

*Report of the Policy Study Group*

on

NEPAL'S ECONOMIC  
DIPLOMACY



**Institute of Foreign Affairs**

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## Report of the Policy Study Group On Nepal's Economic Diplomacy

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## **Preface**

The Institute of Foreign Affairs undertook this project on Nepal's Economic Diplomacy as a follow-up to the recommendations made by the High Level Task Force (HLTF), which was empowered by HMG to make recommendations in revitalizing the Ministry of Foreign Affairs (MoFA) and promoting Nepal's economic diplomacy. The Report of the HLTF was submitted to the government in February 1996 and covered broad areas in strengthening MoFA's structural and operational mechanisms.

In the Report of the HLTF, three sections were specifically devoted to make economic diplomacy functional within MoFA's institutional framework. As part of the Ministry's operating mechanism, the Report proposed the creation of the Economic Relations and Coordination Division (ERCD) and envisioned its role in the following manner:

1. to contribute to the integration of national economic policies into Nepal's foreign policy goals and strategies;
2. to develop a sense of full partnership with the sectoral ministries and the private sector in the conduct of economic diplomacy;
3. to support planning and organizing of all the commercial functions and activities to be undertaken by the missions;
4. to monitor and facilitate the aid management and business promotion activities being carried out in Nepal by donor countries and international organizations;
5. to help strengthen the bilateral Joint Economic Commission and identify opportunities for regional and sub-regional cooperation; and
6. to facilitate vertical and horizontal coordination of economic diplomacy function being executed by the diverse economic decision making centers.

In order to avoid duplication of work, the Report of HLTF recommended mechanisms to ensure proper coordination and information sharing so that a close interface exist between MoFA, missions, the sectoral ministries and private sector in formulating a common strategy. It suggested that the ERCD should be headed by a Special Secretary, Economic Affairs, and assisted by a team of five Economic Affairs Officers working on a group of related sectors as follows: 1) transport, communications,

power, construction and urban development (or infrastructure) desk; 2) agriculture, forestry, natural resources, rural and local development desk; 3) industry, commerce, supplies and tourism desk; social development and human resource development desk; and 4) investments, macro-economic, capital and informal markets development desk. Since MoFA did not possess the qualified manpower to look after these specialized areas, the HLTF recommended that for a transition period of five years when and till MoFA can develop its own manpower, a Special Secretary and five Under Secretaries should be inducted into MoFA under deputation scheme to head the respective desks.

The two other sections of the Report were devoted to strengthening the mission for economic diplomacy. It included specific measures for both briefing and debriefing Ambassadors and Economic Counsellors, and suggested the creation of country-specific Business Plan to be formulated in consultation with the Bilateral Chambers of Commerce and Industry, the FNCCI and the ERCD. The Economic Counsellors were, in particular, required to play a pivotal role in this strategy by:

- ?? collating information on economic activities of Nepal and the host countries through a regularly updated data base;
- ?? gathering intelligence on business opportunities in the host countries;
- ?? promoting trade fairs, exhibitions, etc.;
- ?? serving as a lobbying point by helping to establish rapport with influential interest groups in the host countries; and
- ?? supporting systematic development of business related contacts by simplifying visa procedures and developing contacts with governmental bodies and business associations in host countries.

In order to meet the immediate needs of the country, the HLTF suggested that initially six posts (in addition to the existing one in New Delhi) at the Counsellor level should be opened in Missions that are already centers of our economic activity, or could possibly serve as a hub for such activities in a region. They include the United States, Germany, Japan, Hong Kong, United Kingdom and Thailand. As the first three areas were already of substantial economic importance to Nepal, it was felt that Economic Counsellor in UK could also cover the Nordic countries, while the one in Thailand could do the same for Southeast Asia and Australia.

However, soon after the Report of the HLTF was submitted some measures were taken to implement the economic aspects of the recommendations by establishing a Economic Relations and Cooperation Division (ERCD) and a separate International Business Forum (IBF) "for interaction between the Ministry and the private sector, including the community of foreign businesses established in Nepal." The ERCD was headed by a Joint Secretary of the Ministry and functioned as a division for about two and half years. Its other staff included three Under Secretaries, one of whom was seconded from the Commerce Ministry. Four meetings of the International Business Forum were held, chaired by the Foreign Minister. Participants in the meetings included representatives from the export sector, tourism industry, Ministries of Commerce and

Finance, in addition to the Foreign Ministry. The meetings were limited to preliminary exchange of views and did not produce any programs or plan of action for the future.

This initial thrust into economic diplomacy, somewhat partly based on the recommendation of the HLTF, was toned down when the ERCD was downgraded from a “division” to a “section” under the Foreign Ministry structure. The section now falls under the purview of the Joint Secretary heading the UN and International Organization and International Law Division, with only one Under Secretary looking after the matter. For a variety of reasons, the four new Economic Counsellors who were appointed to our Missions abroad on the basis of the recommendations of the HLTF were recalled and those posts cancelled.

Six years after the submission of the Report of the HLTF, Nepal seems to have come a full circle in recognizing that promoting our economic interests abroad and at home is vital to our national interest. Although policy makers continue to speak of economic diplomacy and the concept is still kept alive in the annual budget speech of the governments, the mechanism needed to realize the concept is no longer even close to what the Report of the High Level Task Force had envisioned.

This problem became apparent recently when the Institute of Foreign Affairs organized briefings for newly designated Ambassadors and both representatives from the sectoral ministries and the private sector emphasized the need to develop mechanism to promote Nepal’s economic diplomacy, not unlike the manner in which their views were reflected five years ago when the HLTF was commissioned to prepare its report. The general feeling in the briefing from the perspective of the sectoral ministries and the business community was that our Embassies are not yet equipped to deal with this aspect efficiently, whereas MoFA’s position has always been that there is a lack of resources and physical infrastructure to be actively involved in this area. However, the briefing also clearly brought out the fact that the business community-especially the carpet and garments industries-and the Nepal Tourism Board appear to be interested in committing some funds necessary to carry out a mutually beneficial strategy in promoting economic diplomacy.

Recognizing this need, the Institute of Foreign Affairs created the *Policy Study Group on Nepal’s Economic Diplomacy* composed of eminent personalities in Nepal from various fields to recommend to the government what practical measures are needed to make economic diplomacy a reality. Given the past experience, constraints, and the need to promote our economic interests, it requested the group to:

- ?? examine why the recommendations of the HLTF failed to have an impact earlier;
- ?? define clear objectives of Nepal’s economic diplomacy;
- ?? prescribe viable mechanisms needed to achieve the objectives;
- ?? identify targets that should be met and the steps needed to achieve them;
- ?? suggest mechanisms needed for periodic setting of targets as well systems needed for regular evaluation of activities for corrective measures;

- ?? examine how funds may be generated/organized for such activities; and
- ?? recommend any other matters they consider important to the theme of economic diplomacy.

The Institute is grateful to the members of the Policy Study Group for devoting their valuable time to produce this Report. In particular, it is indebted to the Convenor of the Group, Dr. Badri Prasad Shrestha, for guiding its work and meticulously preparing the Report. The institute also wishes to acknowledge the support of the countless number of participants to the Policy Study Group meetings (see, *Annex B*), without whose wholehearted support this work would not have been possible.

**Prof. Sridhar K. Khatri**  
Executive Director  
Institute of Foreign Affairs

## **Executive Summary**

### **1. Approach**

The present study has concentrated on practical dimensions of economic diplomacy, especially its implementation aspects. The institutional mechanism is, thus, designed to ensure proper communications, coordination and cooperation between sectoral Ministries and the Ministry of Foreign Affairs (MOFA), on the one hand, and meaningful partnership with the private sector, on the other hand.

### **2. Objective**

In the context of fast changing global policy on aid and trade, there is compelling reasons for reorientation and reformulation of our own policy perspective so as to make our economic diplomacy effective and meaningful. Whatever may be the contents of economic diplomacy with changing situation both at home and abroad, its underlying objective, however, remains the same as one of strengthening and expanding economic relations with friendly countries and international institution in areas of trade, tourism, private investment, technical and economic cooperation for promotion of national interest.

### **3. Institutional Mechanism**

The institutional mechanism as envisaged in this study is designed as far as possible within the existing system and institutions without any radical changes in the established structures and jurisdictional authorities on consideration that such mechanism can be readily absorbed and assimilated into the system, ensuring a fair chance of becoming such mechanism effectively operational. A few layers of the proposed mechanism consist of: (i) External Economic Relations and Coordination Committee; (ii) External Relations Consultative Committee; (iii) Economic Sections working together with the Multilateral and Economic Affairs Division; (iv) Restructuring of Missions; and (v) Economic Partnership Forum with well-defined functions of each for necessary communication, coordination and cooperation within and outside the government.

### **4. Communication**

Regular flow of information and feedback between the MOFA and the sectoral Ministries, on the one hand, and similar flow between the MOFA and its Missions, on the other, is a necessary pre-condition for a proper conduct of economic diplomacy. If the institutional mechanisms as suggested in this study are properly put in place and become operational, it is expected that there should be a regular flow of information and ideas on all current issues related to all five identified major areas of economic diplomacy. The type of information and data required and the forum in which they should be maintained and up-dated are also suggested.

## **5. Training**

Those who are presently assigned in the economic diplomacy-related sections of the MOFA should attend a least a month long intensive colloquium at the Institute of Foreign Affairs which, in its turn, should prepare both reading and reference materials for such colloquiums. For those who will be assigned in our Missions abroad in future, the Institute should also organise " Intensive Orientation" as and when necessary. In addition to such "one-shot-affair", the proposed consultative groups attached to the concerned Divisions of the MOFA are intended to work not only as a regular forum for mutual consultation and discussion but also as a medium for sharing mutual understanding and information on specific issues. The use of computer can facilitate the instant flow of information without any hitch.

## **6. Manpower**

The manpower composition as suggested in the study is not very much different from the existing one and as such does not increase significantly the financial liability of the government. Even if it is likely to increase significantly, such increase may be reduced in two ways – one by redeployment (re-allocation) of existing man-power on certain rational objective criteria and second, by looking into the possibility of integrating all residential, utilities and other personnel-related expenses of Mission into their salary and allowances as in some South Asian Countries, thus relieving the government of all ever – increasing liabilities on these accounts.

## **7. Financial Resources**

The additional functions and activities on account of economic diplomacy certainly need additional resources which may not be available to the extent required due to budgetary constraints of the government. Considering the growing pressure on regular budget, the additional resources required to invest in economic diplomacy with potentially high rate of return may be earmarked under the development budget as is done for financing similar activities of other sectoral Ministries. It may be argued that it makes no difference whether allocation is made under regular or development budgets as the required resources have to be drawn from the same pool of available total resources. But, while the entire regular budget is to be supported and funded from the revenue resources of the government, the development budget can, however, be supported and funded not only from the revenue surplus, but also from grant assistance, concessional external loans and domestic borrowing.

All this does not imply that there is no resource constraints, especially so at present. In order to overcome such resource constraints, several options can be explored. One is the private sector funding of special promotional activities in the area of trade, tourism, private investment, etc. A number of private sector organizations such as FNCCI, Carpet and Wool Development Board, Nepal Cotton Towel Exports Association and autonomous government agencies such as Nepal Tourism Board, Trade Promotion Centre, for example, have their regular income on substantial scale by virtue of the government authorization of collecting various levies and charges.

Besides, Embassies and Missions could generate some incomes of their own by organising various events or charging fees for providing specific services.

## **1. Basic Approach**

**T**he present study concentrates on practical dimensions of economic diplomacy, especially its implementation aspects. The institutional mechanism is, thus, designed to ensure proper communication, coordination and cooperation between sectoral Ministries and the Ministry of Foreign Affairs (MOFA), on the one hand, and meaningful partnership with the private sector, on the other.

Secondly, it is felt that if implementation of the major recommendations of the study of this nature requires major structural changes in the existing administrative set-up, and jurisdictional authority, involving significant additional resources and man-power, it will be difficult for the existing system to assimilate such recommendations for implementation. MOFA and its missions cannot conduct economic diplomacy in an effective manner without the necessary cooperation from, and coordination with the sectoral Ministries which, so far, have a great deal of reservations based on their perceived apprehension that their legitimate authority and functions are gradually being encroached upon or are likely to be usurped by MOFA in the name of economic diplomacy. Such apprehensions are largely due to lack of proper communications and misunderstanding of the actual role of MOFA and its Missions in economic diplomacy. The institutional arrangement for future should, therefore, be designed in such a manner as to ensure proper communications, coordination and cooperation between the sectoral Ministries and MOFA without any room whatsoever for misunderstanding, creating unfounded apprehensions. The proposed mechanisms for conducting economic diplomacy in a sustained manner is, therefore, designed with this practical perspective in mind.

Thirdly, economic diplomacy is essentially a process of mainstreaming economic dimension into our foreign policy perspective with the objective of further promotion of our economic interests with the cooperation of the outside world through well informed negotiation. Those who are involved in such negotiations should, therefore, be well-informed. Precisely for this reason, the mechanisms as envisaged in this study are intended to strengthen our system of "Communications and Coordination" along with in-house training as a process of "learning-by-doing". It is felt that regular and meaningful "Communications and Coordination" can considerably enhance our capability to conduct economic diplomacy in an effective manner.

Finally, it is felt that there should be some mechanism for forging a workable and meaningful partnership with the private sector for further promotion of trade, tourism and private sector investment in the country.

## **2. Objectives of Economic Diplomacy**

In the context of fast changing global policy on aid and trade, there is need of reorientation and reformulation of our own policy perspective so as to make our economic diplomacy effective and meaningful. Foreign aid, for example, is not likely to continue as the most attractive component of economic diplomacy partly due to declining ODA, shift from grant to loan and partly due to growing preference for funneling aid through INGO and local institutions. It is argued that with or without our own efforts, certain aid-flow will continue as part of the donor community's commitment to international cooperation. Here again the emphasis may have to be shifted from seeking only concessions to bargaining conditionalities based on the principle of recipient's development priority and sovereign equality. This needs considerable homework, adequate information flow and coordination among the sectoral Ministries, on the one hand, and sectoral Ministries and MOFA, on the other – all based on integrity, competence and motivated civil service.

