

# **ECONOMIC POLICY NETWORK**

**Policy Paper 10**

## **ENHANCING ECONOMIC DIPLOMACY** **(For Trade, Investment, and Employment)**

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Inputs from various stakeholders during interactions at the Advisory Committee meeting, and the workshop organized by the EPN Focal Unit have been incorporated in the report.

## Foreword

Economic Policy Network (EPN) is an undertaking of His Majesty's Government of Nepal (HMG/N) since August 2004 with an Asian Development Bank (ADB) technical assistance (TA) to develop and institutionalize an open, responsive and result oriented economic policy formulation process based on sound economic analysis and dialogues with the partnership of public and private sector, academia, and independent professionals, to support and consolidate the Government's economic policy reforms on poverty reduction strategy. The initial focus has been in the areas of macroeconomic management, trade, investment, employment, infrastructure, tourism, agriculture, and regional development through four thematic advisory committees chaired by the secretaries of the respective implementing ministries, and guided by a high-level steering committee. The present study is an outcome of the initiative under the Advisory Committee for Economic Policy on International Trade, Investment, and Employment chaired by the Secretary of the Ministry of Industry, Commerce, and Supplies.

In the context of globalization and increasing competitiveness in the global marketplace, it is imperative that Nepal pursue effective economic diplomacy with other nations. This is needed particularly to find a market for Nepalese exports, market Nepal as a popular tourist destination, and enhance foreign investment in potential areas. The paper analyzes the current practices and makes recommendations for further improving the effectiveness of our efforts. The recommendations are the outcome of consensus reached among major stakeholders through various consultations and the EPN workshop. I hope the findings and recommendations will be helpful for policy makers for future reforms.

I would like to thank Dr. Badri Prasad Shrestha for carrying out this study. I also thank all those who have provided inputs for the report during the interactions at the advisory committee meetings, and the EPN workshop. The work of the Advisory Committee for Economic Policy on International Trade, Investment, and Employment is to be commended for selecting the issue and for following through with the study. I would also like to appreciate the entire EPN team for their hard work. I also thank the former Steering Committee chairperson (the then Chief Secretary of HMG/N) Dr. Bimal Prasad Koirala, for his guidance during his tenure. Last but not least, I would like to thank the ADB for supporting this initiative.



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## Abbreviations

ADB	Asian Development Bank, Manila
BIMST-EC	Bangladesh, India, Myanmar, Sri Lanka, Thailand –Economic Cooperation
CBO	Community Based Organization
CC	Consultative Committee
CNI	Confederation of Nepalese Industries
EAD	Economic Affairs Division of MOFA
EERCC	External Economic Relations Coordination Committee
EPCC	Economic Policy and Coordination Committee
ERCD	Economic Relations Coordination Division
EU	Economic Union (of European Committee)
EU	Economic Unit (of MOFA)
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
GSP	Generalized System of Preferences
HLTF	High Level Task Force
IMF	International Monetary Fund
INGO	International Non-governmental Organization
MOFA	Ministry of Foreign Affairs
MOU	Memorandum of Understanding
NGO	Non-governmental Organization
PSG	Policy Study Group
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
WTO	World Trade Organization

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## Executive Summary

### **1. Review**

Nepal emerged as a member of the international community only in 1950s after centuries of isolation and stagnation. Since then Nepal has come a long way with expansion of aid, trade, tourism, investment and employment with the outside world. The liberalization of the economy after 1990 has further accelerated the economic interactions and is likely to be intensified in future to comply with WTO, SAFTA and BIMST-EC obligations as their member. However, the country is presently confronted with a number of problems ranging from growing trade deficit, declining tourism, investment and remittances as well as bulging government budget deficit. The urgency of appropriate policy response to emerging challenges and opportunities seems to have prompted the government to take some initiatives in economic diplomacy as well. In this context, the commissioning of the two studies on economic diplomacy in 1995 and 2002 is notable. Some of the recommendations of these studies for restructuring of the MOFA and its Embassies and Missions abroad were implemented rather half heartedly. It would not be unfair if one makes an assessment that the overall state of economic diplomacy virtually remains the same as it was before these initiatives following the two high level studies.

