

Nepal's Economic Diplomacy: An Analytical View

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Abstract

The economic diplomacy approach of Nepal has been critically analyzed purposefully in this article specifically in relation to its role towards strengthening strong trade, development, and national security. Systematic literature reviews were conducted and data were gathered through desk research, keyword and e-resources searching, online interviews, YouTube analysis, and archival documents. Foreign policy is revealed to be influenced extensively by trade and development is strongly related to trade and security agendas. It emphasizes that economic diplomacy must respond to inclusive, sustainable, and long-term development. Additionally, the early expansion of global trade left enormous implications on the development trajectory of Nepal, and therefore there have been policy reforms in order to stimulate trade. It reiterates that foreign aid, FDI, and hard and soft loans are needed to enhance Nepal's economy. The paper concludes by presenting strategic recommendations that attempt to fill existing policy vacuums and optimize the efficacy of Nepal's economic diplomacy.

Keywords: Foreign Investments, Foreign Direct Investment, World Trade Organization

1. Introduction

Economic diplomacy refers to the expression and projection of policies governing labor, investment, trade, movement of labor, and movement of goods and services across borders. Economic diplomacy refers to the systematic application of state power as an instrument of investment promotion, trade promotion, and promotion of bilateral and multilateral economic relations. Apart from economic ends, economic diplomacy also entails employing economic instruments towards further-reaching foreign policy objectives, such as the discouragement of competitors or the pursuit of national interests through the use of sanctions, anti-corruption strategy, and anti-money laundering (Bayne & Woolcock, 2011). Increasingly, alliances of similar-minded states are being employed to employ these resources in the fight against shared global threats.

Economic diplomacy is not only a governmental role but also includes actors outside of government such as firms and investors, who generally deal with foreign governments indirectly through diplomatic channels established or facilitated by embassies and ambassadors. Such practice, according to Berridge (2015), is the grand institution of diplomacy because it operates at different levels and is the science, art, and practice of conducting international relations with the goal of advancing national interests and strengthening political, economic, cultural, and scientific ties in order to maintain peace.

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In the Nepalese context, the foreign policy of the nation is founded on the principles of nonalignment, sovereignty, and non-interference in the internal affairs of other nations with an unwavering commitment to United Nations values. Following political change in the 1990s, economic diplomacy has emerged as the central aspect of foreign policy in Nepal, with increased emphasis being placed on facilitating trade, enhancing foreign direct investment (FDI), enhancing labor mobility, and speeding up economic cooperation (Ministry of Foreign Affairs Nepal, 2020). Yet, as much as economic diplomacy has been achieved in terms of its importance, there are concerns about how Nepal has solidified it into its overall foreign policy process, how much non-state actors influence its implementation, and whether it can be used effectively to promote sovereignty, promote sustainable development, and counteract global challenges. It is thus the aim of this study to determine:

- How and to what extent has Nepal integrated economic diplomacy into its foreign policy since the 1990s, and what steps have it taken to increase trade, FDI, and people's mobility?
- To what extent do non-state actors, such as business houses and investors, play a role in the practice and impact of Nepal's economic diplomacy on the global scene?
- How does economic diplomacy assist Nepal in delivering its assistance to not just economic cooperation, but foreign policy objectives as a whole?

Economic diplomacy is the creation and advancement of work, investment, trade, labor mobility, and goods and services exchange across borders. Economic diplomacy forms the strategic utilization of state assets to enhance investment, increase trade, and expand bilateral and multilateral economic cooperation. Aside from business interests, economic diplomacy also entails the application of economic tools to advance more general foreign policy objectives, such as the discouragement of enemies or the encouragement of national interests through sanctions, anti-corruption measures, and anti-money laundering (Bayne & Woolcock, 2011). Increasingly, coalitions with similar-minded nations are being utilized in order to employ these tools in combating shared global menaces.

Economic diplomacy is not merely a state activity; it is also an activity with non-state participants like investors and firms, which constantly deal with foreign governments through diplomatic channels established or facilitated by embassies and ambassadors. The practice is multidimensional and operates within the grand sphere of diplomacy—defined as the art, science, and technique of managing international relations to promote national interests and enhance political, economic, cultural, and scientific ties while maintaining peaceful relations (Berridge, 2015).

In Nepal, Nepal's foreign policy is founded on the ethos of nonalignment, noninterference in the internal affairs of a state, respect for sovereignty, having full confidence in the United Nations ethos. Since political transformations of the 1990s, economic diplomacy has also been included in Nepal foreign policy, with promoting trade facilitation, FDI, labor mobility, and economic cooperation (Ministry of Foreign Affairs Nepal, 2020).

The paper considers Nepal's policy-based and practice-oriented economic diplomacy with focus on the pursued policies to join the international economic order for the protection of national interests as well as to ensure sustainable development.

2. Literature Review

Economic diplomacy has emerged as a major component of global politics, especially given globalization and interdependence. Economic diplomacy, in Pokharel's (n.d.) view, is essentially a practical instrument for initiating socio-economic transformation. In his view, if Nepal's political leadership would refrain from interfering in the operations of the Foreign Service bureaucracy, the majority of the hindrances to successful economic diplomacy could be eliminated.