As a corollary of the above, the increasing focus of economic diplomacy has to shift from aid to trade, tourism and employment generation, *with private sector playing the major role and MOFA and its Missions acting as facilitator*. Here again, a long-term perspective is needed with well defined objectives with country – specific strategy, so has to avoid *adhocism* with embarrassing results, particularly in bilateral trade relations as in the past. In the context of growing multilateral trading system within the framework of WTO, regional and sub-regional groupings, trade expansion need not necessarily be limited to commodities and may further be extended to services, especially in health and education, from where a country like Nepal with long-term vision and appropriate strategy can reap immense benefits.

Whatever may be the contents of economic diplomacy with changing situations both at home and abroad, its underlying objective remains the same as one of strengthening and expanding economic relations with friendly countries and international institutions in areas of trade, tourism, private investment, technical and economic cooperation for promotion of national interests. In order to achieve this objective, there is a need to evolve some mechanisms preferably from within the existing structures and institutions which together can:

- (a) contribute to the integration of national economic policies into Nepal's foreign policy goals and strategies;
- (b) develop a sense of full partnership among sectoral ministries and the private sector in the conduct of economic diplomacy;

- (c) support planning and organizing of all the commercial functions and activities to be undertaken by the missions;
- (d) monitor and facilitate the aid management and business promotion activities being carried out in Nepal by donor countries and international organizations;
- (e) help strengthen the bilateral Joint Economic Commissions and identify opportunities for regional and sub-regional cooperation;
- (f) facilitate vertical and horizontal coordination of economic diplomacy functions being executed by the diverse economic decision making centres.

### **3. Institutional Mechanism**

The institutional mechanism as envisaged in this study is designed as far as possible from within the existing system and institutions without any significant changes in established structures and jurisdictional authorities. We have chosen to do so on consideration that such mechanism can be readily absorbed and assimilated into the system, ensuring a fair chance of becoming such mechanism meaningfully operational. The various layers of the proposed mechanism is briefly described below.

#### **(i) External Economic Relations Coordination Committee (EERCC):**

At the apex of the institutional mechanism, External Economic Relations Co-ordination Committee (EERCC) is proposed. The EERCC is to be headed by the Prime Minister with Ministers of Finance, Foreign Affairs, Industry and Trade, Tourism and Labour, VC of National Planning Commission, Chief Secretary as its members. Ministers of other Sectoral Ministries may be invited at the meeting as and when required. The Secretaries of Finance, Foreign, Industry and Trade, Tourism and Labour Ministries will attend such meetings regularly, while Secretaries of other Sectoral Ministries may be invited when required.

Its primary functions are to ensure effective implementation of foreign aid policy of the Government, and take appropriate measures for promotion of external cooperation at the non-governmental level such as FDI, tourism, etc. In brief, the EERCC, will be the highest policy formulation, regulation, monitoring and evaluation unit of the government on economic diplomacy.

EERCC could meet on a quarterly basis or as and when necessary. The MOFA should serve as the Secretariat of EERCC and the Secretary of the MOFA should serve as Member-Secretary. Every meeting of EERCC should be preceded by a well prepared agenda and background information in consultation with the sectoral Ministries. In case the Prime Minister is unable

to preside over any meeting of the EERCC, he may ask the senior most member of the committee to chair the meeting.

**(ii) External Economic Relations Consultative Committee (CC):**

The decisions of the EERCC have to be implemented within the country through the line Ministries and outside the country through the Royal Nepalese Embassies and Missions. While the line Ministries have to play major roles for implementation within the country, the Ministry of Foreign Affairs along with its Missions has to play the major role for implementation outside the country. For effective coordination and communication, regular consultations (preferably on a quarterly basis) among the line Ministries including the Ministry of Foreign Affairs are necessary. The proposed Consultative Committee should be headed by the Cabinet Secretary with Secretaries of Finance, Foreign, Industry and Trade, Tourism and Labour Ministries as members and Secretaries of other Sectoral Ministries should be invited as and when required. As the Cabinet Secretary is already burdened with too many committees, it may be difficult for him to find time for the proposed CC. It may, therefore, be proposed that the Foreign Secretary can chair the CC. The Joint Secretary of the Multilateral and Economic Affairs Divisions (MEAD) of the MOFA will act as Member-Secretary.

The Consultative Committee will have three major functions. One is to keep the relevant line Ministries including Foreign Ministry fully informed of the policy, project and programme details of specific external assistance and relations in areas of trade, tourism, investment, employment and ODA and the problems, if any, encountered and the strategic steps to be taken to resolve the problems. Second is to provide necessary "feedback" to EERCC for taking appropriate policy decisions as and when required particularly in area of trade, tourism, foreign investment, employment generation outside the country, remittances etc. Third is to ensure consistent and coordinated approach to any specific bilateral/multilateral aid by the concerned agencies of the Government. It should also be a normal practice that in any bilateral or multilateral aid negotiation, the Finance Ministry should effectively involve the concerned Ministries and Departments as well as the National Planning Commission (at appropriate level) and Ministry of Foreign Affairs, separately or collectively, depending on the nature of aid and level of negotiation.

**Functions and Activities of External Economic Relations Consultative Committee (CC)**

- In the CC meeting, Finance Secretary should brief the members periodically on the government policy of external assistance, on-going assistance programmes by major sectors and sources of assistance, utilization of external assistance, problems in external assistance, priorities of government, expected role of our Embassies and Missions in further promotion of external assistance etc. Such periodic briefings, while keeping the concerned Ministries fully informed, will be helpful primarily in two ways. First, it will ensure*

- consistent and coordinated approach of all concerned agencies of the government to a particular bilateral or multilateral aid package, thus avoiding conflicting or even contradictory views of different government agencies. Secondly, such briefing will be the necessary inputs to the MOFA and through it, to Embassies and Missions while conducting economic diplomacy in a correct perspective.*
- 2. Likewise, the Secretaries of sectoral Ministries related to trade, tourism, foreign investment, foreign employment will periodically brief at the meeting on the current policies, future strategies, problems and prospects. If any concerned Secretary so desires, the meeting may take a decision for its presentation at the meeting of EERCC or at other appropriate levels either for resolving any specific problem or for further improvement in areas as specified above. Such briefing will be extremely helpful especially to MOFA which has to provide necessary guidance and instruction to its Embassies and Missions for further promotion of tourism, trade, investment and employment.*
  - 3. Record of the meeting should be transmitted to Missions abroad with follow-up instructions by MOFA.*

**(iii) Economic Sections:**

Learning from the past, it is felt that the new responsibility of economic diplomacy can be conducted effectively in a sustained manner only when the mechanism designed to assume such new responsibility is developed from within the system itself. Therefore, for smooth assimilation by the present system and structure, it is proposed that the existing five Divisions (other than Administration and Protocol Division) will have separate sections under each Division (may be called "Economic Section") with a skeleton staff of one Under Secretary, two Section Officers and one Computer Operator in each, at the beginning, to be selected and assigned from among the present staff (present *Darbandi*) of the concerned Division itself, thus avoiding the need to hire or bring in anyone from outside the Ministry. Each one of these five sections will have a "Consultative Group" headed by the Joint Secretary of the Division, and Under Secretary of the section and the representation at the Joint Secretary/Under Secretary level from the concerned Ministries/Departments as shown in the schematic presentation below. The Consultative Groups may meet regularly once in a month or as and when necessary to deliberate on well-structured agenda worked out well in advance in consultation with the representatives of other Ministries/Departments. The representatives from the Ministries may preferably be selected from those working in Planning/Programming Division of the Ministry and once selected and deputed may be continued unless some compelling reasons warrant change. For regular and effective representation, EERCC headed by the Prime Minister may also give standing instruction to the sectoral Ministries for meaningful representation at the Consultative Groups. Association with such Consultative Groups may be attractive, if the Ministry representatives at the Groups are also given opportunity of assignment in our Missions as Economic Minister/Councillor in certain number or proportion.

Since as many as five Economic Sections work separately and limit themselves to their respective areas of responsibility, there is a clear need of an agency within the MOFA for coordination and assimilation of their work into an integrated whole, serving as a primary basis for planning within the MOFA and as necessary "feedback" to our Missions abroad. It is, therefore, proposed to create a Multilateral and Economic Affairs Division (MEAD) headed by a Joint Secretary. The Division will look after economic issues of multilateral nature and also assist Foreign Secretary in discharging his responsibility of overall coordination and integration of work of five subject-wise Economic Sections to be located in the existing five Division of the MOFA.

During our interaction with various groups, it was suggested by some former government officials that instead of Consultative Groups as proposed above, at the Joint-Secretary level, it is better to constitute separate committees under the Chairmanship of the Secretary of economic Ministries. It was proposed that committees should be located in concerned Ministries and represented by the Secretaries of concerned Ministries and MOFA along with private sector representation. While the suggestion of this nature apparently may have the merit of making the sectoral Ministries feel that they are also the part of the process and their authority and functions are not affected in any manner, such committees, (at least five in five identified areas) may only duplicate what the proposed "External Economic Relations Consultation Committee" (CC) is assigned to do. Secondly, the proposed Consultative Groups attached to the functional economic sections are designed more for serving as a bridge and channel of communications between the sectoral Ministries and MOFA. For the function of this nature, it does not appear appropriate or necessary to involve Secretaries. After all, Joint Secretary level group/committee should not be undermined and one can strengthen an institution only when individuals working at various levels of the institution are also involved and assigned responsibilities with corresponding authority. Those working now at the lower level can work well at the higher level only when trained properly at the lower levels.

**Functions and Activities of Economic Units, MOFA**

1. *Annual Programme for Embassies and Missions in respective areas with as much specific details as available along the lines of other sectoral Ministries' programmes or using the format prepared by the National Planning Commission for the same.*
2. *Embassies/Missions should be notified to send their annual programmes by using the format provided to them and following the guidelines for the same.*
3. *Programmes received from the Embassies should be scrutinised, processed and approved and the approved programmes should be transmitted to the Embassies with necessary instructions. Before approval, it is necessary to*

- ensure necessary funding for implementation from HMG Budgetary allocation, private sector assistance, Embassy's own resources, as appropriate.*
- 4. Quarterly monitoring of the progress of the Embassies and evaluation of the progress, using NPC formats with modifications, if necessary*
  - 5. Identification of the problems in implementation, if any, and measures for resolving them in appropriate manner.*
  - 6. Transmission of information and data requested by the Embassies and Missions.*
  - 7. Updating of information and data on related areas.*
  - 8. Updating of policy decisions, changes in laws and regulations etc.*
  - 9. Preparation of handbook, incorporating all relevant information, data, laws, regulations, policies relating to concerned area.*
  - 10. Preparation of agenda and other relevant documents for regular Consultative Committee meetings, minuting of such meetings and necessary follow-up of such meetings.*
  - 11. All Government and private sector publications related to the concerned area should be collected and properly maintained with electronic cataloguing.*

**Functions and Activities of Economic Co-ordination Unit, MOFA**

- 1. The primary responsibility of this unit is to act as a secretariat of Foreign Secretary to discharge his responsibility of co-ordination and integration of works of five subject-wise Economic Sections.*
- 2. To act as a secretariat, it should keep in constant touch with five Economic Sections, collect regularly, on a periodic basis, information from them, using standardised formats.*
- 3. Electronic compilation and storage of all such information in a systematic manner.*
- 4. General analysis of such information, highlighting trends, areas of improvements and deterioration etc.*
- 5. Transmission of relevant information with analysis to Embassies and Missions.*
- 6. Finalisation of annual programmes of the MOFA as well as those of Embassies and Missions with proper analysis of their financial and other implications after receiving all of them from five Economic Sections.*
- 7. Transmission of the approved programmes to the concerned Embassies and Missions with necessary instructions and background information.*
- 8. Monitoring of the implementation of the approved programmes of MOFA as well as those of Embassies and Missions in coordination with Economic units.*
- 9. Evaluation of the progress and problems in implementation.*
- 10. Measures to be taken to resolve the problems and necessary instructions to Embassies and Missions in this regard.*

**(iv) Restructuring of the Mission:**

The major functions of the Mission should be prioritised in favour of further promotion of economic relations with the countries concerned both at the

government and non-government levels. Obviously such relations will have to be strengthened and expanded in areas of trade, tourism, investment and loan and grant assistance, as appropriate. The Missions can carry out such functions efficiently and effectively only when they have the necessary man-power with necessary skill, knowledge and experience and also the regular "feedback" and specific instruction from the Ministry of Foreign Affairs. For reasons of budgetary constraints alone, it is not possible to restructure all our Missions at a time, nor is such restructuring even necessary in all Missions. Such restructuring may be initiated on a priority basis.

Given the limitations of man-power and budgetary allocations, it is strongly felt that the economic diplomacy may be initiated, in the short run, in a few well-prioritised countries with well-focused country – specific objectives and targets backed by adequate support of resources, trained man-power and information and data-base. This appears to a very pragmatic approach. Such gradual approach will help in speeding up the process in future with better prospect of success as more experience will guide the expansion with all necessary corrective and improvement measures. This approach has also the merit of making the best use of available resources and man-power.

The Nepal Tourism Board, for instance, has already identified 12 focus countries with great potential for tourism promotion. Among the 12 focus countries, US, UK, Germany, Japan and India are considered as first priority markets, whereas Holland, France, Spain, Italy and Australia, as second priority markets with China and South Korea as countries to be targeted as having immense tourism potential.

In a similar manner, potential countries may have to be identified on a priority basis for further promotion of private investment, employment opportunities, export trade and official development assistance.