### **2. Approach and Objective**

It is suggested that the underlying approach to Nepal's economic diplomacy in future should be guided by several considerations based on past experiences and the changing economic environment both at home and abroad. These considerations are: (i) the problem of mainstreaming economic diplomacy into the total foreign policy of the country, (ii) the problem of de-compartmentalization of economic diplomacy within the MOFA so as to generate a sense of ownership and participation by the entire MOFA, (iii) the problem of forging a workable mechanism between the MOFA and the sectoral Ministries responsible for economic affairs for necessary communications, coordination and cooperation, (iv) the problem of restructuring/reorganization of the MOFA that can be smoothly assimilated into the existing system without much additional manpower and resources, (v) the problem of feedback system within the MOFA along with rationalization of Embassies and Missions so that they can play their overdue role in economic diplomacy, and (vi) the problem of forging output-oriented partnership with the private sector which has to play the major role in economic diplomacy for further promotion of trade, investment and employment.

While there should be a corresponding reorientation of economic diplomacy with new contents and new mechanisms in the context of growing diversified economic interactions with the outside world as a result of liberalization and globalization of the economy, the promotion and safeguarding of national economic interests should always be the overriding objective of economic diplomacy.

### **3. Institutional Mechanism**

Based on the basic approach and objective as stated above, institutional mechanisms are suggested for necessary policy decisions as well as for communications, coordination and cooperation between and among all the relevant agencies of the government and the private sector. At the apex, Economic Policy and Coordination Council (EPCC) is suggested with Prime Minister as its Chairman and Ministers of trade, industry, investment, labour and finance as members. The major function of EPCC is to take necessary policy decisions on

identified issues for promotion of trade, investment, tourism etc. Without much decisions creating enabling environment, no means and mechanisms can make economic diplomacy result-oriented. The task of identification of issues, however, lies with the sectoral Ministries. For this, a Consultative Committee (CC) representing the Secretaries of concerned sectoral Ministries under the Co-Chairmanship of the Ministers of Finance and Foreign Affairs is proposed for necessary preparatory works before EPCC meeting. The implementation of decisions and directives of EPCC will be the responsibility of the concerned sectoral Ministries at home and that of the MOFA through its Missions abroad.

For the ownership and participation of the entire MOFA in economic diplomacy, it is suggested to dovetail small Economic Unit (EU) with each of the existing four territorial and regional Divisions of the MOFA with the responsibility of keeping track of economic developments and policy charges in their respective areas having relevance to promotion of national economic interests. The present nominal role of Embassies and Missions should be strengthened with rational allocation of manpower and resources along with the new responsibility of preparation and implementation of annual programmes for promotional activities, independently or jointly with the private sector, with quantifiable targets.

The present Multilateral Economic Affairs Division of the MOFA should be reinforced as a full-fledge Economic Affairs Division (EAD) with new functions for acting as a "hub" of economic diplomacy, receiving necessary information from all sources and transmitting necessary information to all relevant agencies. As a Secretariat of the Foreign Secretary in economic affairs, it has to maintain necessary data base, and prepare all necessary documents for EPCC, CC and PSPF meetings.

While the proposed EPCC, CC, EAD and EU along with the Embassies and Missions will establish necessary linkages between and among all relevant agencies of the government, the major and active players of economic diplomacy are the people in the private sector who should be brought into the mainstream with a meaningful and output-oriented partnership with the government. Precisely for this reason, Private Sector Partnership Forum (PSPF) representing private sector institutions and organizations is proposed with the primary responsibility of (i) identification of policy and operational issues related to trade, investment, employment etc. from the private sector perspective, (ii) suggestion for addressing such identified issues and (iii) formulation of joint promotional activities with the government.