Furthermore, attracting qualified individuals to Foreign Service positions could significantly enhance the implementation of foreign policy by building a skilled and motivated diplomatic workforce. Pokharel underscores that Nepal can harness its cultural and environmental assets to promote its economic interests through five key pillars: tourism, foreign aid, trade, investment, and labor.

Wikipedia, The Free Encyclopedia (n.d.) characterizes economic diplomacy as a process that involves formulating policies, making strategic decisions, and promoting the commercial interests of the sending state. It highlights the technical and analytical expertise required to assess the intersection between the political and economic contexts of both sending and receiving states. Moreover, it notes the growing role of international actors-including multinational corporations, foreign governments, and intergovernmental organizations-in shaping global policy on contemporary issues such as technology, environment, and global health, in addition to traditional trade and finance matters. Economic diplomacy, as such, requires a combination of commercial acumen, sound judgment, and adaptive diplomatic skills.

Expanding on this, Bayne and Woolcock (2007) describe economic diplomacy as encompassing "policies relating to the production, movement or exchange of goods, services, instruments (including official development assistance), money, information and their regulation." They point out that since the Second World War; these policies have formed the basis of economic interactions among states. With the rise of globalization in the 1990s, the scope of economic diplomacy deepened, requiring nations to engage in domestic decision-making processes that align with international economic imperatives. Importantly, they emphasize that all government bodies involved in foreign economic roles, along with non-state actors like NGOs, are participants in economic diplomacy. This inclusion also extends to businesses and investors, particularly when diplomatic missions facilitate connections between them and foreign governments.

Berridge and James (2003) define economic diplomacy as diplomacy that utilizes economic instruments-such as incentives or sanctions-to achieve specific foreign policy goals. This involves economic policy negotiations in multilateral forums like the World Trade Organization (WTO), hence extending the role of diplomacy to economic coordination and regulation at the international level.

Rana (2007) provides a broader and realistic definition, such that economic diplomacy is "the process through which countries approach the outside world in order to maximize their national gain." He highlights its bilateral, regional, and multilateral dimensions, all of which play an important role in shaping a nation's international economic engagement. This definition is particularly relevant for developing nations who desire to emerge on the global scene.

The relevance of such a wide view on economic diplomacy is seen when considering emerging economies. The limitations of conventional economic analysis are perfectly illustrated by nations such as the Republic of Kosovo, which is frequently referred to as one of the poorest in Europe. According to Rana (2007), these economies may have enormous unreported or covert economic activity that translates into actual economic strength, despite their public statistics suggesting they are weak. If this “gray economy” is taken into consideration, investors’ perception of risk will decrease and these nations will become more appealing to investors.

Second, rising economies are realizing that businesses do not follow them; rather, they must actively seek opportunities. In this situation, economic diplomacy is a forward-looking endeavor. To attract foreign investment, governments must offer incentives like tax breaks and regulatory assistance. This may mean making short-term investments but reaping long-term benefits. It is not only cost-effective but also economically wise, especially for developing countries, to use the diplomatic apparatus that has already been established for business promotion and opportunity hunts. Despite being unorthodox, this multitasking strategy is a crucial part of contemporary economic diplomacy.

Nepal’s official admission into the international world began with democracy. The political change was followed, if slowly, by economic concepts and economic diplomacy models. Economic diplomacy began in the 18th century with the rise of classical schools of thought, such as Adam Smith’s defense of free markets and David Ricardo’s theory of comparative advantage. But it wasn’t until the 1970s, when liberalization and globalization were gaining momentum that these ideas began to catch on. A new period of liberal economics and protectionism was brought about by Thatcherism’s rise in Europe, which encouraged governments to employ diplomacy for both political and commercial objectives.

The term “economic diplomacy” is a relatively new one. The facilitation of international trade in goods and services was the relatively narrow definition of “trade diplomacy” in the past. As state economies and nationalized companies expanded in the 1950s and 1970s, trade diplomacy gained traction. As nations sought for new markets in other nations, diplomatic missions were tasked with promoting investment and trade.

A paradigm shift in the international community’s economic system occurred with the end of World War II. State intervention was questioned since most state-led economies failed to achieve the desired level of economic growth. Governments started to open up economies after realizing that they needed technology, international collaboration, and foreign investment. For the sake of this economic agenda, diplomatic institutions underwent reform and reorientation, changing from being the conventional actors in foreign policy to being defenders of national economic interests. Despite being a latecomer, Nepal was not exempt from this worldwide pattern.

Despite this change, a number of structural flaws still hinder Nepal’s advancement, such as its landlocked status, unfavorable terrain, scarce natural resources, high poverty rate, and slow economic growth. Nepal still has significant challenges in economic integration with the regional and global economies, particularly in utilizing the potential brought about by globalization. There

is a lot of promise, though. The effective utilization of business, technology, natural resources, and both domestic and international capital may be the driving forces behind remarkable economic progress and the decline of poverty.