It is strongly felt that our Embassies and Missions should have a cell or a specialised "desk" exclusively designed for tourism promotion. If not possible to establish such exclusive desk on consideration of cost and man-power, the officer, whether designated as Economic Councilor or Minister, should be entrusted with the responsibility of tourism promotion as well in addition to his other responsibilities of economic diplomacy. As it is not possible for one man to discharge all responsibilities in an effective manner, it is suggested that Embassies/Missions should consider, appointing as many "honorary consuls" as may be appropriate in 12 priority – countries, taking into account the specific needs of the country. The responsibilities, authority, honour and other facilities of the "honorary consuls" should be reviewed and redefined, if necessary, to make them effective along with a well-defined criteria for appointing honorary consuls. Such review and redefining need not necessarily involve additional financial liability to the Government. It is further suggested that where there are PR appointed by Nepal Tourism Board as well as "honourary consuls", there should be coordination between the two in respect of tourism promotion and other aspects of economic diplomacy.

It is a general feeling that the selection of persons for posting in Embassies/Missions with economic functions should be based on well defined objective criteria of competence and experience along with similar objective criteria for periodic evaluation of their performance in terms of positive results in investment flow, export volume and value, or other quantifiable indicators.

What matters most is not the number of persons and budgetary support, but quality of persons and proper allocation of resources on the basis of well-defined country specific objectives and targets. In this respect, selection of persons to be posted in missions should be guided by no other considerations than those of competence, experience and motivation to be determined again by the objective criteria for screening and scrutiny.

Suggestion is often made to select appropriate officials from the relevant sectoral Ministries for posting as Economic Counsellors/Ministries in our missions. Implementation of this type of suggestion has to encounter a number of difficulties. In the first place, an official, for example, from the Ministry of Industry Trade and Supplies, well versed in trade and industry related issues need not necessarily be well versed in, say, tourism and ODA related matters. This means that each major component of economic diplomacy may need separate officials from separate sectoral Ministries. On cost consideration alone, such arrangement may not be sustainable even if the concerned sectoral Ministries are prepared to bear all the costs of posting their officials to the Missions. As a matter of fact, it is too expensive to maintain one additional post (more so of higher post such as Economic Minister/Councillor) in a mission. Whether borne by the concerned sectoral Ministry or MOFA, the ultimate financial burden will fall on national treasury which is already in a strait-jacket with many claims beyond its capacity. Secondly, if the economic functions are entrusted to the officials of the sectoral Ministries in our missions, the loyalty of such officials is likely to be more to their own respective Ministries than to the Ambassador who holds the ultimate of responsibility of running an Embassy/Mission abroad in a way it should be, following all rules, regulations and directives. In other words, there is a great possibility of conflict of interests as well as class of dual loyalties. Thirdly, it is not necessary that an economic Minister/Councillor in a mission should be a specialist or specialists with highly specialised and sophisticated knowledge and know how in one or all major components of economic diplomacy. Normally, an individual, however brilliant and versatile, can hardly be a rated specialist in as many diverse areas as our economic diplomacy has to look after. As a matter of fact, the major and decisive actors of economic diplomacy are the actual implementers and operators such as traders, tourist operators, travel agents, industrialists, investors, employers, and decision makers, not the economic Ministers/Counsellors of Embassy/Missions whose function is only to facilitate the process to be initiated or already initiated by those actual operators and implementers, in acting as medium

of communication, coordination, consultation, persuasion, confidence and credibility – building where and when needed. What is, however, needed as a "minimum qualification" for an economic Minister/Councillor is a capacity of general understanding and communication with strong motivation and common sense backed by adequate feedback of information and instruction.

While there is need of local variation, the man-power composition of a typical Mission (Embassy) may be tentatively suggested as follows :

1. Ambassador, providing overall leadership and acting as a co-ordinator.
2. Minister, assuming responsibility of government level cooperation.
3. Economic Counsellor, assuming responsibility of private sector trade, tourism, investment and economic intelligence.
4. Attaché, assuming Consular responsibility along with book-keeping.
5. Local Staff, as necessary.

**Economic Functions and Activities of Embassies/ Missions**

1. *Embassies/Missions should maintain systematically and electronically information, data, policies, laws and regulations related to overall economy, trade, tourism, foreign investment, foreign employment, official development assistance etc.*
2. *In order to do so, Embassies/ Missions should request concerned Economic units of MOFA or directly the concerned agencies of HMG for necessary information and data.*
3. *Likewise, Embassies/Missions should maintain systematically and electronically information and data of countries where Embassies/Missions are located/accredited on overall economy, trade, tourism, foreign investment, official development assistance policy, employment policy of foreign nationals and other areas of interest to Nepal such as NGO/INGOs cooperation and assistance.*
4. *Preparation of annual programme of the Embassy using the format provided by MOFA and following the instruction for the same and submission of the same to the MOFA (while preparing such annual programme, it is necessary to prioritise the country-specific programme with best potential and best prospect for success. For example, in country A, employment opportunity for Nepalese may be the single most important programme to be pursued with all seriousness, while in country B, tourism promotion may be the single priority area)*
5. *Implementation of the approved annual programme and reporting the progress in approved formats on a quarterly basis to MOFA.*
6. *Any problem of implementation should be duly explained to the MOFA, seeking guidance or instructions so as to avoid the need of making such*

*problems as an excuse for non-implementation or slow-implementation of the approved programmes.*

(v) **Economic Partnership Forum**

It is neither possible, nor is even desirable to conduct economic diplomacy in an effective manner without the active partnership with the private sector, representing the major segments of our economy. In the context of growing importance of trade, tourism and foreign direct investment as engines of economic growth, the promotion of private sector interests is virtually tantamount to promotion of national interests. The private sector can promote its interests effectively only when facilitated with appropriate public policy measures and administrative mechanism. Somehow and in some way, the private sector interests should be fully mainstreamed into the entire process of public policy formulation and implementation.

For forging such partnership needs some institutional mechanism. Any such mechanism to be workable and sustainable should be effective in the sense that it should be more than a mere formality. The private sector should feel that their views are duly reflected in government policy articulation and implementation, both at home and abroad. Secondly, the consultation and interaction with the private sector should go far beyond a general exchange of views and be very specific to a given issue in terms of analysis of problems and prospects resulting in concrete input to government policy formulation and implementation. Third, the private sector should be duly represented, at appropriate stages, in the process of policy formulation affecting trade, tourism, private investment and even in aid-negotiation and other areas of economic development. It is, therefore, proposed to establish within the Ministry of Foreign Affairs a permanent "Economic Partnership Forum" with high level representation of business organizations such as FNCCI, Chambers, commodity organizations etc along with the government representatives from the relevant Ministries (e.g. Trade, Tourism, Industry, Labour, Finance, Planning, Water Resources etc). The representatives of both the government and the private sector, once nominated, should attend the forum in person.

The forum will meet regularly on a quarterly basis (or as and when necessary) with concrete agenda on specific problems and prospects of tourism, trade, investment etc in consultation with the government and private sector representatives. In order to develop the outcome of the forum into a concrete policy package or proposal, further studies and exercises may also be required and for this, some additional fund may be required to hire experts and consultants. Some mutual arrangements may be worked out for joint funding of such works by the government and the private sector.

It is argued that the International Business Forum, which came into existence on the recommendation of the High Level Task Force, eventually failed

to function effectively partly due to conflict of interests between the MOFA and the Ministry of Industry and Commerce and partly due to the absence of well-defined tasks of the forum and issue oriented specific agenda. If the absence of well-defined functions and issue-oriented discussion is to be rectified for forging effective partnership with the private sector in conducting economic diplomacy in future either through IBF or through similar other mechanism, the possibility of any conflict of interests between the MOFA and line agencies should also be minimised. If the role of the MOFA is limited to that of a facilitator, not implementers, there is probably no reason why there should be any conflict of interests with the line agencies or with the private sector which are the actual implementers and operators. The cooperation and coordination between the MOFA and line agencies and private sector are necessary for the simple reason that the later entities are the primary sources of feedback and information for the former to act as a facilitator.

**Functions and Activities of Economic Partnership Forum**

1. *Foreign Secretary should constitute the Economic Partnership Forum in consultation with the Secretaries of the relevant sectoral Ministries and private sector organization such as FNCCI, Commodity organizations, and other representative bodies related to tourism, trade promotion, foreign employment, private foreign investment etc.*
2. *Foreign Secretary calls the meeting of the Forum regularly on a quarterly basis or as and when necessary. For this the Multilateral and Economic Affairs Division (MEAD) should be asked to finalise agenda of the meeting in consultation with the private sector representatives in the Forum and make necessary preparation with adequate background information and analysis well in advance.*
3. *The Forum meeting should be held as many times as necessary in connection with the formulation of annual programmes of the MOFA as well as those of the Embassies and Missions for promotion of tourism, trade, employment opportunities, private investment and official development assistance.*
4. *Such meetings should lead to formulation of concrete programmes with specific and quantifiable targets, where appropriate, with all details of financing mechanism, sources of fund, and other inputs required for implementation. More importantly, the role and responsibility of the government and the private sector regarding the implementation of the agreed programmes should be specified without any ambiguity.*
5. *Other meetings of the Forum should focus on government "Policy" regarding tourism, trade, foreign employment, investment with the objective of further promotion and progress in those areas. For such meetings, it is preferable to request the private sector representatives to identify the areas where policy improvements are considered desirable and also the Embassies and Missions for their suggestions so as to make their own efforts and activities more effective and meaningful in five identified areas.*
6. *The Forum may also consider commissioning of some studies to identify the problems as perceived in countries where we have our Embassies and Missions in areas of trade, tourism, investment and employment.*

7. *It is absolutely necessary to ensure that the suggestions and decisions of the Forum are duly presented at appropriate levels of the government including EERCC for necessary actions.*
8. *The Forum should also discuss the implementation of the annual programmes, especially by the Embassies and Missions, so as to make it more effective in future.*

(iv) Schematic Presentation

#### **4. Communications and Co-ordination**

A proper "communication and coordination" can contribute much towards making economic diplomacy effective. Regular flow of information and feedback between the MOFA and the sectoral Ministries, on the one hand, and similar flow between MOFA and the Missions on the other, is a necessary pre-condition for a proper conduct of economic diplomacy. Likewise, regular interaction, and exchange of ideas and information between the MOFA and the private sector in Nepal, on the one hand, and the similar exchange of ideas of information and interaction between the Missions and private sector of the concerned countries, on the other, is equally important. The feedback between MOFA and sectoral Ministries and private sector is to be based on current issues, specific problems, specific policy and strategy to be pursued regarding each major component of economic diplomacy such as tourism, trade, investment, ODA and employment. All this requires frequent meetings and interactions at appropriate level on the basis a specific agenda with all necessary background information and analysis put together in the form of a "paper" in advance. The outcome of such meetings has to be promptly communicated to the Missions if considered necessary. For instance, a proper "communication and coordination" can contribute much to promotion of tourism. It is suggested that all promotional materials and information should better be provided directly by the NTB to our Embassies and Missions and other promotional activities may also be carried out by the NTB in cooperation with the concerned Embassies and Missions. For this, there should be some understanding between MOFA and NTB on "modus operandi" under which MOFA may give standing instruction to Embassies to facilitate and work together with NTB for tourism promotion in concerned countries. Secondly, inquiries regarding visa, frontier formalities, and other tourism related matters should be promptly responded by the Embassies/Missions if they know the answer and if they cannot answer, they can advice to contact the NTB or to visit website address.

Likewise, all other information related to trade, aid, investment, employment and other economic issues may be transmitted to Embassies/Missions on a regular basis directly by the Multilateral and Economic Affairs Division (MEAD) of MOFA on the basis of "feedbacks" from sectoral Ministries and interactions at the Economic Sections of MOFA. The Embassies/Missions should also inform the MOFA of their specific needs for conducting their economic functions in a meaningful manner.

If the institutional mechanisms as suggested in the report are properly put in place and become operational, it is expected that there should be a regular flow of information, and ideas on all current issues related to all the five identified major components of economic diplomacy as defined in operational terms. But there should be certain minimum stock of knowledge, information and data to be replenished regularly to make it up -to-date, both at the MOFA and Missions.

## **5. Training and Communications**

Economic diplomacy cannot be conducted properly without qualified manpower to execute its objectives effectively. In a way, those who are involved in conducting economic diplomacy should have a general understanding of the government's development policies, especially in trade, investment, tourism, foreign aid and other sectoral areas and related laws and regulation. To begin with, those who are presently assigned in the economic diplomacy-related sections in the MOFA, should attend at least a month long intensive colloquium at the Institute of Foreign Affairs on various aspects of the Nepalese economy and its interaction with the outside world on the basis of well-structured "Contents of the Colloquium". The Institute will prepare both reading and reference materials for such colloquium in advance. These reading and reference materials will also be sent to our Missions abroad with specific instruction to make their best use for updating the knowledge of those working in our Missions. On cost consideration, it is not advisable at present to invite those working in our Missions for training here in Kathmandu. But those who will be given assignment in our Missions in future should attend "Intensive Orientation" programme to be conducted by the Institute as and when necessary. Besides, for refreshing and updating the knowledge and understanding, periodic colloquiums of short duration may also be organized by the Institute. As the Institute has at present only a skeleton staff, all such colloquium and orientation programmes can be conducted only with the cooperation of the concerned Ministries and Departments of the government and their senior officers to be complemented, if necessary, by the knowledgeable persons from the private sector. Even for the preparation of a standardised "Contents of Colloquium" and Orientation, the Institute needs to hire the necessary expertise both from within and outside the government. Brief outlines of such "Contents of Colloquium" are presented in *Annex A* of this Report.

For standardization of the orientation, colloquium and communications on a long-term regular basis, it is equally important to prepare "Manuals" which should be comprehensive enough not only in terms of the necessary subject matters but also in terms of procedures and practices. It is proposed that the Institute of Foreign Affairs should be assigned this task, with the subsequent responsibility to update the "Manuals" periodically. Such "Manuals" will serve as ready reference and standard guidelines to our Embassies and Mission as well as to those conducting orientation and colloquium on economic diplomacy.