The schematic presentation shows how the suggested mechanisms looks like as a whole.

#### **4. Promotional Approaches**

Despite the opening of the Nepalese economy through liberal economic policies, especially after 1990, Nepal's economic relations with the outside world remain largely localized or concentrated in a few countries and a few commodities without much diversification, indicating where economic diplomacy in future should be directed for expansion of our trade, investment, employment, tourism with initial promotional activities in countries and regions of great potentials. The proposed partnership between the government and the private sector should be the driving force behind all our promotional activities, sharing responsibilities commensurate with their respective abilities and authorities. At the government level, more economic and governance reforms are needed to comply with the WTO obligations and also to establish credibility and predictability of the government

policies. No institutional and structural mechanisms, however appropriate, can deliver the expected output without the appropriate and credible policies related to trade, investment, employment etc. This is where the proposed EPCC should act on the advice of CC with inputs from PSPF as well. Several promotional activities are suggested making the best use of already available institutional infrastructure such as Embassies, Missions, Honourary Consulates of Nepal abroad and those of other countries in Nepal along with the private sector and non-governmental organizations.

## **5. Generation of Resources**

In a resource-constrained country like Nepal, the budgetary allocation and man-power deployment should be cost effective. Some practical suggestions are made for rationalization of both budget and man-power allocations which together can reduce the present cost and thus, release some resources for financing promotional activities. While the government spends as much as Rs 600 million or more every year in running the Embassies and Missions virtually for consular and ceremonial activities, the government is hesitant, perhaps not prepared, to allocate a few millions for promotion of trade, investment, employment, tourism etc through our Embassies and Missions. It is, therefore, appropriate to give up such “penny wise and pound foolish” like policy with a positive attitude of giving a fair chance to Missions for playing their overdue role in economic diplomacy. Several other suggestions are made for generation of resources for promotional activities. If properly mobilized the potential sources, resources may not be the constraint for much of the most needed promotional activities.

## **6. Information Networking Modality**

The institutional mechanisms as suggested and elaborated above are designed precisely for information networking and dissemination through the institutionalized channels for necessary communications and feedback for a well informed and well coordinated diplomatic initiatives in economic affairs. The modality looks like a two-way traffic between and among the various agencies of the government and the private sector concerned with economic affairs both at home and abroad. It is explained how such modality actually works with schematic presentation as well.

Finally, the policy-action matrix for implementation and operationalization of this report, the contents of colloquium, orientation and training and illustrative matrix of promotional activities by specific sectors are presented in Annex I, Annex II and Annex III, respectively.



## I. Review of Current Activities

As a forbidden country insulated from the outside world, Nepal's emergence as a member of the international community owes its origin in 1950s only after the political change in 1951 with the membership of the United Nations in December 1955 and as a founder-member of the Non-Aligned Movement. The economic interactions with the outside world in aid, trade, tourism, investment were limited to a few countries on a modest scale. Even in late 1960s, Nepal's exports to India and imports from India (1967/68) were limited to about Rs 400 million and Rs 440 million, respectively. Only 6000 tourists visited Nepal in 1962. The total development outlay under the First Five Year Plan (1956/57 – 1960/61) was no more than Rs 214 million contributed entirely by a couple of countries. The government total revenue in 1960/61 amounted to Rs 97 million with customs and land revenue accounting for two-thirds. Since then Nepal has come a long way. The total trade with as many as 120 countries now runs into over Rs 192 billion (2003/04), the government total revenue estimated for 2004/05 is about Rs 74 billion, private foreign capital invested in as many as 400 operating joint venture industries and ever largest number of tourists (about 0.5 million) visited Nepal in 1999. And yet, the country is confronted with a number of problems, ranging from growing trade deficit of more than Rs 84 billion (2003/04), declining tourism, government's bulging budget deficit (7 percent of GDP), growing dependence on external assistance to the extent of more than two-thirds of estimated development expenditure of the government for fiscal year 2004/05. Remittances creating surplus on current account despite huge trade deficit are reported declining more recently.

