry of Industry, Commerce and Supplies</li> <li>• Ministry of Culture, Tourism and Civil Aviation</li> </ul>	<ul style="list-style-type: none"> <li>• Development Assistance Mobilization Policy</li> <li>• Public-Private Partnership Policy</li> <li>• Industrial Policy</li> <li>• Commerce Policy</li> <li>• Intellectual Property Rights Policy</li> <li>• Foreign Investment and</li> </ul>	<ul style="list-style-type: none"> <li>• Bilateral Investment Treaties (BITs)</li> <li>• Trade and Transit Treaties</li> <li>• Double Tax Avoidance Agreements (DTAAs)</li> <li>• Preferential Trade Agreements (PTAs)</li> </ul>	



<ul style="list-style-type: none"> <li>• Ministry of Home Affairs</li> <li>• Ministry of Energy and Water Resources</li> <li>• Ministry of Forest and Environment</li> <li>• Ministry of Labour</li> <li>• Nepal Rastra Bank</li> <li>• Investment Board Nepal</li> <li>• Department of Industry</li> <li>• Department of Immigration</li> <li>• Special Economic Zones (SEZs) Authority</li> <li>• Office of the Company Registrar</li> <li>• Nepal Tourism Board</li> </ul>	<ul style="list-style-type: none"> <li>Technology Transfer Act (FITTA)</li> <li>• Foreign Investment and Public-Private Partnership Act</li> <li>• Industrial Enterprises Act</li> <li>• Special Economic Zone Act</li> <li>• Board of Investment Act</li> <li>• Trademark, Patent and Design Act</li> <li>• Electricity Development Act</li> </ul>		
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### **Multilateral, Regional and Bilateral Trading arrangements**

Nepal strongly supports the Multilateral Trading System (MTS), advocating for a rule-based, transparent, and predictable framework. Since its accession to the WTO in 2004, Nepal has maintained open and liberal economic policies and remains committed to the global trading system. Its WTO membership has facilitated economic integration, offering opportunities for domestic enterprises to connect with multinational corporations, expand their markets, and integrate into global production and supply chain networks. Nepal has already signed important agreements for trade and transit connectivity and investment facilitation with its neighboring countries. Furthermore, Nepal has signed a Power Trade Agreement (PTA) with its neighbors and the SAARC Framework Agreement on Energy Cooperation at the regional level. Nepal actively participates in the WTO to advance the agenda of a rule-based trading system.

Nepal participates in two key regional agreements: the South Asian Free Trade Area (SAFTA) and the Bay of Bengal Initiative for Multi-Sectoral, Technical and Economic Cooperation (BIMSTEC). SAFTA, which superseded the South Asian Preferential Trade Agreement (SAPTA) and came into force in 2006, aims to deepen trade and economic cooperation in the South Asian region by promoting fair competition and removing barriers to the movement of goods. The SAARC Agreement on Trade in Services (SATIS), signed in 2010 and effective from 2012, recognizes the regional growth potential of trade in services and focuses on expanding intraregional investment and trade liberalization. BIMSTEC, which Nepal joined in 2004, was founded in 1997 to accelerate growth through cooperation in various shared interest areas, connecting South Asia with Southeast Asia. Nepal is also a dialogue partner of the Shanghai Cooperation Organization (SCO). Additionally, Bilateral Protection and Promotion Agreements (BIPPA), Bilateral Investment Treaties (BITs), and the Belt and Road Initiative (BRI) have significantly supported the expansion of Nepal's

trade and investment regime. Nepal's service sector should also be more widely opened to foreign investment through attractive incentive packages.

Nepal has established bilateral trade agreements with numerous countries: Bangladesh (1976), Bulgaria (1980), China (1981), Czechoslovakia (1992), Democratic People's Republic of Korea (1970), Egypt (1975), India (1991), Mongolia (1992), Pakistan (1982), Poland (1992), Republic of Korea (1971), Romania (1984), Sri Lanka (1979), United Kingdom (1965), United States (1974), USSR (1970), and Yugoslavia (1965). These agreements primarily cover trade in goods and include Most Favored Nation Treatment (MFN) clauses. Nepal and India have signed a comprehensive set of bilateral agreements, including the Treaty of Transit, Treaty of Trade, Railway Services Agreement, and an Agreement of Cooperation to Control Unauthorized Trade. The Transit Treaty allows Nepal to trade internationally through India's Kolkata/Haldia ports, and since 2016, through Vishakhapatnam. Furthermore, in March 2016, Nepal and China signed a bilateral Agreement on Transit Transport, granting Nepal access to four Chinese ports for international trade.

Nepal is a member of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank and has ratified the International Convention on the Settlement of Investment Disputes. Other Bilateral Investment Protection and Promotion Agreements (BIPPAs) are in place with Finland, Germany, Mauritius, the United Kingdom, France, and India. Nepal has also signed Double Taxation Avoidance Agreements (DTAAs) with Austria, China, Republic of Korea, Mauritius, Norway, Pakistan, Qatar, Sri Lanka, Thailand, and India. Since 2011, Nepal has had a Trade and Investment Framework Agreement (TIFA) with the United States.

## **Conclusion**

Economic diplomacy is undeniably a crucial foreign policy tool. However, it must be acknowledged that current economic diplomacy policies, programs, and interventions have fallen short of delivering expected outcomes and results. To achieve the full benefits of effective economic diplomacy, all stakeholders must work together in close cooperation and collaboration.

The principal actors in economic diplomacy include ministries related to economic affairs, the Ministry of Foreign Affairs, Nepali missions abroad, private sector organizations, and the Non-Resident Nepali (NRN) diaspora and their networks. Sectoral ministries bear the primary responsibility for preparing and developing economic diplomacy strategies tailored to their needs, equipped with sufficient governance frameworks for smooth implementation. Subsequently, the Ministry of Foreign Affairs, Nepali missions abroad, private sector organizations, and the NRN network would assist these sectoral ministries in effectively implementing these strategies, policies, and programs.

The economic diplomacy strategy needs to be made more workable and functional. The current strategy should be reviewed and updated to reflect the evolving situations of the actors and changing international perspectives. Given that economic diplomacy is a priority government agenda and a

highly dynamic issue in the present context, it is necessary to institutionalize a high-level steering committee under the Right Honorable Prime Minister. Increased connectivity through enhanced logistics services and improved bilateral, regional, and multilateral relations would be necessary conditions for economic diplomacy to deliver tangible outcomes.

Economic diplomacy will ultimately contribute to achieving the country's long-term economic prosperity goals. It is essential to move beyond a "business as usual" mentality to promote economic diplomacy and foster synergies by encouraging cooperation among all institutions involved in economic spheres. Economic diplomacy programs should be implemented in such a way that ensures the intended benefits are achieved and the country's economic objectives are met in a tangible sense. Our embassies and missions abroad should adopt a collaborative approach with business communities.

Economic diplomacy is crucial for fostering international understanding in a globalized world and must, therefore, be strengthened by all sides and at all levels. It is also very useful in tackling global challenges and agendas such as climate change, food insecurity, pandemics, and poverty worldwide. Furthermore, it is necessary to properly diagnose the current deficits of the existing economic diplomacy policies, programs, and activities to deliver true results in terms of investment facilitation, market access opportunities for Nepali products abroad, and enhanced export trade for the country. Economic diplomacy strategy should be able to provide solutions ranging from domestic economic issues to the serious global challenges that every country faces today.

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