The proposed colloquium and orientation programmes may be considered only as "one shot affair". The proposed consultative groups attached to the concerned Divisions of the MOFA are intended to work not only as a regular forum for mutual consultation and discussion but also as a medium for sharing mutual understanding and information on specific issues. On top of all, those working in the economic diplomacy related sections should take initiative, as part of their daily duty, to collate necessary information from the concerned "contact persons" of the Ministries and Departments to keep themselves fully abreast of the latest development. The use of computer has facilitated the instant flow of information

without any hitch. Those who will be deputed to represent the Ministry/Department at the consultative groups should also be the "Contact person" in the concerned Ministry/Department. Preferably such "Contact person" should be someone working in the Planning/Programme Division of the Ministry/Departments. It is also be noted that the contact person of the Ministry/Department may not be changed unless warranted by some compelling reasons. This will maintain continuity as well as consistency.

## **6. Budgetary and Man Power Implications**

The suggested man-power composition is not very much different from the existing ones and as such does not increase significantly the financial liability of the government. Even if it is likely to increase significantly, it may be reduced in two ways – one by redeployment (reallocation) of existing man-power on certain objective criteria and second, by looking into the possibility of integrating all residential, utilities and other expenses of Mission members into their salary and allowances and relieving the government of all liabilities on these accounts.

As the Table below shows, one-third of the total budget for 2058/59 is allocated for rent and utilities which include largely the expenses on account of the rent, telephone, household goods, heating fuel and similar other items of Ambassador and other Nepalese staff of the Embassies. In Tokyo, such expenses of other Embassies of South Asian Countries (Pakistan and India for example) are not borne by their respective governments. They are borne by the Embassy officials themselves from their respective salaries and allowances. Such salaries and allowances are, however, determined in such a manner as to include the reasonable expenses on account of rent and other permitted items on the basis of cost of living and price index of relevant capitals. It appears that such system has obviously several advantages. One is that it substantially limits the cost of maintaining the staff within reasonable limits and avoids waste. Secondly, it reduces by at least two-thirds the Embassy work of book-keeping and accounts. Thirdly, it also avoids the usual problem of striking a difficult balance between stringent budgetary constraints and ever growing claims of the staff for meeting their own needs. And, above all, it will certainly help in maintaining a harmonious relation among the staff members, especially between Embassy staff and the Ambassador who should always be on guard to ensure that the overall Embassy expenses do not exceed the budgetary allocations under various heads.

### **Budget Allocation to Embassies for FY 2058/059**

Rs in '000

<b>Budget Heads</b>	<b>Amount</b>	<b>%</b>
Salary	138825	24.93
Allowance	143500	25.76
Travel Allowance	12000	2.15
Rent & Utilities*	188960	33.93
Others	73680	13.23
<b>Total</b>	<b>556965</b>	<b>100.00</b>

\* Includes water, electricity, telephone, other services, rent, maintenance & repair, other goods, books and newspaper, fuel for other uses.

But the additional functions and activities of the Missions on account of economic diplomacy certainly need additional resources which may not be available to the extent needed due to budgetary constraint of the government. Considering the growing pressure on regular budget, the additional resources required to invest in economic diplomacy with potentially high rate of return may be earmarked under the development budget as is done for financing similar activities of other sectoral Ministries. The normally established criteria for claiming fund allocation under the development budget, however, require concrete project proposal without recurring liability but with specific activities aimed at further promotion of tourism, trade, investment, employment opportunities and official development assistance. If allocation is made under the development budget for eligible components of economic diplomacy, there could be a better prospect for mobilizing external support also for the same. If a number of similar activities and programmes have been receiving fund from the development budget, it appears that there is no reason why concrete and specific programmes of economic diplomacy with well defined objectives and potentially high rate of return should not be eligible for inclusion in the development budget. It may be argued that it makes no difference whether the funding of activities for promotion of trade, tourism, investment, employment etc is made under regular or development budget. After all, the required resources have to be drawn from the same pool of available total resources. While the entire regular budget is to be supported and funded from the revenue resources of the government, the development budget can, however, be supported and funded not only from the revenue surplus, but also from grant assistance, concessional external loans and domestic borrowing.

All this does not imply that there is no resource constraint on the part of the government, especially so at present. In order to overcome such resource constraint, several options can, however, be explored. One is the private sector funding of special promotional activities such as Nepal trade fair, (general and specific products group) lobbying for promotion of a particular commodity in a particular country (e.g. garment in US, carpet in Germany), consultation and interaction programme with potential investors, business representatives, potential employers of Nepalese etc organised and sponsored by the Embassies/Missions independently or preferably, with the concerned representatives from FNCCI and other Nepalese industry and business community. FNCCI may finance such promotional activities from its own income such as fees from issuing "certificate of origin", for example. Secondly, part of the government earnings from export service duty may also be earmarked for export promotion activities by the Missions and such resources may be channelised to Embassies directly through MOFA or Trade Promotion Centre.

Likewise, if the Embassies/Missions could present specific proposals, for example, for sponsoring visit of press and media group, cultural troops, Travel and Tour Agents group to Nepal for promotion of tourism, the costs involved in sponsoring such visits could be borne entirely by NTB of Nepal. After all, all the income from 2 percent tourism sales contribution (TSC) charged by hotels, travel agents and tour agents goes to NTB for tourism promotion.

*Some examples of present resources of the private sector*

- ?? *FNCCI is authorized to charge 0.12 percent of FOB invoice while issuing certificate of origin.*
- ?? *Carpet and Wool Development Board charge Rs. 2 per sq. meter for GSP Form A.*
- ?? *Similarly Trade Promotion Center charge Rs. 15 per set for the GSP Form.*
- ?? *Garment Association of Nepal Charge 10 to 20 paisa per piece for recommendation to Custom on export of garment to EU.*
- ?? *Nepal Cotton Towel Exporters Association charges 20 paisa per kg on some category of Towels for recommendation to export to USA.*
- ?? *Nepal Tourism Board received all income from 2 percent charge on bills of hotels, travel and tour agents registered with VAT offices.*
- ?? *There may be other charges and fees collected by different semi-government and autonomous voluntary organizations which are directly related with economic promotion abroad.*

Thirdly, the Embassies may be entitled to retain part of their income from Consular activities exclusively for financing promotion of Nepal's economic interests on the basis of well conceived promotional activities with the approval of the MOFA. Additional resources made available for financing such promotional activities from all sources as mentioned above should be governed by a well defined procedure for ensuring transparency and accountability.

Embassies and Missions could generate some incomes of their own by organising various events such as "Single Country Show" which may take various forms like Nepalese handicrafts exhibits, Carpet, Garment or other Nepalese products. Such country show may be combined with routine gathering such as "national day function" or Dashain feast, etc.

The economic interests of the country can also be promoted on a significant scale with minimum costs through extensive outreach of public relations through various medium such as the resident Nepalese, Honourary Consuls, travel agents, tour promoters, Nepal-related business houses and friends and well-wishers of Nepal. What is, however, required for all this is the dissemination of proper information and frequent contacts and interactions with all these possible channels.

As a source of creating additional fund for conducting economic diplomacy, it is suggested that the Embassies/ Missions may be authorised to

collect fee at certain rate for the services that they provide to private sector in the form of market survey, business, representation, dispute settlement, trade fair, etc.

The operational difficulties of the suggestion are such that, in the first place, it is difficult to determine the rate of service fee and secondly, even if the rate is fixed as certain percentage (10-12 %) of the total cost of the service rendered, the problem of finding fund for meeting the major part of the total cost remains unsolved. As suggested above, a practical way out is to workout specific project such as market survey, tourism promotion, investment opportunities etc in consultation with the concerned parties and implement the same with all the agreed cost of the project to be borne by the beneficiary parties. Alternatively, specific project proposal, if submitted to the Embassy for implementation by the private parties without any liability to the Missions, can be implemented by them.

## **7. Action Plan**

## ***Annex A***

### **Contents of Colloquium:**

#### **(i) Macro Economic Situation :**

Periodic Plans and their Salient Features, Gross Domestic Product, Gross Domestic Saving, Investment, Current Accounts, Balance of Payments, Inflation, etc.

#### **(ii) Trade :**

Trade Policy, Basic Import and Export Procedures, Highlights of Trade Agreements with other countries, Main features of Trade and Transit Treaties with India, General understanding of SAARC PTA, SAARC Free Trade Area, WTO Membership and Their Implications.

Direction of Foreign Trade, Major Export Items to India and other countries, Major Import Items from India and other countries.

#### **(iii) Industry and Investment :**

Industrial Policy 1992, Foreign Investment Technology Transfer Act 1992, Foreign Investment and one Window Policy, Industrial Enterprises Act, 1992, Foreign Investment in Nepal, Potential Areas for Foreign Investment.

Production of Manufacturing Commodities, Capacity Utilization of Some Selected Industry.

#### **(iv) Tourism :**

Tourism Policy, Frontier Formalities, Trekking Formalities, Mountaineering Expedition Regulation, Tourist Arrivals and Length of Stay, Tourist visit by Purpose, Tourist Arrival by Major Country and Region, Hotel Facilities, Major Tourism Products, Foreign Exchange Earning from Tourism.

#### **(v) Infrastructure :**

Road Facilities, Air Transport Facilities, Telecommunications, Hydropower, Banking and Financial Institutions.

**(vi) Social Services :**

Major Social Indicators – Population, Health, Education, Drinking Water, Sanitation, Mortality, Fertility, Longevity, etc.

**(vii) Public Finance and Foreign Aid:**

Government Expenditure and Sources of Finance (Tax Revenue, Non-Tax Revenue, Regular and Development Expenditures)

Foreign Aid Commitment by Major Sources

Foreign Aid Disbursement by Major Sources

Foreign Aid Disbursement by Major Sectors

Foreign Loan and Debt Servicing

Domestic Loans and their Servicing.

**(viii) Country Specific Information:**

1. General Information – Area, Population, Per Capita Income, GNP etc.
2. Nepal's Trade Relation with that country
3. Economic Cooperation to Nepal from that country
4. Tourist Flow to Nepal from that country
5. Private Investment to Nepal from that country
6. Potential areas for expansion of economic cooperation with that country in Trade, Tourism, Private Investment, Aid etc.

## **Annex B**

<p style="text-align: center;"><b>Summaries of the Interaction</b> <i>With</i> <b>Various Interest Groups Identified</b> <b>By the Policy Study Group on Economic Diplomacy</b></p>
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### **Tourism**

Sunday, March 17, 2002 (12:00 Noon)

(Please note that those participating in the meeting are shown in bold letters. The other names are those who were invited.)

1. Mr. Joy Dewan, President, Nepal Association of Travel Agency
2. Mr. Narendra Bajracharya, President, Hotel Association of Nepal
3. **Mr. Suman Pandey, President, Trekking Agency Association of Nepal**
4. **Mrs. Ambika Shrestha, Hotel Dwarika**
5. **Mr. Yogendra Shakya, Club Himalaya**
6. Mr. Shyam B. Pandey, Hotel Shangrila
  
7. **Mr. Padma Jyoti**
8. **Dr. Badri Prasad Shrestha, Convenor**
9. **Dr. Yuba Raj Khatiwada**
10. Mr. Madhab Prasad Ghimire
11. **Prof. Sridhar K. Khatri**
12. **Mr. Narayan Das Shrestha**
13. **Mr. Nischal Nath Pandey**

### Summary

1. **Missions**—Nepalese Missions face certain constraints in playing an effective role in economic diplomacy. The orientation and interest of people on foreign assignments are different than what is required and there also seems to be severe resources constraints in our missions. The Institute of Foreign Affairs could play a role in providing such training to our diplomats, but the resource constraints needs to be met through other measures.

The role of our missions should be practical. Nepal cannot afford to appoint a different staff to look after such matters, but there should nevertheless be a separate cell in the embassy to look after the details. At the present there is a need to convey to outsiders that Nepal is a safe place to visit, despite the negative publicity that often comes in the media. There is also a need to improve communications between MoFA and our missions. HMG has changed visa provisions, but the decision has yet to be conveyed to our embassies. Tourism trickles down to the

grassroots level and there is a serious need to promote it with the help of our missions abroad.

2. **Communication and coordination**—The question is that of specialization and who will look after the interest of promoting economic diplomacy. There is a need for a separate “desk” to do so.

Communication is the key problem since when business group talk of coordinating activities through missions the question of authority/authorization often comes up. There is either a need to create a body outside MoFA with the authority to coordinate such activities, or in some cases to at least let that body communicate with missions with the understanding that it is also speaking for the government. The NTB could be such a body which could play such a role in tourism. Our missions should be authorized to use information on tourism provided by the NTB for their use, instead of waiting for information from MoFA which rarely reaches in time.

All our missions should also have database of tours and travel operators in their respective country which can be used to promote Nepal. Such a list can be provided by the Hotel Association to the missions without any difficulty. Our missions should also have a reply format for queries which they can use to address questions posed to the missions. Should additional information be needed, they should also be aware of contact address in Nepal or web site address where those making the inquiry will be able to get back quick response to their queries.

3. **Focus countries**—The NTB has identified 12 *focus countries* where our markets may be promoted. Countries belonging in the primary markets include the US, UK, Germany, Japan and India. The second list contains Holland, France, Spain, Italy and Australia. The two countries seen as potential markets are China and South Korea. These countries could also be used as target countries for economic diplomacy.
4. **Honorary Consuls**—Recent experience shows that the selection of Honorary Consuls have been rather haphazard and in some cases there is conflict between what the Tourism Board is trying to promote and what the Honorary Consuls do in reality. There are also conflicts between Consuls and travel agents, which should be avoided at all cost. Before any Honorary Consul is approved, the person should be trusted by at least 50 travel agents and must also have a standing in their own country. Measures should be found to avoid such conflicts which work against our national interest.
5. **Funds**—Making funds available to the missions for the purpose of promoting tourism may not be such a big problem. The NTB did make some funds available to the missions in the past, but there was a problem of accountability. This process could be re-examined by NTB again. NTB receives funds from the 2 percent tourism sale contribution tax through the Finance Ministry. Certain percent of funds could also be reallocated to the missions for promoting tourism, provided the Finance Ministry agrees.