The liberalization of the economy accelerated after 1990 has to be further accelerated and intensified not only in commodity trade but also in service sector to comply with WTO obligations. The urgency of appropriate economic policy articulation and implementation for facing the emerging challenges and for harvesting the potential opportunities is beyond doubt. And economic diplomacy can and should complement such policy articulation and implementation both at home and abroad. Unfortunately, economic diplomacy has been all along a typically "on and off" issue discussed at times and ignored quite often. There has been no consistency and continuity, nor communications, coordination and cooperation between and among the concerned agencies. In the recent past, the two steps related to economic diplomacy deserve consideration. One is the High Level Task Force (HLTF) constituted by the government in November 1995 with wide ranging terms of reference including, among others, reforms in organizational structure of the MOFA and its role and necessary changes and improvements in the working of our Missions abroad. One of the recommendations of HLTF was to constitute a separate Economic Relations and Coordination Division in the MOFA under a Special Secretary with five sectoral Sections to be looked after by five economic officers and other necessary supporting staff with the following responsibilities:

(i) To help in integration of national economic policies into Nepal's foreign policy, objectives and strategies; (ii) To promote partnership with the sectoral Ministries and the private sector for conducting economic diplomacy; (iii) To provide support to Missions in all economic activities in a planned and well-organized manner; (iv) To monitor and facilitate the aid-management and trade promotion activities of the donor community and international organizations; (v) To help in strengthening bilateral Joint Economic Commissions and explore possibilities for regional and sub-regional cooperation, and (vi) To help in coordination of economic diplomacy related activities of various policy making centers at various levels.

For the functioning of such full-fledged Division, the HLTF estimated the requirement of 16 new positions.

Following the HLTF Report (in Nepali) submitted in February 1996, the Economic Relations and Coordination Division (ERCD) as recommended in the Report was established with a Joint Secretary as its head and three under Secretaries. After two and a half years, ERCD was downgraded from a Division to a Section within UN and International Organizations and International Laws Division with only one under Secretary. Four new positions of Economic Counsellors were created and all the four were appointed and assigned in four Missions as recommended by HLTF. For a variety of reasons, all the four Economic Counsellors were recalled and all the four positions, cancelled. Likewise, International Business Forum Constituted for partnership with the private sector held its four meetings which could not go beyond preliminary discussions without any tangible programme or action plan.

Six years after the HLTF Report and virtual retraction of even some positive measures implemented on its recommendation, the Institute of Foreign Affairs constituted in March 2002 a Policy Study Group on Nepal's Economic Diplomacy (PSG) "to recommend to the government what practical measures are needed to make economic diplomacy a reality". The author of this study had the privilege of acting as its convener. The PSG was requested, among others, to define the objectives of Nepal's economic diplomacy and to prescribe viable mechanism to achieve the objectives. The PSG presented its Report to the Prime Minister on July 4, 2002. Unlike the HLTF Report, the PSG Report concentrated in economic diplomacy with a sharp focus in institutional mechanism for communications, coordination and cooperation within the MOFA, on the one hand and between to MOFA and the sectoral Ministries and the private sector, on the other. The PSG Report suggested the establishment of External Economic Relations and Coordination Committees (EERCC) at the political level with The Prime Minister as its Chairman and Multilateral Economic Affairs Division like the one suggested by the HLTF as well. The EERCC as well as its Standing Committee under the Chairmanship of the Minister for Foreign Affairs (not recommended by PSG) were constituted and remained non-functional after their first meetings held more than two years ago. Likewise, there is at present a Division by the name of Multilateral Economic Affairs Division without its own head but with only one Under Secretary working under the supervisions of the Joint Secretary of another Division (UNO, International Organization and International Law Division). In brief, it would not be unfair if an observation is made that the MOFA continues to remain structurally and functionally as it was before some initial thrusts towards strengthening its role in economic diplomacy following the recommendations of the two Reports (HLTF and PSG), thus completing a full circle.