Nepal's geopolitically advantageous position between China and India, two of the biggest and fastest-growing economies in the world, presents a wealth of opportunities for economic cooperation and spillover benefits. Furthermore, Nepal has a leading role in promoting regional integration, directing foreign direct investment (FDI), and establishing partnerships in important areas like trade, biodiversity, tourism, education, and health, where it has comparative and competitive advantages, as the headquarters of the South Asian Association for Regional Cooperation (SAARC).

In this regard, especially during the 1990s, economic diplomacy has grown to be an essential part of Nepal's foreign policy. However, Nepal's actual policy frameworks and economic diplomacy implementation are still in their infancy and frequently lack consistency. This scholarly investigation seeks to examine Nepal's economic diplomacy as it is today, including its policies, implementation gaps, institutional procedures, and strategic potential. It also offers practical suggestions for improving Nepal's efficacy in the modern world order.

Economic diplomacy is now an integral element of international relations, especially in the context of globalization and interdependence. Pokharel (n.d.) states that economic diplomacy is, in itself, a pragmatic process of effecting socio-economic change. He argues that if the Nepal political elite stay away from getting their hands dirty in Foreign Service bureaucracy's operations, then most of the hindrances to successful economic diplomacy can be defeated. Furthermore, inducing talented individuals into Foreign Service could contribute significantly to better implementation of foreign policy through the generation of talented and motivated diplomatic officers. Pokharel points out that Nepal can make use of its natural and cultural resources to advance its economic agenda on five pillars: tourism, foreign aid, trade, investment, and labor.

Wikipedia - The Free Encyclopedia (n.d.) states that economic diplomacy refers to a process in which policies are formulated, strategic decisions are made, and the commercial interests of the home state are promoted. It highlights the technical and analytical competence needed to estimate the convergence of the political and economic circumstances of the sending and receiving nations. It further remarks on the growing power of external players-multinational business firms, foreign governments, and intergovernmental institutions-over global policy on such contemporary matters as technology, the environment, and global health as well as old-fashioned commerce and finance concerns. Economic diplomacy thus demands a combination of commercial acumen, sound judgment, and accommodating diplomatic methods.

Drawing on this, Bayne and Woolcock (2007) characterized economic diplomacy as the management of "policies relating to the production, movement or exchange of goods, services, instruments (including official development assistance), money, information and their regulation." They add that since World War II; such policies have formed the bedrock of economic relations among states. The 1990s saw a rise in globalization, which intensified economic diplomacy to the point where

countries are now expected to participate in domestic decision-making institutions that align with global economic needs. Importantly, they promoted the idea that non-state entities like NGOs and all government agencies involved in international trade are also involved in economic diplomacy. This also applies to businesses and investors, especially when diplomacy opens the door to establishing ties with host governments.

Economic diplomacy has been defined by Berridge and James (2003) as the application of economic instruments-such as inducements or sanctions-to seek tangible foreign policy goals. This includes economic policy negotiation in multilateral fora like the World Trade Organization (WTO), thus extending the scope of diplomacy into global economic regulation and coordination.

Rana (2007) provides a broader and practical definition, defining economic diplomacy as “the process by which nations deal with the outside world in order to maximize their national benefit.” He suggests its bilateral, regional, and multilateral dimensions, all of which are all about forming a nation’s international economic engagement. His definition best fits developing nations eager to assert their presence in the world stage. The relevance of such a wide view of economic diplomacy can be seen when one reflects on emerging economies. The shortcomings of conventional economic measurement are exemplified by nations like the Republic of Kosovo, which is regularly listed as one of the poorest in Europe. According to Rana (2007), these economies may appear weak based on official data, but they have significant unreported or unofficial economic activity that supports real economic prosperity. These nations are more desirable to invest in if the “gray economy” is taken into account since it may reduce the perceived risk for investors.

Furthermore, emerging economies are coming to the realization that they must go out and get business rather than it coming to them. In this sense, economic diplomacy is not a passive endeavor. To draw in foreign investment, governments must offer enticing incentives, such as tax breaks and regulatory advantages. Although there may be short-term costs, there may be long-term development benefits. It is not only sensible but also cost-effective to use the diplomatic instruments available to support companies and look for opportunities, particularly for countries with few financial resources. Such strategic multitasking is an important, if unorthodox, aspect of contemporary economic diplomacy.

Nepal started to formally engage in international forums once democracy was established. Alongside this political change throughout time, economic diplomacy theories and practices also changed. Classical economic theories such as Adam Smith’s free market appeal and David Ricardo’s comparative advantage theory gained prominence in the 18th century, laying the foundation for economic diplomacy. However, such ideas did not receive much traction until the globalization and liberalization movement of the 1970s. Since Thatcherism reflected a global trend toward liberal economic policies, nations viewed its arrival in Europe as a spur to use diplomatic channels for both political and economic growth.

The term “economic diplomacy” is relatively recent. Trade diplomacy used to be restricted to persuading nations to trade goods and services. From the 1950s to the 1970s, diplomatic posts were increasingly used to promote commerce and investment as state-owned economies and nationalized

businesses gained prominence. In the wake of World War II, the international economic order trend reversed.