**XD's Note:**

- a) There is a need to draw-up a guidelines by PSG which could be used by MoFA to instruct our missions on the operating procedures to promote tourism. The PSG should request NTB to prepare such a guidelines.
- b) The PSG should also request members of this group to provide the database of names of tours and travel agents in the 12 focus countries, which could also be forwarded by MoFA to the mission.
- c) Request also the NTB to provide a reply format and contact address, including web site address, to be used by our missions.
- d) The above papers should be included in the annexes of the final PSG recommendations.

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## ***Business Group***

Sunday, March 17, 2002 (3:00pm)

(Please note that those participating in the meeting are shown in bold letters)

1. Mr. Rabi Bhakta Shrestha, President, FNCCI
2. Mr. Rajendra Khetan, Vice President, FNCCI
3. Mr. Chandi Raj Dhakal, Vice President, FNCCI
4. Mr. Suraj Vaidya, Vice President, FNCCI
5. **Mr. Kirshore Khanal, FNCCI (Nepal-India)**
6. **Mr. Badri Ojha, General Secretary, FNCCI**
7. Mr. Rajesh Kazi Shrestha, President, Nepal Chamber of Commerce
8. Mr. Arun Chaudhary, President, Nepal-India Chamber of Commerce and Industry
9. **Mr. Sunil Shakya, President, Nepal-US Chamber of Commerce and Industry**
10. **Mr. Narendra Basnyat, Former President, Nepal-US Chamber of Commerce and Industry**
11. Mr. Bidhya Krishna Shrestha, President, Nepal-German Chamber of Commerce and Industry
12. Mr. Rukma SJB Rana
13. Mr. Sagar SJB Rana
  
14. **Dr. Badri Prasad Shrestha, Covenor**
15. **Mr. Padma Jyoti**
16. **Mr. Madhab Prasad Ghimire**
17. **Dr. Yuba Raj Khatiwada**
18. **Prof. Sridhar K. Khatri**
19. **Mr. Narayan Das Shrestha**
20. **Mr. Nischal Nath Pandey**

### Summary

1. **Ministry of Foreign Affairs**—MoFA attempted to implement parts of the recommendation of the High Level Task Force through reorganization of its divisions and also by establishing an International Business Forum, but there appeared to be some form of conflict between MoFA's position and those of the Ministry of Commerce and Industry. Economic Counsellors were also appointed to our missions, but had to be recalled due to poor selection criteria. The business community spent time and money in the International Business Forum, but it made very little difference in the end.

There were a number of things which became apparent from MoFA's experience:

- a) ***Country specific and product specific programs***--Nepal is not in a position to handle all economic issues in all countries. There is a need to be country specific and product specific if we are to promote economic diplomacy. Public relations with the journalists is an indispensable part of the strategy if we are to promote tourism effectively. There is a need to tap the skills and support of Nepalese living abroad. In the United States alone there are 65,000 Nepalese, out of which 20,000 are registered there. Recently, Malaysia has opened employment opportunities for 45,000 laborers from Nepal. In case of Nepalese laborers abroad, our missions can act as facilitators in bringing in remittances to Nepal through the legal channel, most of which today comes from other sources. We need also to develop concrete economic diplomacy programs towards India, as the need was recently seen from the current trade treaty with our neighbor.
  - b) ***Attitudinal change***--An attitudinal change among Nepalese diplomats is essential if economic diplomacy is to succeed. There must be willingness to interact with the business community with a certain degree of motivation to promote Nepal's economic interest abroad. A good way of developing this approach would be to understand how some of the foreign missions operate in Nepal to promote their specific interest.
  - c) ***Training***--Training is an integral component of bringing about this attitudinal change. IFA should play this role and begin at the entry point.
  - d) ***Information/data base***--There is also a need to develop an information base within MoFA and our missions. This should cover legal framework for potential investors in Nepal, tax regulations, customs regulations, etc.
  - e) ***Unity of economic and political diplomacy***--Economic Diplomacy and Political Diplomacy need to go hand-in-hand, and a separate ERCD in MoFA may not be necessary in this regard.
2. **WTO**—The WTO is the main theme now in global economic diplomacy. As a LDC, Nepal should have focal programs in those countries which have given special privileges to the LDCs. The EU is one such example and concerted efforts need to be made through our missions to take advantage of the opportunities that are available.
  3. **Missions**—There is a need to clearly define role of each missions abroad, particularly in the focus countries where our interest is the greatest. Principle of weight-age should also be applied, with at least 25 percent of the attention to be given to economic diplomacy where trade, investment, promotion of tourism matters, etc. are concerned. Criteria should also be set to link each mission's earning in economic diplomacy based on performance and not on the number of dinners hosted or on celebrations. Missions and ambassadors should also be judged on their ability to meet the specified targets, based on an evaluation of their written reports.
  4. **Partnership between the government and private sector**—Our missions need country specific programs developed in collaboration with the private sector. The

program should cover such issues as investment, commodity promotion, etc. The International Business Forum could act as the coordinator for such programs.

5. **Funds**—The private sector can make contribution to economic diplomacy in certain areas, as their participation in official visits of Prime Ministers through their own funds show. The FNCCI also receives substantial funds by issuing certificate of origin for goods from Nepal, and part of that fund could be utilized for specific programs of the missions.
6. **Board of Investment (BOI)**—Rules and modalities for the operation of the Board of Investment has already been established under the Prime Minister. Even though it has been months since it was established, it has not held a meeting so far.

Since the Board of Investment has a significant mandate in key areas of economic diplomacy—such as trade, tourism and hydropower—there could be a conflict of interest between the role to be played by MoFA and BOI so far as coordination of economic diplomacy is concerned. IFA can play a proactive role in this area by preparing a manual in collaboration with FNCCI and Ministry of Commerce and Industry, which clearly specifies scope of activities of group in order to obviate such conflicts in the future.

**XD's Note:**

- a) Can the FNCCI help develop country specific programs for the major focus countries which PSG maybe able to incorporate in its final recommendation?
- b) Will FNCCI be ready/willing to divert some funds earned from issuing certificate of origin for the purpose of economic diplomacy which PSG may recommend? (It is assumed that the PSG recommendation will incorporate mechanism for making the funds accountable from collection to distribution and to the monitoring in the use of these funds.)
- c) How can the apparent conflict of interest between the newly constituted Board of Investment and MoFA in the area of economic diplomacy be made compatible and possible conflicts involving the perennial question of turf be avoided?

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## ***Products***

Tuesday, March 19, 2002 (3:00pm)

(Please note that those participating in the meeting are shown in bold letters.)

1. **Mr. Kiran Shakha, Nepal Garment Association**
2. Mr. Udai Raj Pandey, General Secretary, Garment Association
3. **Mr. Kalya Krishna Tamrakar, President, Handicraft Association of Nepal**
4. **Mr. A. G. Sherpa, Carpet Association of Nepal**
5. Mr. Shankar Pandey, Nepal Pashmina Association
6. **Mr. Indra Bahadur Shakya, Nepal Handicraft Association**
7. **Ms. Shanti Chadda, WEAN**
  
8. **Dr. Badri Prasad Shrestha**
9. **Mr. Madhab Prasad Ghimire**
10. **Mr. Padma Jyoti**
11. **Prof. Sridhar K. Khatri**
12. **Mr. Narayan Das Shrestha**
13. **Mr. Nischal Nath Pandey**

### Summary

1. **HMG/MoFA**—Producers in Nepal are forced by buyers from Europe and the States to maintain certain standards to approve products made in Nepal. They include provisions for fire escape, windows, doors to the question of child labor. Some of the demands are impractical given the condition under which entrepreneurs operate in Nepal. HMG should defend the environment in which we operate. Most people don't know that even though some European countries have used child labor in certain instances of exports from Nepal, this is not the issue in the United States and USAID has already recognized in its report that many of the products from Nepal are child labor free. In the case of carpets, Indian businessmen are selling carpets with two trade marks. "Indo-Nepal carpets" are used for good quality and "Nepal Made" for those of inferior quality. The government should tackle these issues immediately.

There is a need for export promotion mechanism in Nepal. At present, there are three different Boards (Export Promotion Board, Trade Promotion Center, and Carpet and Wool Development Board) whose real impact on the role that they are suppose to play is unclear. It is desirable to strengthen the role of the Trade Promotion Center, but currently it has lost importance since it has been heavily politicized.

On the whole, there is a need for attitudinal change on the part of the government to ensure the business community that it is also willing identify buyers for the Nepali export products.

## 2. Product-by-product—

- a. **Garments**—The garment industry in Nepal is dependent on 2004 deadline. African countries have taken major portion of the market because we have not shown our competence to do so. We must ask US for duty free access for garments, not to mention meeting the quota needs. Our mission must do a certain degree of lobbying with senators and congressmen if we are to benefit. The garment industry is going to hire an agent to study how this lobbying can be done, but it needs to mobilize allies in this endeavor. The garment industry has also talked to the Desk Officer at the State Department, but support of international funding organizations is also needed. The industry will liquidate if it cannot get duty free access by 2004.
- b. **Carpets**—There are a number of reasons why there has been a slow down in the exports of Nepali carpets, among which is the short term perspective of the government and the absence of adequate employment laws. On top of that the current international recession has also added to the problem.

Carpet export is not possible unless there is a concerted effort by both the private sector and the government working jointly towards a common goal. Our Embassy in London has exquisite Iranian carpets on display but there is no sign of Nepali carpets anywhere. Response of our embassies for help from members of the carpet industry is very poor, and there is always concern for the additional costs which they may incur. Carpet exhibition in New York was only possible after the carpet association committed funds in writing. When the Atlanta Fair was held by the association, there was no response from the Embassy in Washington.

- c. **Handicrafts**—Nepal exports handicrafts to more than 68 countries around the world. But there is a serious information gap between what the industry does and how our missions are able to respond. Correspondence with our missions is difficult. Very often the information that filters down to the business community is old. Our missions don't have reliable contact names and there is a need to make the communication and coordination between the business community and the mission less cumbersome.
3. **Missions**—Our missions should be proactive in promoting our products abroad. Some of the issues that need to be considered are the following.
    - a. **Familiarity with the business environment**—The counsellor section in our missions should be familiar with the business environment in Nepal and should be conscious of what measures need to be taken to promote the country's economic interest in the country where he is posted. The background of the individual who does this job is as important as the functions he performs. (One participant even suggested that even the selection of the commercial attaché or economic counsellor should be on the recommendation of the private sector.)

- b. ***Data base/economic intelligence***—Our missions should have data on market potential of our goods, including its availability at a given time in Nepal. There must also be adequate information on what alternative products Nepal could offer in its place. The study of demands of products must be country specific. Economic intelligence on a particular country is as important as the people who promote our interest abroad.
  - c. ***Information***—The Embassies also need to be aware of all information on tariffs and non-tariff barriers. There is a need to develop mechanism which will allow constant flow of information to and fro from the business community and the Embassies abroad. This should not be a particular problem given the present means of electronic communication.
  - d. ***Visa***—There is a need to simplify visa procedure, including the need to grant multiple entry visa to foreign businessmen coming to Nepal and allow them longer period of stay in the country.
  - e. ***Ambassadors as catalyst***—Ambassadors must be proactive and promote the interests of the private sector, often writing on their behalf and attending functions where their presence will be seen as being supportive of the private sector initiative. Ambassadors should also be judged on the basis of their success in business promotion and their tenure made dependent on their performance in this area as well.
  - f. ***Exhibitions at Embassy premises or functions***—Missions need to liaison with the private sector and allow exhibition of Nepalese products on embassy premises or functions. In some cases, single country show may also be arranged to coincide with such functions.
  - g. ***Nepalese ex-pats***—Both the private sector and our missions need to mobilize members of the Nepali community who can help promote Nepal's economic interest abroad.
  - h. ***Ambassadors on consultations in Nepal***—Nepalese Ambassadors who return to the country for consultations should be required by MoFA to meet with the private sector to update and reorient themselves on the strategies and need of the business community.
4. **Funds**—The question of developing funds for the activities that needs to be taken raises a number of questions:
- ?? Who should collect the funds?
  - ?? Who manages it?
  - ?? How should it be distributed?
  - ?? And how should it be made accountable?

It is possible for the missions to make appropriate service charges for the information and services provided to the private sector. In other cases, the private sector may also be ready to fund some of the activities which they wish to promote. One possible area where substantial funds could be tapped is through the

export promotion fee, which ranges from 0.5% to 10% of the export product. Such funds could go through FNCCI and be jointly managed by the FNCCI and MoFA.

**XD's Note:**

?? Get Report on “Product of Nepal in NY”, established with the assistance of the World Bank, from Mr. Kalyan Krishna Tamrakar, President, Handicraft Association of Nepal.

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## *Intellectuals*

Thursday, March 21, 2002 (3:00pm)

(Please note that those participating in the meeting are shown in bold letters.)

1. **Dr. Devendra Raj Panday, Former Finance Minister**
2. Mr. Himalaya SJB Rana, Chairman, Himalayan Bank
3. **Hon. Roop Jyoti**
4. Hon. Dr. Shankar Sharma, Member, Planning Commission
5. **Mr. Mahdukar SJB Rana,**
  
6. **Dr. Badri Prasad Shrestha**
7. **Dr. Yuva Raj Khatiwada**
8. **Mr. Madhab Prasad Ghimire**
9. **Prof. Sridhar K. Khatri**
10. **Mr. Narayan Das Shrestha**
11. **Mr. Nischal Nath Pandey**

### Summary

1. **Conceptual perspective**—It is not that work done by our missions on economic diplomacy is ineffective, but that our diplomacy is ineffective. There is a policy vacuum and inconsistencies on many levels which can't be addressed by structural changes alone. To expect to address the problem through structural changes would be to become a "victim of tyranny of adjectives" since the working style is dysfunctional. Structural changes only give impression that something is being done when in fact nothing may be done.

There should be a clear message in the report of the Policy Study Group for political seriousness if economic diplomacy is to be implemented. Just creating illusion that something is being done, will not do. The new culture of economic cooperation brings with it different political and economic conditionalities. Government should have well coordinated objectives, especially since donor and recipients don't have to be government in the future as the policy domain has been widened to the people, not just governments. Knowledge building is more important if economic diplomacy is to succeed.