The reasons for failing to make a "breakthrough", despite some initiatives, are deep rooted. One is the question of mainstreaming the MOFA into the system of governance in economic affairs. The distribution of functions and responsibilities of various Ministries is such that the MOFA has but marginal role in decision making process of economic affairs. While there is perhaps the feeling of isolation and alienation within the MOFA by virtue of its nature of responsibilities and works not visible on the ground as the works of other Ministries responsible for economic and social development programmes, the perception outside may be such that the MOFA is a class by itself with glamour and opportunities of lucrative and prestigious assignments abroad. In a situation like that of Nepal, the role of foreign relations and foreign affairs in mobilization and promotion of goodwill, understanding and cooperation needs no elaboration. The legacy of the MOFA is also heavily

oriented to political affairs with nominal role in economic affairs. Now the situation is globally changed with economic interests heavily impacting political decisions. In the case of Nepal, without outstanding political issues of serious nature with countries having diplomatic relations (except in a few cases at times), the economic interests should have been the centerpiece of our foreign affairs commensurate with the growing interdependence and interactions with the outside world. Despite our changing perception and understanding of ever growing importance of economic interests in our foreign relations, there is no corresponding change in practice. After all, the contribution of economic diplomacy in conducting our foreign affairs cannot be assessed in terms of the usual cost-benefit analysis as a basis for fund allocation of available resources. What is however, needed is the system building to make allocated resources as cost-effective as possible. Institutional building, more so institutional restructuring, is always a difficult and time consuming process – more so when it has to break away from the legacy of the past and breakthrough the attitude of “business as usual”.

## **II. Approach and Objectives**

It is proposed that the underlying approach to economic diplomacy of Nepal is to be guided by a number of considerations based on the past experiences and the emerging challenges and opportunities, both at home and abroad. One such consideration is the problem of mainstreaming economic diplomacy into the total foreign policy of the country. The Ministry of Foreign Affairs (MOFA) is not at present fully prepared for handling economic affairs partly because of its political orientation from the past and partly because of the distribution of functions and responsibilities of various Ministries of the government. With the expansion of diplomatic relations with a large number of countries, the political dimension gained additional importance. The economic affairs of the MOFA remained virtually limited to participation in some regional and international organizations which fall within its jurisdiction. The sectoral Ministries are responsible even to-day for specific economic affairs such as official development assistance (ODA), trade, tourism, foreign investment, foreign employment etc. With the growing need of ODA for financing our public sector development activities and promotion and diversification of trade, tourism, investment and employment opportunities, the rationale and importance of economic contents in our relations with the outside world is now being realized. It is only the MOFA which has its Missions abroad and these Missions are the only established means of the government through which the economic interests of the country can and should be promoted abroad. For all this, some workable mechanism is necessary for mainstreaming economic diplomacy in conducting our external affairs.

Secondly, once economic diplomacy becomes an integral part of our foreign policy, it should not be compartmentalized in one division or section of the MOFA. The entire MOFA should be the parts and parcels of its economic role with due contribution and participation of all its divisions and sections. So far the organizational structure of the MOFA is based on territorial and regional divisions with economic affairs confined to a separate and isolated division/section virtually without any functional coordination and communications. There is, therefore, an urgent need of de-compartmentalization of the economic affairs within the MOFA, so that the entire MOFA develops a sense of belonging and ownership in handling economic affairs vis-à-vis the outside world.

Thirdly, as stated above, the sectoral Ministries are responsible for dealing with specific economic affairs. The distribution of the government functions has determined their authority and jurisdiction. No sectoral Ministry can share its authority and jurisdiction with other Ministries. In fact, there is a great deal of reservation or resistance based on perceived apprehension of the sectoral Ministries that their legitimate/legal authority and jurisdiction may be gradually encroached upon or even usurped by the MOFA in the name of economic diplomacy. But the MOFA cannot conduct economic diplomacy without the cooperation of the sectoral Ministries. So a workable mechanism should be evolved in such a manner as to allay the perceived apprehensions, ensuring, at the same time, necessary communications, coordination and cooperation.