The majority of state-planned economies failed to experience the anticipated economic prosperity and hence experienced a reevaluation of state intervention. As such, governments resorted to liberalization of their economies and recognized the importance of foreign investment, technology, and international cooperation. Diplomatic structures were reorganized and mobilized to support this economic foreign policy, changing the conventional foreign policy participants into advocates for the economic interests of the country. Even as a latecomer, Nepal was affected by this worldwide pattern.

Despite this change, Nepal's landlocked topography, undulating terrain, dearth of natural resources, high poverty rate, and slow economic transition are some of the structural obstacles that continue to impede the nation's economic development. Integrating into regional and international markets remains one of the most significant challenges, particularly when it comes to benefiting from globalization. However, there is a great deal of untapped potential in the nation. Strategic utilization of technology, entrepreneurship, domestic and foreign capital, and natural resources could lead to significant advancements in economic development and poverty alleviation.

Nepal has enormous potential for regional economic cooperation and benefit spillovers due to its geostrategic placement between China and India, two of the largest and fastest-growing economies in the world. Furthermore, as the location of the headquarters of the South Asian Association for Regional Cooperation (SAARC), Nepal is a key player in promoting regional integration, drawing in foreign direct investment (FDI), and forming alliances in priority areas where it has comparative and competitive advantages, like trade, biodiversity, tourism, education, and health.

Since the 1990s, economic diplomacy has also become a prominent aspect of Nepal's foreign policy. In practice, Nepal's economic diplomacy's policy recommendations and practical realities of action are still lacking and disjointed. This research study is conceptualized to explore Nepal's current status of economic diplomacy-policy, gap areas of implementation, institutional structures, and strategic openings-and provide realistic suggestions for improved effectiveness of the same in the changing world order.

Practice of economic diplomacy is the application of a foreign policy of a state in an attempt to achieve economic goal, both according to international theory and evolutionary growth. Though its origin goes back through classical diplomacy, modern economic diplomacy involves liberalism, small-state theory, and interdependence school tactics as an expression of the dynamism of globalization. Foreign direct investment, trade negotiations, finance negotiations, export incentives, and aid are some main instruments, whereas the most important determinants are professional diplomacy, precise economic objectives, and domestic inter-bureau coordination. Actors vary from non-state actors such as multilateral institutions such as the WTO and World Bank to state actors such as trade and foreign affairs ministries. Regional integration is often a process that follows agenda-setting, policy-making, negotiation, implementation, and evaluation in the background of challenges such as

political instability, power imbalance, and protectionism in trade, and opportunities such as strategic location, investment opportunities, and regional cooperation. Longer trade and investment terms, enhanced economic resilience, heightened global influence, and enhanced capacity for international engagement are among the benefits.

Examining critically how economic diplomacy has influenced Nepal's foreign policy and even its evolution since the 1990s is the primary goal of this study. It seeks to analyze how and to what degree Nepal has integrated economic diplomacy as a component of its overall foreign policy, and to what degree it has made efforts in promoting trade, foreign direct investment (FDI), and mobility. Besides that, the study tries to analyze the role being undertaken by the non-state actors such as investors and companies in the way of directing Nepal's economic diplomacy practice and influences in the global world. Lastly, the aim is furthered to assess diverse channels that would be adopted by economic diplomacy in order to meet Nepal's economic cooperation goals as well as general foreign policy goals such as defense of sovereignty, enhancement of International Relations, and maintenance of development.

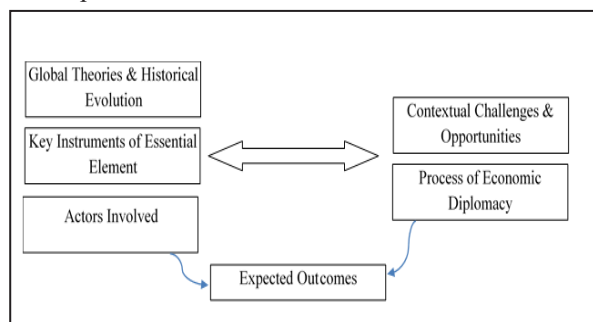


Figure 1: Conceptual Framework

Note: Conceptual framework diagram for Nepal's economic diplomacy, ordered from world theories and instruments, through actors and processes, to expected outcomes.

3. Methodology

The study is mainly qualitative and it is based on interpretation and analysis of existing knowledge, facts, and opinions regarding Nepal's economic diplomacy. Along with the thematic research strategy of the study, descriptive and analytical research methodologies have been adopted to analyze the policies, trends, practices, and consequences of economic diplomacy in the Nepalese context. The descriptive technique was extremely helpful in obtaining the extensive perception of the history of evolution, policy structure, and operational mechanisms of economic diplomacy. It gave a written synopsis of Nepal's economic problems, geopolitical background, and motivations for pursuing economic diplomacy-in particular, trade, investment, labor mobility, international aid, and regional integration.

Simultaneously, the analytical technique made it possible to compare the effectiveness of policy execution, institutional performance, and the degree to which Nepal has executed economic

diplomacy for national development. The strategy also made it possible to dissect a large number of national and international factors, the effect of stakeholders, and geopolitical factors affecting Nepal's international economic ties.