- a. **Foreign aid, trade and investment**—Foreign aid is no longer the focus of economic diplomacy. Trade and investment have become the key issues, which WTO has come up with the most complex arrangement. There is a need to develop competence in this area by the government, either in MoFA or in the line ministries.

In the area of aid also donor countries have their clear interest, but Nepal as a recipient country also must be clear what it wants to do. This is a question which MoFA needs to face, along with the Planning Commission and the Finance Ministry.

- b. **Quality and competence**—Nepal has become concession seeker in trade and aid when there is a need to improve our quality and become more competence based. There is no competence required for begging as we have become used to in recent years.
- c. **MoFA**—Foreign Ministry is all powerful in other countries, but this is not the case in Nepal. This should change. MoFA can do this in two ways:
  - ?? it can act as a facilitator for the line ministries; and
  - ?? it can act as a trouble shooter, instead of a “frontline firefighter.”

Nothing beats hard work with a motivated civil servant who can look forward to professional advancement. This competence factor has to be at all level, not just MoFA.

- 2. **Process and products/long-term strategy**—For economic diplomacy to be effective, it is necessary to have a long-term perspective beyond the 6month period. As a process, we must be clear on what we want to sell or buy. Our concern so far for measuring our preference is wrong. A long-term perspective is required with a clear agenda that we want to follow. For the most part, economic diplomacy is a private sector activity and has to be guided by it in determining its objectives and implementing the strategies. In the past, Nepal has tried to sell sugar and cement to Tibet, but the strategy faltered due to lack of a long-term strategy. The simple lesson is that we must be able to determine what we want and what we can give as part of our strategy. There is a tendency among politicians to speak first and decide on the measures later. This working style is not conducive to economic diplomacy.

Some of the objectives we need to follow are:

- a. **Attract know-how and investments**—Nepal should attract know-how and investments which we can sell to other countries. In addition to export of such products as carpet and garments, we need to focus on services. Health sector is one such area, where with adequate medical facilities we could attract clients from within the region. Engineering colleges, or shopping centers could also be equally attractive areas.

Investment is another area, but severe policy change is needed with appropriate foreign exchange and tax policy to go along with it. We cannot talk of bringing in investment into the country without conducive visa and immigration policies to support such a strategy. The grand strategy in 1993 to bring investment in Nepal faltered because there was no efficiency to back up policies.

- b. **Employment abroad**—There is a strong need to follow a systematic policy which will provide employment to Nepalese laborers abroad. The current remittance received by Nepal is \$400 million and if it continues it might equal our GDP in the future. The government needs to implement the budget speech of the Finance Minister, given two years ago. In order to promote such a policy, the government should also consider standing as guarantor committed in bringing back the people whom it has sent abroad.

- c. ***Institutionalize policies***—Long-term policies cannot be *ad hoc* or based on whims of leaders. There is a need to institutionalize administrative policies under each ministries so that, despite change in personnel, the officials know what their job is.
  - d. ***Country specific policies***—Our agenda should also contain country specific strategies with a defined set of objectives. This should be implemented with adequate monitoring mechanism.
  - e. ***Comparative advantage***—Nepal should strive to maintain comparative advantage among the SAARC countries and should not be far behind its two immediate neighbors. Economic diplomacy has to move beyond aid to other areas of diplomacy. The important thing is to make people competent with appropriate motivation.
3. **MoFA and follow-up of the HLTF Report**—It is not that there was no follow through on the work of the High Level Task Force, or on economic diplomacy, by MoFA. The problem was political instability in the country which saw a constant change of leadership in MoFA that did not allow follow-up on the work that had to be done. In the three years since the HLTF Report was submitted, MoFA had 3 Ministers and 4 Foreign Secretaries. Despite uncertainties a number of initiatives were taken.
- a. ***Restructuring of divisions***—A number of people were promoted as Joint Secretaries to look after the new divisions that had been established on the basis of the HLTF Report.
  - b. ***Manual***—A manual on Commercial Diplomacy was prepared by UNCTAD in 1992.
  - c. ***International Business Forum***—An International Business Forum was established in partnership with the private sector. The Forum included six different parameters: foreign aid, trade, investment, water, energy and tourism.
  - d. ***Institute of Foreign Affairs***—Although the IFA was created in 1993, it was established a different body in 1998.
  - e. ***International Relations Desk Officer (IRDO)***—In each of the line ministries, IRDO was created to coordinate work with the ERCD. Communication between MoFA and line ministries was maintained at the Joint Secretary level.
  - f. ***Growth Quadrangle***—In 1998, a Committee on Sub-regional Cooperation was created, which was approved by the Cabinet.
  - g. ***Manpower planning***—Twelve new recruits were taken by MoFA to meet the Ministry's new need for manpower. The idea was to provide exposure to the new recruits by sending them for on the job training to the line ministries, and it was understood that they would not be posted abroad for

2 years until their training was complete. In the South Asia Division, an economic officer was also kept.

- h.* **Economic Counsellors**—The idea that economic counsellors should be chosen and paid by the private sector was also floated, but was seen by MoFA bureaucracy as “anti-body in the system.”

**XD’s Note:**

1. It is clear from the above discussion **why** so much of the effort put into economic diplomacy did not produce any concrete results. Problem for the Policy Study Group is to determine **how** to make it work now.
2. Many of the points discussed above suggests that there is a need to formulate clear cut policies at all levels if economic diplomacy is to succeed. Should the Policy Study Group concern itself with policy formulation, or should it concern itself with only devising appropriate mechanisms to implement the policies that already exist?

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## **Former Ambassadors**

Wednesday, March 27, 2002

(Please note that those participating in the meeting are shown in bold letters.)

1. **Dr. Mohan Man Sainju, Former Ambassador to USA**
2. **Prof. Lok Raj Baral, Former Ambassador to India**
3. **Mr. Keshab Raj Jha, Former Ambassador to France**
4. **Dr. Novel Kishore Rai, Former Ambassador to Germany**
5. **Dr. Durgesh Man Singh, Former Ambassador to Belgium**
6. **Mr. Kedar Bhakta Shrestha, Former Ambassador to Belgium and Former Foreign Secretary**
7. Mr. Y. K. Silwal, Former Ambassador to Russia, Former Foreign Secretary, and Former Secretary-General of SAARC
8. **Mr. Damador Prasad Gautum, Former Ambassador to USA and former Secretary**
9. **Prof. Mohan Lohani, Former Ambassador to Bangladesh**
10. **Mr. Lok Bahadur Shrestha, Former Ambassador to Bangladesh**
  
11. **Dr. Badri Prasad Shrestha**
12. **Dr. Yuva Raj Khatiwada**
13. **Mr. Prabhakar SJB Rana**
14. **Mr. Madhab Prasad Ghimire**
15. **Prof. Sridhar K. Khatri**
16. **Mr. Narayan Das Shrestha**
17. **Mr. Nischal Nath Pandey**

### Summary

1. **Paradigm shift needed**—Although we have become used to talking about economic diplomacy, our role so far has been a passive one. If economic diplomacy is to be effective there is a need to be active and aggressive in meeting our objectives as that the traditional methods no longer suffices. This means that our objective should be to sell or promote our private sectors abroad, without which economic diplomacy will have very little meaning. This also means that there is a need to prioritize our objectives by taking account the interest of three different groups: the public, private sector and the donor communities. Attitudinal change is imperative, not only on the part of MoFA officials, but also those in the line ministries. More than anything, aggressive marketing of Nepal by the government is necessary if economic diplomacy is to succeed.

Economic diplomacy must support HMG's policies. At the moment, MoFA is least prepared to take on the responsibility. This weakness is also spread to other areas as well since the government's policies are not FDI friendly, nor are the other ministries geared to attract foreign investors with comparable international standards, fair judicial structure and transparency. Even the immigration department discourages potential tourists since the visa system is tourism antagonistic. *There must be a presentable package to allure investors needed in all the areas covered by economic diplomacy. The literature has to be investment*

*friendly and must utilize the help of experts which will specify a series of steps needed to get the job done in Nepal.*

## 2. **MoFA—**

- a. ***Manpower***—MoFA has the one of the best selection of the people from our civil service, but lacks professionalism that is needed to do the job effectively. There is therefore a need to internalize the paradigm shift in MoFA, based on the principle of KAP (knowledge, aptitude and practice). Monitoring and evaluation system is equally needed to constantly look at the performance of the people on whom so much depends. Developing evaluation criteria on the basis of priority is essential if economic diplomacy is to succeed. In this regard, we even have to learn from the Bhutanese since they recall their Ambassador to Bangladesh if he cannot increase trade with that country.

As part of measures to maintain professionalism in MoFA, Section Officers and Under Secretaries should be seconded to Finance and Commerce and Trade Ministries for on the job training for 3-4 months. Along with such on the job training, motivation of the Nepalese diplomats is an equally important issue, which currently does not exist in MoFA. Some cultural and etiquette training is also needed for our diplomats, with a crash course in the spoken language of the country the person might be posted. Lateral entry has sapped the morale and motivation of career officers in MoFA.

In the past, the government's effort in implementing economic diplomacy has been abused because of the selection of weak people/relatives of influential people in the country as economic counsellors. If economic diplomacy is to succeed, this mistake cannot be repeated again.

The home front has to be strong to provide the basic support and guidelines to Ambassadors posted abroad. In the experience of one Ambassador designate who attempted to meet most of the Secretaries in the ministries before assuming his assignment, only 40 percent of the Secretaries accommodated him. Common sense and initiative are needed for Ambassadors appointed abroad, and our diplomats need to be multi-functional with clear priorities of what need to be done during his tenure.

Similarly, the private sector also need some degree of training if economic diplomacy is to be successful. Often, businessmen cannot deliver goods on time or the volume that is needed. These are some of the things well within our control which the private sector should address.

- b. ***Need for supporting framework***—MoFA can handle economic diplomacy, but it should be done without expanding the current structures. For the most part, MoFA's role is not dependent on what the Ministry does alone, but also depends on the infrastructure in the broad sense of the word. Investments depend on the power supply which the country can provide for business. The judicial framework has to be investment

friendly. There has to be provisions against double taxation and for settlement of disputes as well.

- c. ***Give and take***—Economic diplomacy cannot be conducted as a one way traffic where we are bent on getting benefit only to ourselves. The acceptance by France of the Zone of Peace proposal was contingent on Nepal agreeing to allow France to open its Indo-Suez operations in the country. When India got wind of it, it also applied to have State Bank of India in Nepal. As means of dealing with this demand, Nepal finally had to ask Indo-Suez to come to Nepal as a joint venture. The recent Indo-Suez experience shows that our business people are not interested in keeping such investors in the country but are inclined to push them out and then try to takeover their shares.
- d. ***Coordination***—Coordination is the key in diplomacy. At the moment there is poor sharing of information which works to the detriment of our national interest. Issues relating to WTO come up regularly in Geneva, but the information is not shared with our other missions abroad. There is minimal understanding of WTO matters in Nepal and it is essential to sensitize government agencies and the private sector on the issues. The European Union has introduced a provision on EBA (Everything But Arms) which allows LDCs quota and duty free exports to the EU. The government should interact with the private sector to determine how we may be able to get benefits from this provision.

Coordination between MoFA and the missions is very poor and, in some of the important countries where many Nepalese pass through, 85 percent of the time is spent on petty issues and providing services to the VIPs. Even if country specific targets were set, missions would have a hard time in meeting the objectives unless these conditions were altered.

- e. ***Aid and investment***—The Netherlands has a shortlist of 20 countries which it has targeted for foreign aid. It is the 6<sup>th</sup> largest aid donor in the world, but Nepal is not in the list since the criteria is based on World Bank categories and the person who is in charge now in the Hague seems to have been influenced by this outlook. We need to be in this list if Nepal is to benefit. The European Union has a handbook on investment, which was prepared by a British expert. The private sector and the government needs to make use of this handbook and also determine how Nepal can benefit from the work that has been done in this area.
- f. ***Comprehensive Report/Handbook needed***—There is a need to develop a comprehensive report on the key areas of economic diplomacy. Such a report should be region and country specific. During the Panchayat period there was a Handbook brought out by the Trade Promotion Center in 1981, which covered issues of trade, aid and investment. It is necessary to bring out a new handbook that will outline specific instructions to be followed by our missions abroad.

### 3. Missions—

- a. **Economic intelligence**—The information our missions provide have to be country specific, including data on demands for products and prices which it may be able to get in the international markets. Nepalese investors have to work closely with our missions to provide information that is needed. Missions should also keep information on colleges and universities since a substantial portion of our national resources goes abroad as the number of Nepalese students studying abroad increasing exponentially.
  - b. **Reports**—Missions need to provide report on economic matters on the country where they are posted on a monthly basis. This should include not only trade statistics in Nepal's trade with that particular country, but also on their meeting with the business community and any initiative the mission has taken in this particular area. The economic report should constitute an essential part of the Ambassador's report, on which the person's performance should be judged.
  - c. **Ambassador's role**—Our Ambassadors are the kingpin in the work of our missions and their role is crucial. Specific objectives and mandates needed for each missions have to be developed by the Ambassador, which needs to be monitored by MoFA.
  - d. **Honorary Consuls**—The practice of selecting Honorary Consuls abroad have to be re-examined since they have largely been selected on the basis of a payback done for Ambassadors or some political leaders. At the present, 60 percent of the Consuls are redundant and there should be reevaluation of their performance.
  - e. **Need to own and absorb policies**—Once a policy is undertaken by missions, there is a need to own and absorb such policies through the government machinery. At one time, the then incumbent Prime Minister had specifically requested a newly designated Ambassador to Belgium to explore the possibility of bringing investors to build a tunnel to Hetuada. After some work by the mission, a team came to Nepal to examine the prospects. But the team was turned back by the government and told to come back when certain rules and regulations were developed in this regard. Such *ad hoc* policy formulation and responses should be discouraged since it creates credibility problems for the government in the future.
4. **Communication and coordination**—MoFA can only act as a catalyst and coordinator in the execution of economic diplomacy, and it should be particularly sensitive in not encroaching on the turfs of the other sectoral ministries. At the same time, all the other ministries have to be sensitive to the need of economic diplomacy and there must be a sense of commitment from them. The private sectors also need to develop a sense of belonging in this endeavor, without which the scheme will not succeed.