Fourthly, any recommendations which demand radical or major reorganization and restructuring of the existing structure established over the years, requiring additional manpower and resources on a substantial scale, may have the least chance of success in their implementation partly due to resource constraints, but largely due to perceived risk of radical change or merit of maintaining "Status Quo". On practical consideration and learning from the past experience, it is, therefore, necessary to ensure, wherever possible, that the recommended structural changes can be smoothly absorbed and assimilated into the existing system without much resistance and also can deliver the expected results.

Fifthly, the MOFA has to promote economic interests of the country through its Missions abroad which are not considered at present as cost-effective for various reasons. There should be some built-in feedback system within the MOFA for regular communications, coordination and cooperation between the MOFA and its Missions on the basis of a well-defined role and responsibility.

Finally, the actual players of economic diplomacy in trade, tourism, foreign investment, employment or in technology transfer are the industrial and business communities in the private sector. However, the MOFA, its Missions and sectoral Ministries can and should facilitate and support their role and make their efforts meaningful through mutual communications, coordination and cooperation. And for this also to happen on a regular and effective manner, some institutional mechanism is necessary for establishing a meaningful partnership with the private sector.

The globalization and regionalization of the Nepalese economy with the membership of WTO, SAFTA, BIMST-EC need more and more opening of our economy to the outside world to comply with the demanding obligations. It is very likely that the changed circumstances and environment can either stimulate or strangulate our economy, depending on how we manage our economy in the coming years. Economic diplomacy should also be geared up accordingly, so that it can also contribute towards the process of globalization and liberalization in the interest of the country.

Secondly, despite declining trend of ODA through bilateral and multilateral sources, shifting priority from grant to loan and funding more and more aid through INGO/NGO and CBOs, ODA remains a major source for many years to come for both financing the public sector development programmes and maintaining macro-economic stability which is required for growth-inducing investment friendly environment.

In the context of the diversified economic interactions with the outside world through globalization and liberalization of our economy, on the one hand, and the growing need of

acceleration of a broad based and sustainable growth for poverty alleviation, on the other, there should be a corresponding reorientation and reformulation of our economic diplomacy with new contents and new mechanisms in an aggressive manner both at the government and the private sector levels. However, promotion and safeguarding of national economic interests through diversification and strengthening of economic relations with the friendly countries and international organization in areas of our national priority should continue to remain as the underlying objective of our economic diplomacy.

### **III. Institutional Structure and Mechanism**

Based on the basic approach and objectives as explained above, the following institutional structure and mechanism for integrated functioning of economic diplomacy with necessary communications, coordination and cooperation between and among the relevant agencies of the government and the private sector are suggested:

#### **A. Economic Policy and Coordination Council (EPCC)**

Economic diplomacy as an integral part of foreign policy is essentially an extension of domestic policies and priorities. Unless the appropriate government policies related to trade, tourism, foreign investment, official development assistance, employment and other economic policies are well in place, no instruments and mechanisms of economic diplomacy, however sound and efficient, can deliver the expected results. The instruments and mechanisms are only the means for implementation of the government policies both at home and abroad. As a member of WTO, for instance, Nepal has to comply with the WTO obligations within agreed time-frame to gain necessary credibility and predictability of the government policies for trade expansion. Likewise, the economic fundamentals of the national economy should be strong and stable with appropriate fiscal, monetary, foreign exchange and other economic policies to attract direct foreign investment. Tourism promotion needs, among other things, a normal law and order situation in the country.

So long as the official development assistance is needed for financing public sector development programmes, economic diplomacy at the government level should continue its efforts not only for more aid but also for its favourable terms in areas of national development priorities of the government. ODA is normally conditional – more so from international institutions such as the World Bank, IMF, ADB and EU. The commitments made by the government at the time of aid –agreements should, therefore, be honoured and implemented within the stipulated time-frame for the credibility of the government and for continuity of cooperation on the strength of such credibility. At present, some international institutions have already raised the issue of non-implementation of the commitments.