The study's primary source of data was secondary sources, which included both print and internet materials. Print and electronic material like government policy documents, research reports, peer-review journal articles, and academic journals were referred to in addition to a wide internet-based range of sources. They comprised government sites such as Ministry of Foreign Affairs, Ministry of Finance, and National Planning Commission; policy reports and strategy documents; reports of international and regional organizations such as those of the United Nations, SAARC, WTO, and World Bank; and conference and seminar papers. Opinions were also gathered from opinion articles received in the form of online and print copies of the newspapers, social media posts such as policymakers' tweets, diplomats', and scholars', YouTube panel discussions and interviews, national and international dailies' and weeklies' opinion pages and editorials. Particular care was taken in gathering and combining opinions, observations, and expert opinions expressed in the literature on Nepalese economic diplomacy. These included inputs from economists, diplomats, political experts, and civil society organizations. Second, records from the archives and historical data were cross-checked wherever feasible to locate the process of economic diplomacy within Nepal's overall foreign policy process. The data were triangulated using various multiple sources, making the research more valid and reliable.

Because of the topic's interdisciplinary nature, which spans political science, economics, and international relations, the entire study attempt was interdisciplinary. This made it easier to comprehend how factors from both inside and outside the country influence Nepal's economic diplomacy efforts. In an effort to replicate the intricacy of Nepal's economic diplomacy both conceptually and practically, the study technique is mostly open-ended, flexible, and interpretive.

4. Result

The Policy Environment for Economic Diplomacy

As it turns out, the history of economic diplomacy is profound. International trade in commodities and services has always included political negotiating, the use of dispute resolution procedures, and rudimentary diplomatic infrastructure in addition to economic exchange. The earliest seeds of diplomatic institutions were sown in ancient communities, such as Ancient Greece, where intertribal and intercity markets were held in places of worship. These exchanges necessitated legal mediation, negotiation, and security arrangements, which prepared the ground for what eventually became formal diplomacy (Berridge, 2015).

Another significant historical change was the Delian League, a commercial-military organization that emerged in the sixth century BCE as the most obvious example of how economic cooperation evolved into formal diplomatic ties. As time passed, especially by the latter part of the fourteenth century AD, diplomacy changed from being ad hoc envoys to resident missions that pushed national interests overseas, primarily economic ones.

The European consular tradition that developed on the Mediterranean coast near the end of the Middle Ages is where the modern idea of diplomatic missions originated. The consuls' duties were mostly business-related. They acted as intermediaries between local governments and foreign traders, particularly in coastal cities with high levels of global maritime trade. A neutral representative was often required to act on behalf of the interested parties, resolve conflicts, and mediate amicable economic interactions due to misperceptions by foreign mariners and territorial governments, which were fueled by communication issues, competing standards of custom, and differing conceptions of law (Rana, 2007).

For example, in the Ottoman Empire, consuls served as both commercial representatives and judges for merchant communities. Theoretically, these consuls received private funding from "consulates" taxes, and the majority did so through their own trading businesses. Despite being initially independent of the state apparatus, their function gradually changed and became institutionalized, resulting in the establishment of permanent missions and state-funded embassies. As time went on, business took precedence over diplomacy, and contemporary foreign policy tools were built on the management of commerce (Berridge & James, 2003).

Thus, the way state, new ones like Nepal, use their diplomatic hierarchy to seek economic gain is a manifestation of this rich evolutionary legacy. The study's conclusion supports the idea that economic diplomacy is an ancient practice that has been updated for a growing international system and is still at the forefront of the fight for prosperity in an interdependent world.

History of Economic Diplomacy

Origins in Antiquity

Economic diplomacy has its origins in the early commercial age, when trade forced people to establish institutions and conventions for both collaboration and conflict. Early diplomatic ties were established in Ancient Greece through trade between towns and tribes during fairs hosted at significant sacred sites. The sixth-century BCE Delian League has been used to explain an early institutionalized expression of the relationship between commerce and diplomacy (Berridge, 2015). The principle behind was simple: commerce could not thrive unless there were civil, if not amiable, relations, and diplomacy provided the means to create those relations. Diplomacy thus trailed trade, instilling economic rationality into the fabric of interstate relationships.

Middle Ages and Rise of Consulates

By the late medieval period, the Mediterranean witnessed the rise of European consulates as institutions. These consulates were of utilitarian necessity to coordinate groups of merchants beyond the territory and resolve conflict between variations in law, culture, and language between foreign sailors and the host government (Berridge & James, 2003). Consuls were economic representatives who played a role as a mediator of conflict, protected merchants from deceitful treatment, and in some cases filled a magistrate role, especially under such governments as the Ottoman Empire. Though originally fueled by profits from private trade and a small commodity tax called the "consulate," the institution of maintaining a permanent commercial establishment overseas was the basis of the contemporary embassy (Rana, 2007).