The best method of promoting the recommendation of the Policy Study Group is to first have the Secretary of MoFA and the line ministries work out modalities for implementing the programs recommended by the PSG. In order to avoid any sense of encroachment by MoFA in this area it may be advisable to rotate the chairmanship of this group. After the modalities are agreed upon then the private sector should be asked to come in. The Prime Minister should not be made responsible for carrying on the programs envisioned under economic diplomacy since he would have very little time to look after the matter personally and it would only make it impossible for the group to meet. The best option is for the Head of the Economic Committee of the Cabinet to Chair the group, or have the Foreign Minister do so.

5. **Funds**—There are a number of ways through which HMG can raise funds for making economic diplomacy more effective.
  - a. **Commissions**—In order to provide built-in incentive to our missions, 2-3 percent commissions may be taken by individual missions in transactions where they have aided the business community in selling their products abroad.
  - b. **Tax revenue**—A small portion of tax that is now levied by the government on hotels, on exports, and the funds received by FNCCI from issuing certificate of origin could be diverted for the purpose of economic diplomacy. There has to be proper accounting and monitoring of these funds through a responsible body.

**XD's Note:**

1. If we assume that the function of the Policy Study Group should be to identify not only *what* should be done, but also *how* economic diplomacy should be implemented, is it possible for the PSG to produce, or request someone else to produce, a literature that is investment friendly so that it may be used by our missions abroad?
2. Just as the Handbook on trade, aid and investment was produced by the Trade Promotion Center in 1981, what can the PSG do to make the same type of information available to our missions on which they can base their work?
3. So far in our interaction, Mr. Damodhar Prasad Gautum and Mr. Narendra Kumar Basnyat are the two people who seem to be very clear on how funds maybe generated/tapped through the resources that are currently available for economic diplomacy. Should the PSG request these two people to prepare specific programs so that we may include it in our recommendations?

## **Former Government Officials**

Monday, April 8, 2002

(Please note that those participating in the meeting are shown in bold letters.)

1. **Mr. Mohan Dev Panta, Former Secretary, Ministry of Commerce and Industry**
2. Mrs. Urmila Shrestha, Former Secretary, Ministry of Woman and Social Welfare
3. **Mr. Ratnaswor Lall Kayastha, Former Secretary, Ministry of Agriculture**
4. Mr. Poshan Nath Nepal, Former Secretary, Ministry of Labor
5. **Mr. Durga Prakash Pandey, Former Secretary, Ministry of Commerce**
6. **Dr. Dipendra Purush Dhakal, Former Secretary, Ministry of Tourism**
7. **Mr. Sundar Nath Bhattarai, Former Ambassador to Thailand**
8. **Mr. Prabal SJB Rana, Former Joint Secretary, MoFA**
9. Prof. Surendra Bahadur Shrestha, Former Ambassador to Saudi Arabia
10. **Mr. Madhav Khanal, Former Chief of Protocol, MoFA**
  
11. **Dr. Badri Prasad Shrestha**
12. **Dr. Yuva Raj Khatiwada**
13. **Mr. Prachanda Man Shrestha**
14. **Prof. Sridhar K. Khatri**
15. **Mr. Narayan Das Shrestha**
16. **Mr. Nischal Nath Pandey**

### Summary

#### 1. **MoFA—**

- a. **Objectives with clear guidelines**—MoFA needs to be clear on objectives and targets it wants to achieve through economic diplomacy. There must not only be guidelines to achieve the goals, but must also have appropriate mechanism which will help achieve those goals. In this regard, political will is essential since it was largely the lack of it and the misuse of the programs that were recommended by the HLTF that led to its poor implementation. Procrastination and misuse of the many points in the recommendation of the HLTF by the bureaucracy did not help the matter any. MoFA may be good in the conduct of political diplomacy, but has not proven itself in economic diplomacy. Part of its weakness is its refusal to either train itself officers in this area and to accept manpower from the outside.
  
- b. **Inter-departmental rivalries**—Experience shows the question of economic diplomacy always raises some degree of inter-departmental rivalries. It is apparent in three areas: sectoral ministries and MoFA; MoFA and our missions; and the private sector and our missions. As this has become a perennial issue, there is a need to clearly outline the “rules of the game” so that the different ministries of the government and our mission know how much and to what extent they are willing to promote economic diplomacy and also how much the private sectors can rely on the government to do so.

- c. ***Long-term and short-term program with country and item specific—***  
MoFA needs to work through long-term and short-term programs which the missions can follow in a systematic manner. At the moment, there is a need to draw-up a short-term action plan which can be implemented immediately. To do so, one must be selective and prioritize areas/items that can be implemented given the political situation in the country. Promoting tourism and investment may be an uphill task now and more focus is now needed on trade, particularly on garments, carpets and shawls. We must also focus on only 45 countries where the impact would be the greatest. If funds for economic diplomacy can be generated, the missions should be specifically instructed on how the funds should be utilized.
- d. ***ERCD experience—***Despite manpower constraint in ERCD, constant efforts were made in both intra- and inter-sectoral coordination by MoFA. Coordination with other Divisions of MoFA fell short of expectation. Numerous meetings were held with sectoral Ministries, Trade Promotion Center (TPC), FNCCI, bilateral Chambers of Commerce, major export houses and associations such as NATA, Handicrafts, etc. to ascertain how MoFA and the Nepalese Missions abroad could assist them. Apart from criticism the officers of our missions abroad were generally unavailable, apathetic, or inept, no constructive suggestions came forth. The Ministries of Tourism, Labor, and Commerce were more interested in having officials from their own Ministries posted in Nepalese Missions or establishing their own offices abroad. Furthermore, the discussions in the meetings tended to focus more towards the constraints that many faced in the cumbersome regulations and other procedural matters within HMG and for exports through Indian than on the issue of making the Missions more effective. As regards Foreign Direct Investment (FDI), all viewed that HMG's decisions for having a one-window policy for facilitation as only on paper and no measures had been taken for its implementation. By and large, the inputs from such meetings from MoFA's view were at best inadequate.
- e. ***Suggestions for making economic diplomacy meaningful—***
- i. Establish a database of Nepalese items of import and export country-wise, update them and disseminate such information to Nepalese Missions abroad periodically.
  - ii. Identify commercial bottlenecks and work towards its elimination in close coordination with Ministry of Industry and Commerce, TPC, FNCCI and bilateral Chambers of Commerce. Sensitize the Missions abroad of any new developments in this sphere at home and issue directives to pursue them from that end.
  - iii. Be pro-active in efforts to make Nepal a Tourist destination point with inputs from the Ministry of Tourism, Nepal Tourism Board, NATA and HAN and other tourism-related associations
  - iv. HMG should arrange on a regular basis Export Promotion Conferences similar to the one that was held in Kathmandu in

2000. It was attended by Honorary Consuls and Consul Generals representing 34 countries, HMG ministries and senior officials, those of the private sector and the business community involved with export promotion. The 400 participants including foreign delegates had the opportunity to hear HMG policy statements on export promotion, seeking markets and attracting FDI.

- v. As regards foreign employment, some positive steps have been taken, e.g. establishment of Royal Nepalese Embassy in Qatar. However, monitoring of foreign employment agencies should be strictly undertaken by the Ministry of Labor in order that Nepalese workers are not stranded, e.g. in the Gulf countries, Saudi Arabia, Bangkok, Malaysia, etc. The Nepalese workers should be registered in Nepalese Missions, which should render assistances and when they are in need. MOFA should have a separate budget allocation in this regard.
- f. ***Privileges for businessmen***—The government should also take measures that entail least expenditures in an effort to win the hearts and minds of the business community. Certain privileges and status should be given to investors and business people from abroad who are inclined to do business in Nepal. Among other things, use of CIP (Commercially Important Persons) facility at airport should be extended to important members of the business community without much delay since it would cost the government very little to do so and in return the gestures could bring the goodwill of the business community.

## 2. **Coordination**—

- a. ***Avoid impression of MoFA dominance***—Sectoral ministries feel that MoFA is attempting to bypass the other ministries with its involvement in economic diplomacy. This “stigma” should be removed if economic diplomacy is to succeed in the future. The recommendation of the HLTF had provision for including at least 5 officers in ERCD from the sectoral ministries until professionalism could be developed within MoFA, but the scheme was not fully implemented. The notion that MoFA is trying to dominate and overshadow the work of the other ministries should be dispelled and MoFA should be open to the deputation to the Ministry, not as infiltration but as part of belongingness in a common endeavor.
- b. ***MoFA as facilitator and sectoral ministries as implementer***—MoFA can act as a facilitator in the work that needs to be done, but accountability should be with the line ministry which has specific responsibility for implementing the responsibilities at hand. When implementing economic policies of the government, missions should run the programs and policies of the line ministries, not those of MoFA. Officials of the sectoral ministries should be deputed to MoFA and missions to do the economically related work where interest of the sectoral ministries are concerned. Coordination on such matters is possible through regular meetings between the Foreign Secretary and the Secretary of the concerned ministry, along with groups which have specific interest in the

area. (i.e. Foreign Secretary—Commerce Secretary—Representatives of major products group; or Foreign Secretary—Tourism Secretary—CEO of Tourism Board, etc.) This type of coordination is preferable to each of the five key areas identified for our economic diplomacy, instead of holding a meeting of a larger body where all members from the sectoral ministries may be present. Rotation of chairmanship will neither help coordination nor determine the responsibility among the ministries involved. The chairmanship of the Foreign Secretary in these meetings would be acceptable to others.

Another possibility that was raised was to have coordination also through a sub-committee of ministers, involving those from MoFA and the concerned sectoral ministries. Believing that if left alone MoFA might act only as a post-office, it was thought that a body (even IFA) could help to coordinate such activities in the future.

### 3. Missions—

- a. *Promote our markets*—Our missions should be able to promote our products abroad. The garment and carpet industries currently pay 12 percent duty on such products going to the United States when there has been a waiver for such products from the African countries. Our Embassy in the Washington should look into that area, while missions in general should be engaged in identifying major markets for our products.
- b. *Problem of sustainability*—Most of the missions did incredibly well to promote the Visit Nepal Year, and at times even without cost to the government. But there is a problem of sustainability since it changes with Ambassadors and posting of individuals abroad may not be based on qualification of the nominee. Proper orientation and background of the candidate is important, as well as screening and scrutiny of the candidate. But, the main question is who is going to perform this function? Let us replicate success stories since our missions have time and again proven that it is possible for them to operate effectively.
- c. *Comparative advantage*—Identifying areas of comparative advantage is important if our private sector is to take advantage of potential markets abroad. This also includes being clear on what these countries might want to assist Nepal as a LDC, determining prospect for our labor market, interests NGOs might have in Nepal, etc. The role of the missions should be both of an information gatherer and implementer of policies, for which they must have full knowledge of the economic intelligence required to promote our national interest. Since missions don't have the time or the manpower to do everything, there must be clear-cut instructions or policy framework which will act as a guideline for whom and what to promote. Such guidelines should also include specific instructions on how far the Ambassadors/missions should go in promoting the country's economic interest and, in particular, whether the Ambassador should host dinners/reception on behalf of the government with the expenses covered by the private sector. Specific guidelines and procedures need, including information on how follow-up work might be done.

- d. **Documentation**—Documentation is a big problem in our missions since very often the type of information that is needed does not reach them for the job that needs to be done. Guidelines on investment, promotion of trade and tourism is essential, but very often the missions have to work on an *ad hoc* basis without the needed materials. Even then the work depends on competence and motivation of the individuals. And sometimes even when some of those materials are available, it is manipulated by the chief of the mission.
4. **Funds**—Generating funds for promoting economic diplomacy should not be a problem since Nepal Tourism Board works without money from the government. One option would be to have a 50 percent incremental visa fee that the missions can use to promote economic diplomacy. The problem with this is that visa fee is considered as the government's revenue and under the current regulations it cannot be touched. However, the Cabinet can pass certain directives to make this possible. The other option is to raise fund from the private sector. And still another option would be to tap fraction of the fund which FNCCI gets from issuing certificate of origin since it has not used the portion allocated for trade promotion.

The HLTF Report suggests that Ministers/Economic Counsellors should be permitted to charge as service fee 10-12 percent of the cost of market survey, representation, dispute settlement, trade fair and other sources of revenue generated by his own efforts and build a reserve for further expansion. The matter was discussed in one of the International Business Forum meetings during in 1997. Although it was pointed out that such service charge was prevalent in some countries, most members of the business community felt that it was far too excessive and were not generally willing to accede. Some talked of 2-5 percent, while others viewed that HMG should be responsible. No conclusion could be reached.

## *Nepalese Laborers in Middle East*

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Thursday, May 2, 2002

### **Participants:**

1. **Amb. Shyamananda Suman**, Royal Nepalese Ambassador to Qatar
2. **Dr. Badri P. Shrestha**
3. **Prof. Sridhar K. Khatri**
4. **Mr. Narayan Das Shrestha**

### Summary:

1. ***Labor market in the Middle East***—There are a large number of Nepalese laborers now working in the Middle East. The largest is in Saudi Arabia (100,000), followed by Qatar (60,000), UAE (25,000) and Bahrain (7,000).
2. ***Prospects in Qatar***—Qatar has more foreign laborers than its own population and the government these days has been attempting to bring ethnic/national balance in hiring in laborers in recent years. After the numbers of Nepalese laborers reach 50,000, Qatar was seriously considering restricting further growth from Nepal, but the opening of our Embassy there helped to dissuade the government from doing so. Today, Qatar encourages laborers from Afghanistan, Indonesia, Sudan, Gambia. But there seems to be a tacit preference for non-blacks as much as possible.