In order to review and evaluate, on a regular basis, external assistance and commitments thereof, some effective mechanism within the government at the political level should be in place without assigning this task to a particular Ministry or agency. A high level Economic Policy and Coordination Council (EPCC) is proposed for this purpose. In the past, similar committee (Foreign Aid Coordination Committee) worked for several years to give policy direction to external assistance. In recent years, request for aid is considered not so much on the basis of needs of a country, however genuine, as on the basis of performance which means not only the evaluation of aid utilization and its effectiveness but also on assessment of the commitments made by a recipient country to carryout economic and

governance reforms for creating investment friendly and market-oriented policy initiatives. This has been amply demonstrated in 2002/03 in Nepal. The new government, which was then constituted, carried out promptly not only the several past commitments but also a number of new reform measures which together established much needed credibility of the government, resulting not only in the flow of committed assistance but also the budgetary support for the first time in the history of external assistance to Nepal on a substantial scale. Besides, Nepal's status was raised from "low case" to "base case" scenario by the WB, making Nepal eligible for a higher level of assistance.

The proposed EPCC to be headed by the Prime Minister could be an effective mechanism for mainstreaming development policies and priorities into the foreign policy of the country, providing thereby focused direction and contents to economic diplomacy both at home and abroad. The proposed EPCC should be represented by the relevant sectoral Ministers, namely, Finance, Foreign Affairs, Industry and Trade, Labour and the Vice-Chairman of the National Planning Commission. Ministers of other sectoral Ministries may be invited to the EPCC meeting as and when necessary. The Secretaries of those Ministries represented at EPCC should also attend its meeting regularly, while those of other sectoral Ministries only when required. The Secretary of the MOFA should serve as Member-Secretary of EPCC for the reason that while the sectoral Ministries are responsible for promotion and facilitation of economic diplomacy at home, the MOFA is the only government agency having diplomatic Missions abroad to conduct economic diplomacy outside the country.

The specific functions of EPCC, as indicated above, should be the regular stock-taking of the government policies, priorities and programmes and review of the external economic affairs related to trade, tourism, investment, employment, ODA and other relevant issues for necessary policy decisions and directives. The EPCC meeting, preferably on a quarterly basis, should be preceded by the meeting of Consultative Committee (CC) which should prepare a fairly comprehensive report pinpointing the areas where improvements and policy decisions are required. Such report will, thus, serve as the agenda and the basis of EPCC meeting.

#### **Major Functions of Economic Policy and Coordination Council (EPCC)**

- Quarterly meeting and as and when necessary.
- Review of the government policies related to aid, trade, tourism, foreign investment, employment and other related issues.
- Identification of opportunities and challenges for further promotion of economic interests of the country.
- Policy decisions where needed.
- Future direction for further efforts in identified priority areas.

#### **B. Consultative Committee (CC)**

The proposed EPCC by the very nature of its membership cannot function on its own without necessary preparatory works at the administrative level for taking necessary policy decisions and also for giving necessary directives. Secondly, there is also the need of some regular forum at the highest administrative level exclusively for mutual sharing of information and exchange of views on outstanding issues related to further promotion of

trade, tourism, investment, employment and other economic interests with appropriate policy initiatives at the political level. Thirdly, for an effective conduct of economic diplomacy, such inter sectoral communications, coordination and cooperation are necessary. For all these reasons, a Consultative Committee is proposed. It may be co-chaired by the two relevant Ministers of Finance and Foreign Affairs with Secretaries of Finance, Foreign Affairs, Trade, Tourism and Labour as its members. The Secretaries of other Ministries may be invited as and when necessary. The Joint Secretary of the proposed Economic Affairs Division of the MOFA acts as Member-Secretary. The Ministers of Finance and Foreign Affairs are proposed to co-chair CC for several reasons. One is to give due importance to CC which should be capable of commanding the cooperation of other sectoral Ministries and take major decisions where necessary. Secondly, Ministry of Finance plays the crucial role in ODA and other major economic issues related to other sectoral Ministries which are responsible for implementation in their respective sectorial areas. The MOFA is primarily responsible for representing Nepal abroad through its Missions including economic affairs.