Early Modern Period (1500s-1800s)

As European permanent diplomatic missions developed in the 16th century, the core area of diplomacy became concentrated upon high politics-war, peace, frontier conflicts, and dynastic marriages. However, economic interests never completely disappeared. 17th-century merchant-founded consulates were vital to safeguard commercial interests, and they were eventually absorbed into official control by governments (Bayne & Woolcock, 2007). Expansion of international trade and investment, especially by Britain, France, Germany, and then the United States, by the 18th century made commercial treaties valuable diplomatic instruments. Commercial treaties instituted legal frameworks for bilateral trade, with assurances of favorable tariffs, port facilities, and terms of investment. Modern economic diplomacy originated out of the growing significance of economic talks, which often outnumbered status and political influence for aristocratic lawmakers (Berridge, 2015).

The 19th Century: Expansion and Institutionalization

The nineteenth century witnessed the re-emergence of economic diplomacy as a cornerstone of state-craft. Several reasons brought about this phenomenon into prominence. Secondly, colonialism and the scramble for natural resources increased the significance of diplomacy in securing concessions for infrastructural construction, mining concessions, and construction of canals. Industrialization and more global capitalism led to rising foreign investments that necessitated diplomatic protection of foreign economic activity (Berridge, 2015). Third, greater interdependence between trade and politics blurred economic from political diplomacy (Bayne & Woolcock, 2007).

Historically, consular services developed from unofficial, privately financed agencies to professionalized, salaried institutions. The institution of commercial attaché-specialized officers dedicated to the advancement of trade and investment-reflected this development at the institutional level. The British Embassy Paris deployed the initial attaché in 1880, and this was immediately followed by France, Germany, and later, more reluctantly, the United States (Rana, 2007). Countries were diverse, though, in bureaucratic styles. A few employed the specialist commercial attaché model, which was specialized but undermined bureaucratic silos, whereas others deployed the diplomatic generalist mode, which was integrated but sacrificed trade specialization (Bayne & Woolcock, 2007). Both define the timeless challenge of expertise and integration in practice to diplomacy.

Early 20th Century: Strategic Economic Diplomacy

By the early 1900s, worries about geopolitical rivalry and national prestige were inextricably linked to economic diplomacy. The strategic nature of economic involvement was emphasized by German embassies' obsession with gig-capital projects like the Berlin-Baghdad Railway or access to vital resources like coal and oil (Berridge, 2015). Suddenly, embassies had to look to their host governments to implement policies that welcomed foreign investment, which led to reforms that were in line with the standards of Western capitalism (Bayne & Woolcock, 2007).

According to Berridge and James (2003), the diplomatic protection theory was a body of legislation that safeguarded governmental action in the form of foreign investment protection overseas.

However, in reality, this went as far as using coercion while disguising it as arbitration, demarches, or even war. Even while such compulsion had short-term economic benefits, its sole purpose was to provoke host nation rejections and strikes against economic diplomacy as an imperialist intrusion (Rana, 2007). This tension between economic protectionism and sovereignty has been a recurring theme in the evolution of economic diplomacy.

Mid-20th Century: World Transformations

The financial mobilization of World War I underscored the critical contribution of financial and material resources, while the 1930s Great Depression unveiled vulnerability in the lack of regulation of international trade. Post-war reconstruction with decolonization and the Cold War presented fresh circumstances in which economic diplomacy was sheer necessity (Berridge, 2015). The IMF, World Bank, and GATT (now WTO) embedded multilateral bodies to oversee trade and finance, putting economic interests within global governance structures (Bayne & Woolcock, 2007).

Foreign ministries thus had to legitimate their massive diplomatic machinery. Through communications and transport developments, the traditional rationale for mega-missions was temporarily discredited. Foreign ministries created their economic role to gain legitimacy through claims specifically on behalf of three groups of domestic constituents: multinational corporations, small- and medium-size enterprises (SMEs) looking for market penetration abroad, and trade associations as a go-between between state and firm (Institute of Foreign Affairs, 2002; Shrestha, 2010). The transformation followed the economic roles of embassies as central to their continued relevance.

Modern Age: Emergence of Non-State Actors

In the latter half of the 20th century and early part of the 21st century, economic diplomacy has also become marked by the role of non-state actors.

Today, non-state players have a significant influence on how government policies are formulated and cross-border diplomacy is handled. These actors include civil society organizations, transnational agencies, commercial associations, and global enterprises. According to Bayne and Woolcock (2012), these non-state actors are powerful organizations unto themselves and are not a complement to state diplomacy. Because of their involvement, economic diplomacy has moved from the purview of the state to a more networked, interactive process driven by interdependence and globalization.

Two general inferences can be drawn from development history timelines. First, although there are examples of high politics being the focus of diplomatic activity, economic issues have always been at the core of diplomatic practice and have evolved in line with the global political economy revolution. From colonial concession to multilateral governance, from unilateral consular practice to institutionalized state agencies, and from state-to-state ties to open networks with non-state actors, the notion of economic diplomacy has evolved over the decades. This pattern highlights the dynamic and combative character of economic diplomacy, which remains essential to the pursuit of national legitimacy, wealth, and power in the new global order (Lamichhane, 2023; Diplo, n.d.).