The prospect for labor market is growing in Qatar. The construction of 46km long Qatar-Bahrain Causeway, which will be the longest in the world, and Delfino Project for the construction of pipeline between UAE and Qatar will require additional foreign laborers as well. There is also great demand for foreign laborers for road construction since the government seems to be ready to spend freely in this area. It is understood that Qatar spent 1bn Rial so that it could host the 2001 Asian Games in its country.

3. ***Nepalese laborers***—With about 60,000 laborers in Qatar, with the per head earning about \$80-90 per month, Nepalese workers earn around \$64.8mn (about Rs. 33 arab) in Qatar alone. Out of this amount, around 90 percent of remittances comes to Nepal through the *hundi* system, which means that the government loses both foreign exchange and commission through its banks. To compete with the *hundi* system, the banks have to be more efficient and service oriented so that they can gain the confidence of their potential clients.
4. ***Welfare***—The welfare of Nepalese laborers going to Qatar is a major problem since most employment companies don't bother providing insurance to the recruits who go there. These companies take anywhere from Rs. 70,000-

100,000 from prospective workers and send them abroad without proper documentations, or with false documentations since the papers may be in Arabic. Out of all those that come to Qatar, at least 5-10 percent have to be picked up at the airport by the Nepalese Embassy in order to help them find the companies which had promised them jobs. The process usually takes from 2 hours to 2 days, but this still becomes a problem since the Embassy has only 3 staff and there are no funds to look after those that are stranded. Such problems for laborers are compounded when employment agencies in Nepal make false promises on the amount of money that laborers are to be paid or when laborers fail to receive salary after working there. Roughly about 5,000-7,000 laborers have returned to Nepal without being paid any salary at all. This has caused physical hardship and psychological problems for many workers, and in most cases these people are not in a position to pay for the costs of these services. For one reason or the other, 60 people have already died in Qatar due to the difficulties faced there.

5. *Things to do*—There are number of things that can be done to lessen the hardship of the Nepalese laborers and provide them whatever support they might need through the Embassy.
  - a. *Verification*—Labor Ministry should be in close touch with our missions whose principal task is to deal with labor issues. The Labor Ministry should send the names of manpower companies to cross-check their credibility from the Mission's list. At the moment there are more than 200 manpower companies whose status has not even been evaluated by the government. The verification process would go along way in cutting down complications where laborers may be falsely promised or eventually stranded in foreign countries. Constant sharing of information through a functional data-base between the Labor Ministry and the missions is critical in minimizing inconvenience to the Nepalese laborers.
  - b. *Categorization*—Labor Ministry should have people versed in Arabic since the documents on the requirements of laborers sent to Nepal are in that language. Since specific requirements of the type of laborers or categories would be clear from those documents, this type of cross-checking would ensure that the manpower companies are not just hustling people out of the country for their own profit, at the cost of the innocent people who might be victims in this game. Registration of laborers at the closest Nepalese Embassy through the mail would also be helpful in case the laborers should require assistance.
  - c. *Documentation*—It is necessary to ensure that the laborers going out of Nepal leave the country with authentic documents so that they are not left in the cold when they reach their destination point. Manpower agencies are known to often provide false documents, while passports are usually taken by the agencies when they reach their destination point.
  - d. *Funds and extra manpower*—There is a shortage of manpower at the Embassy in Qatar, which is constantly required to look after the needs

of our laborers. To function effectively at the current level, the Embassy needs at least one additional Nepali staff, on top of another local staff. Moreover, as our missions don't have any money available to help these people in times of hardship, it would be useful if a special fund for this purpose was created. One way to generate resources for this purpose would be to ask the employment agencies to contribute to the Embassy anywhere from \$50-100 as royalty for each laborer with whom they have a contract. The other possibility is to ask the employment agencies to deposit Rs. 5 lakhs at the time of their registration of their company so that this amount could be deposited at the Embassy in their names. This money could be used by the Embassy when laborers sent by that particular company are forced to return to Nepal after failing to get jobs due to improper documentation.

## Royal Nepalese Embassy, Japan

Wednesday, May 15, 2002

Participants:

1. H.E Kedar Bhakta Mathema, Royal Nepalese Ambassador to Japan
2. Dr. Badri Prasad Shrestha, *Convenor*
3. Prof. Sridhar K. Khatri
4. Mr. Narayan Das Shrestha

### Summary:

Nepal has no economic diplomacy. I have come to Nepal with a thick folder of letters unanswered by Ministry of Foreign Affairs, National Planning Commission and other HMG/N ministries/departments. Communications is the biggest problem as MoFA does not reply to either fax/e-mail or any other messages.

1. *Training/Orientation*—I left for Japan without reading a single file. Orientation for ambassadors has to go for several weeks; there must be field visits so that he/she can interact with other ministry officials. At the same time there must be a familiarization on how to hold dinners/receptions etc., as it can be handy for the outgoing envoy. Since the person must also represent the whole of Nepal, cultural orientation is also a must. A thorough knowledge of the neighboring countries (Korea and Russia in the case of Japan) is also necessary.
2. *Arrangement with the Private Sector*—The ambassador must also have experience in dealing with the private sector. Unfortunately, in our case, the private sector and especially the FNCCI itself is not geared to assist in the pursuit of economic diplomacy. During the visit of the then Prime Minister G.P Koirala, they could not prepare an economic agenda. The Tokyo Embassy requested them to bring the best variety of tea, for a reception to be hosted by the embassy they couldn't bring it. Embassy had arranged meetings/interactions with the representatives of the Japanese business community and private sector and chamber of commerce but there was no response from the FNCCI. In Japan, the same business group that looks after India was interested with Nepal. Regrettably, FNCCI showed no interest to join this. Instead, a few people were arrested in Osaka for illegally entering into Japan.

The private sector can play a major role through cultural programs, slide and video shows, contemporary art exhibitions etc. This sphere has tremendous scope.

3. *Mechanism within MoFA and Others*—Embassies should be allowed to communicate with sectoral ministries with copies forwarded to MoFA.

Missions should be informed prior to the arrival of dignitaries from Nepal. There is a growing tendency to inform at the last minute, if at all. “MoFA is like a black hole, you send a message and it gets lost and there is no feedback.”

More than 48,000 Japanese tourists visit Nepal annually. By the year 2005 the figure might go up to 100,000. Embassy has been relying on funds from the NTB in sponsoring programs like a photo competition “Nepal: My Spiritual Home”. If one is proactive there are possibilities of raising funds to promote economic interests. An investment handbook would have been a handy account to rely upon. (The XD of IFA explained to the Ambassador that a handbook on investment in Nepal has been prepared by the EU already, but something in line with what Japan might be interested could be prepared as well).

4. ***Illegal Immigration***—A total of 10,000 Nepalese are residing in Japan and an additional 8,000 in Korea. Most of them are illegal immigrants. This is a major problem. It is not possible for the Embassy to keep a database of all the Nepalese. However, a sizeable number have affiliation with political parties not only with the Nepali Congress, CPN (UML) and the RPP, but even the CPN (Maoists). The Embassy can bring in even these illegal immigrants for a seminar to encourage them to invest in Nepal.
5. ***Honorary Consul Generals***—There are honorary consul generals in Fukuyama and Osaka. But without a handbook for Honorary Consuls, it is difficult for them to function. Most of them do not have a clear-cut idea of what they should be doing. Their performance has to be evaluated. The Honorary Consul General in Australia takes 10 percent charge for the visas that are issued. There must clearly be uniformity on this as with respect to our honorary consul generals all over the world.

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## Ministry of Foreign Affairs

Tuesday, June 4, 2002.

### Participants :

1. Mr. Gyan Chandra Acharya
2. Mr. K. N. Adhikari
3. Mr. A. K. Mainali
4. Mr. Lok Bahadur Thapa
5. Mr. Durga Prasad Bhandari
6. Mr. Tirtha Raj Wagle
7. Mr. Tara P. Pokharel
8. Mr. Ram Babu Dhakal
9. Mr. Pushkar Rajbhandari
10. Mr. Hari Prasad Bashyal
11. Mr. Bharat Prasad Poudel
12. Mr. Dipendra P. Bista
13. Mr. Suresh Pradhan
14. Mr. R. K. Nepal
15. Mr. P. K. Prasai
16. Mr. P. B. Shah
17. Mr. Arjun B. Thapa
18. Dr. Ram Bhakta Thakur
19. Mr. Rishi Ram Ghimire

### PSG on Economic Diplomacy

1. Mr. Madhuraman Acharya
2. Dr. Bimal Koirala
3. Mr. Prabhakar SJB Rana
4. Mr. Padma Jyoti
5. Dr. Badri Prasad Shrestha
6. Mr. Pradeep Raj Pandey
7. Dr. Yuba Raj Khatiwada
8. Mr. Prachanda M. Shrestha
9. Mr. Madhav Ghimire
10. Prof. Sridhar K. Khatri
11. Mr. Narayan D. Shrestha
12. Mr. Nischal Nath Pandey

### Summary:

An interaction of the Policy Study Group on Economic Diplomacy with the officers of the Ministry of Foreign Affairs was held in Shital Niwas. It was highlighted at the outset by the Executive Director of the IFA and the Convenor of the Policy Study Group (PSG) that since the MoFA implements a large part of economic diplomacy, the PSG seeks practical, functional and implementable recommendations from the officers of the ministry. Specific questions were put for discussion. How can MoFA operate on economic diplomacy with a functional division, when most of MoFA's activities operate on a territorial basis? What should be the structure of this division? How do we coordinate between other Ministries and our own Missions abroad? How do we coordinate with the private sector? Above all, how do we bring in and manage funding for the purpose?

The concept of Economic Diplomacy was coined in our country too but we did not equip the MoFA with: resources; policy; training and information. Despite this, a slight change in the way we view Economic Diplomacy has come about in the last few years. The MoFA's role is only that of a facilitator ("without encroaching on

other's roles") but should keep abreast of the issues facing trade, investment, tourism, water resources, labor etc. A change of mindset and attitude is a must, as the government runs no different than a business organization. There are four essential components in any successful enterprises, which could be applied to the government functioning as well: 1) marketing, 2) finance, 3) HRD and 4) technology but all these also need to be manifested by accountability and transparency. The main points that came up during the discussions were:

Coordination/Communications:

- a) The participants brought out that coordination was the biggest problem while pursuing economic diplomacy. There are too many islands without any focal point plus there is no support or guidance and hence it is difficult to find solutions. There are no mechanisms, which require other ministries, and their various departments to notify the MoFA on bilateral/multilateral negotiations, which lead to compartmentalized division.
- b) There is no homework prior to or after the conclusion of agreements and treaties. Our regulations, laws are not compatible with forging ahead in the direction of promoting our economic interests. Moreover, lack of institutions, vision and expertise have only contributed in nothing happening in the realm of Economic Diplomacy.
- c) There is poor coordination even while framing top national strategies. An inter-communication among Economic Diplomacy related ministries must be a regular phenomenon. This will help clear scruples and doubts if any. A regular meeting of the officials of those ministries is the need of the hour.

Ministry/Missions:

- a) Work hasn't been defined clearly what the missions should be doing and most of the time the Ministry itself is unable to answer to specific queries. In fact, the MoFA itself has trouble activating its Missions. Since the Missions have other responsibilities as well, a clear-cut work-chart must be developed and implemented with due emphasis on reward and punishment to the officers.
- b) It was suggested that a three-tier apparatus maybe an effective way of dealing the problem:
  - 1) Monthly meeting under the Joint Secretary chalking out plan formulation and goal setting
  - 2) A Steering Committee with the Foreign Secretary as coordinator and secretaries of link ministries as members to meet periodically and
  - 3) A high level group (preferably at the level of the Prime Minister) to meet biannually will work effectively.
- c) It was also felt that the ERCD must be made more "attractive and prestigious". So far no work has been specified for the division. A small, proactive Division headed by a Joint Secretary with two or three MoFA officers would

be suitable. However, the Foreign Secretary should hold regular meetings with the Division. The Division's primary responsibility would be to frame overall policy, promotion of activities and coordination with the sectoral Ministries and Missions. It must also be a repository of knowledge, but may not necessarily be an "expert-house" of specific details. It can also act on "cross-cutting issues".

- d) Since our embassies have limited manpower, momentary mobile units can be set up for instance to go into areas where there are pressing labor issues with a large number of Nepalese workers. Missions should be sending regular feedback to the MoFA and the latter must also conduct research on definite areas. But, it was also felt that people are underutilized in the missions.
- e) The five-year plan of HMG should serve as a basic guideline on Economic Diplomacy and its already set targets should be the fundamental guidelines for our missions.
- f) However, no matter how competent the officers are on Economic Diplomacy, nothing can be accomplished until the mission chief too is well informed in this area.

#### **Funds:**

- a) Ninety percent of the allocated budget to the Missions goes on regular expenditure. Perhaps, we could be flexible on revenue management. Additional fee could be charged while issuing visa or making a new passport on off-hours.
- b) The Nepal Tourism Board had previously given funds to the Missions. Resources must be held accountable and must not be forwarded to the Missions without evaluating the programs. There must also be a mechanism to evaluate the works done.
- c) Any fund that is allocated to the missions must be duly monitored and stress must be placed on recurrent flow of resources rather than ad hoc measures.

#### **Training:**

- a) Training of MoFA officers is essential since a radical departure from the mundane official works is sought while embarking on Economic Diplomacy. The training must be held regularly.

One participant felt that probably the term "development diplomacy" is preferable than "economic diplomacy". However, need of thorough knowledge on what the country's capital is and what are the resources that we can suitably harness for the betterment of our people is a must. It was stressed that we could focus on a few specific areas to bring in visible tangible results.

**Miscellaneous:**

- ?? Let us not concentrate totally on structures and structural change. What is important is emphasis on coordination, systematization and attitude change.
- ?? Business community also needs to have a separate program that they should hand over to the MoFA with clear list of expectations from the missions stationed abroad.
- ?? A high-level monitoring preferably at the level of the Prime Minister is essential for giving necessary directions to the lower levels.