Trade and commerce have always been a significant aspect of diplomatic practice, as diplomatic economic history attests. Economic necessity formally established the structure and function of diplomatic missions, from the consular offices of Mediterranean civilization to the formal

establishment of permanent embassies in early modern Europe. Despite the fact that between the 16th and the 19th centuries, high politics tended to overshadow business, industrialization, colonialism, and international capitalism once again made economic aspects of diplomacy unavoidable, thus making commercial attachés and professionalized consular services a necessity.

Global occurrences like the Great Depression, World Wars, and the 20th century's decolonization highlighted the role of economics in politics. Multilateral economic diplomacy was developed by the establishment of international trade and economic institutions, and a plural and networked diplomatic sphere was ignited by rising corporate interest and civil society involvement. Economic diplomacy is now a strategic weapon used to achieve a wider range of foreign policy goals, from managing global interdependence to promoting sustainable development and safeguarding national sovereignty. Its primary objective is no longer to increase trade and investment.

This change demonstrates unequivocally that economic diplomacy is flexible and contentious. Its emergence has made it possible for governments and non-state actors to use economic weapons of power, as well as for conflicts between sovereignty, equity, and legitimacy to occur. These historical lessons should therefore be especially important for smaller and developing nations like Nepal: economic diplomacy should be used purposefully to further national interests in a more competitive and globalizing international system, not just to draw in investment and facilitate trade.

A Perspective on Economic Diplomacy from Nepal

Prior to the establishment of democracy in 1951, Nepal had some experience with fragmented, unplanned, and unorganized economic diplomacy. Although Nepal had a vigorous commercial policy in the 18th and 19th centuries, it otherwise paid little attention to fostering cordial international relations or creating an unofficial framework for economic diplomacy. The situation altered in the 1950s when Nepal began to strengthen its bilateral and multilateral relationships and embraced foreign financing and aid under an open-door policy. However, economic diplomacy was less sophisticated and comprehensive back then than it is now (Institute of Foreign Affairs, 2002).

Recently, Nepal has made a sincere effort to incorporate economic diplomacy into a significant portion of its foreign policy. Since poverty reduction lies at the heart of international initiatives like the Millennium Development Goals (MDGs), Nepal has integrated economic objectives more comprehensively into its foreign policy and diplomatic endeavors. Nepal is aware that in order to successfully secure economic diplomacy, it must employ competent officers and provide sufficient funding for its missions so that they can start playing active roles in promotional activities.

One of the regular objectives of Nepali missions overseas is the establishment and upkeep of economic ties with host countries. This involves bridging gaps and providing scopes for mutual interests to attain common benefits—a fundamental principle of effective diplomacy. According to the 2006 United Nations Development Report, Nepal is currently blessed with a comparative advantage in foreign trade in most of its labor- and resource-intensive product industries, which account for over 95% of its export manufactures (Nepal Trade and Competitiveness Survey, 2004). Pyakuryal (2004) further supplemented that Nepal has registered sizeable price-margin premiums on at least eleven export commodities within these industries.

Being a member of South Asian Free Trade Area (SAFTA), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), and the World Trade Organization (WTO), Nepal has reformed its regulatory and legal environment in accordance with the demands of liberalization and globalization. Membership in WTO, specifically, has brought novel market access opportunities for Nepal, increasing its trade capacity as well as propelling economic growth favorable to enhanced living standards.

To take advantage of these opportunities, Nepal has pledged to open up sectors such as restaurants, engineering, advertising, market research, and legal services to foreign direct investment (FDI). To achieve full benefits, however, from the rules-based trading system that the WTO embodies, Nepal will need to enhance its financial and technological capacity so that it can be more competitive in the world (Ministry of Foreign Affairs, 2008).

5. Discussion

Economic diplomacy, broadly speaking, is any kind of diplomatic activity that serves the economic interests of a country, directly or indirectly using financial tools for the achievement of specific foreign policy objectives. It has been a part of Nepal's foreign policy since the 1990s, which involved the promotion and development of labor, investment, production, mobility, and exchange of goods and services with foreign countries (Pokharel, n.d.). According to the research objective of establishing how Nepal has integrated economic diplomacy in foreign policy, this study confirms that Nepal has been employing available economic instruments to enhance national interests by employing incentives and sanctions that act to shape international economic relations at a global level.

State and non-state actors-businesses, investors, and NGOs-are as crucial to the formulation and implementation of Nepal's economic diplomacy. This also reflects one of the study's research questions concerning the role of non-state actors because their activities-whether in trade promotion, investment, or diaspora relationship building-have increasingly complemented gaps in government-led initiatives (Pokharel, n.d.). This blend of economic theory and diplomatic practice has thus been the foundation of Nepal's modern economic diplomacy, if imperfectly institutionally integrated.

South Asia's growing emphasis on economic diplomacy also justifies its applicability in Nepal. As an instance, the country's immediate neighbor India keeps economic diplomacy as a focal point in its foreign policy, with particular stress laid on the necessity of linking economic aims with broader political interests (Lamichhane, 2023). Looking at the study question of how economic diplomacy can be useful to Nepal in different manners, the country's experience illustrates that economic diplomacy extends beyond trade to promote foreign assistance, human mobility of labor, FDI, tourism, and overall development cooperation.

Despite post-independence and autonomy, Nepal remains one of the least developed countries and is unable to match the world's growth on economic grounds. Traditional diplomacy has not always been effective, therefore necessitating the adoption of a more dynamic economic diplomacy as a driving force for accelerated development. In today's topsy-turvy world order, Nepal's foreign missions must function as responsible custodians of Nepal's economic interests. Chronic problems-low capital endowment, poor foreign trade, weakening exports, increasing imports, and ineffective policy implementation-necessitate the need to upgrade Nepal's economic

diplomacy (World Bank, 2019). For instance, whereas 2019 imports were 42.38% of GDP, exports were a mere 8.93%, and there is a humongous trade deficit waiting to be tackled right away. Export promotion, Diaspora outreach, and investor confidence building are steps that must be taken towards bridging this deficit.

Consistent with the research objective to evaluate policy and practice, the evidence shows that Nepal must expand its investment promotion diplomatic missions, provide a legislative framework supportive of FDI, and deploy state-of-the-art negotiating and economic know-how to its diplomatic arsenal. Policymakers and practitioners both have recognized this need³. Comparative examples hold lessons. Switzerland's United Nations agencies in Geneva, which account for more than two-thirds of United Nations business operations, and Japan's economic diplomacy, are merely a few instances of the manner in which deliberate integration of economic diplomacy can be used to support global positioning. However, the nation's increasing trade imbalances are already being exacerbated by Nepal's ongoing problems with trade diplomacy with its neighbors. Therefore, the goals of the study point to the need for better coordination between ministries and non-state actors, the development of administrative competence,

Last but not least, this research shows that although Nepal has formally included economic diplomacy in its foreign policy since the 1990s, it is still in the reactive and dispersed stage of practice rather than the strategic and coordinated one. Nepal must prioritize operational coherence, institutional capacity building, and creative global initiatives based on its comparative advantages in order to fulfill the strategic imperative of advancing national development through diplomacy. Economic diplomacy can be a game-changer for Nepal's sustainable growth and inclusion into the global system, but it will only offer limited benefits without changes.

6. Conclusion

The goal of the study was to critically analyze how Nepal has adopted economic diplomacy as a foreign policy tool since the 1990s, how state and non-state actors have influenced its use, and whether economic diplomacy can be used to further foreign policy goals other than trade and investment. The findings show that although economic diplomacy is increasingly positioned as a mainstream tool of foreign policy for Nepal, its implementation is still burdened by structural deficiencies, institutional fragmentation, and inconsistent policy implementation.

To rectify these problems, collective dedication and long-term dedication on behalf of the government and non-state actors are called for. All-round organizational reform should be taken up by the Ministry of Foreign Affairs (MOFA) in order to establish efficiency, innovativeness, and preparedness in the Foreign Service. Reforms are in fact associated with the research objective of enhancing Nepal's ability to incorporate economic diplomacy more substantively into its foreign policy agenda. The second most crucial function is strategic choice of priority partner countries to get development aid, generate employment opportunities, enhance export business, and mobilize private investment-principles of Nepal's national development strategy.

3 Economist and former-ambassador Bishwambher Pyakuryal has argued that economic diplomacy is an essential aspect of Nepal's foreign policy but remains underemphasized, and former-commerce secretary Purushottam Ojha refers to the inability of the nation to properly protect its economic interests despite the recognized value of economic diplomacy (Lamichhane, 2023).

The participation of non-state players, such as the Confederation of Nepalese Industries (CNI), the Federation of Nepalese Chambers of Commerce and Industry (FNCCI), NGOs, and Nepali Diasporas, to advancing Nepal's economic diplomacy is the second research finding. The subsequent study question, which inquired about the degree to which non-state players impact the results of international economic diplomacy, likewise reflects this. To achieve maximum coherence and maximum impact, MOFA, the line ministries, business communities, and civil society must have stronger institutional support for coordination. In answering the third research question, which asks how economic diplomacy is used to further foreign policy objectives beyond economic gains, the study concludes that economic diplomacy helps Nepal not only with exports and foreign direct investment (FDI), but also with preserving its sovereignty, forming international alliances, and achieving long-term growth.

In order to achieve these wide goals, diplomatic missions overseas must proactively gather market intelligence to support evidence-based decision-making at home and build relationships with a wide range of host-country stakeholders, including political leaders, investors, and opinion leaders. In order to ensure that economic diplomacy continues to be a useful and strategic tool in the era of globalization and economic interdependence, Nepal will eventually be compelled to turn to multilateral and regional venues whenever things are not progressing on the bilateral route.

Nepal can make economic diplomacy the primary engine of development and global outreach by using its comparative advantages in hydropower, handicrafts, and medicine, as well as by choosing appropriate inter-ministerial coordination. This will not only solve its short-term economic woes but put economic diplomacy as one of its foreign policy mainstays in the long run on a pedestal of honor.

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