The proposed CC has three primary functions. One is to serve as a mechanism for mutual consultation and review of government policies, priorities, programmes and issues related to aid, trade, tourism, investment etc for further promotion of national interests. Secondly, it also serves as a forum for keeping economic affairs related Ministries including the MOFA well informed of the government policies, priorities and programmes. Such communications and cooperation are required for common approach and action for promotion of national economic interests. Thirdly, CC functions as a Secretariat of the EPCC not only to monitor and evaluate the implementation of the EPCC decisions, but also to present outstanding issues based on its evaluation for necessary decisions and directives of EPCC. For all these reasons the Joint Secretary of the Economic Affairs Division of MOFA acting as Member-Secretary of CC will have major responsibility which can be carried only with the cooperation of other sectoral Ministries.

#### **Major Functions of Consultative Committee (CC)**

- Meeting on quarterly basis and as and when necessary.
- Consultation and discussion on the government policies, priorities and programmes and other outstanding issues related to aid, trade, tourism, investment, employment based on the presentation of sectoral Ministries in clear and concrete terms.
- Identification of problem areas and policy decisions required at the political level in concrete terms.
- Serving as the Secretariat of EPCC (Preparation of agenda, review of the existing policies, priorities and programmes suggesting where new policy initiatives are required).

#### **C. Economic Units (EU)**

The existing organizational structure of the MOFA looks like watertight compartments without mutual interactions and communications either among themselves or with other sectoral Ministries in an institutionalized manner and on a regular basis. The organization is structured along territorial and regional divisions. As such, there is hardly any division or unit responsible for cross-cutting issues or intersectoral areas such as economic

diplomacy which is not confined to any region, country or territorial entity. If economic diplomacy is an integral part of total foreign policy, as it should be, economic diplomacy should also be an integral part of each division of the MOFA. Some mechanism should, therefore, be in place to make each division equally concerned with and responsible for, conducting economic diplomacy in a meaningful and competent manner. If pragmatism or the experience of the past is a dependable guide, the existing organizational structure can assimilate the suggested mechanism without any drastic reorganization. For mainstreaming of the economic diplomacy into the entire organizational structure without additional manpower and resources on a substantial scale, it is, therefore, proposed to dovetail Economic Unit (EU) with the existing four Divisions of the MOFA. The proposed EUs are much more simplified than those recommended by the PSG Report.

The primary functions of the Economic Unit (EU) in each relevant Division of the MOFA is to act as economic intelligence unit, keeping track of the relevant changes and developments in economic policies of the countries, regions and territories each Division represents through collection, and compilation of information and data both from their own sources and through the Missions abroad on a regular basis as a part of their routine work. Such information should be systematically processed and analysed and communicated to Economic Affairs Division of the MOFA on a regular basis. A lot of information can also be collected from sectoral Ministries and foreign Embassies and Missions stationed in Kathmandu. The focus of Economic Units should be collection of information which could serve as input to policy articulation and also relevant to further expansion of our trade, tourism, investment and employment opportunities abroad.

#### **Major Functions of Economic Units (EU)**

- Collection, and compilation of information and data on relevant changes and developments in economic policies of the concerned countries, regions and territories on a regular basis from their own sources, sectoral Ministries, Missions and from foreign Embassies and institutions.
- Systematic processing and analysis of the information and data and their communication to Economic Affairs Division (EAD) of the MOFA on periodic basis.
- Coordination and Cooperation with the EAD of the MOFA.

#### **D. Economic Affairs Division (EAD)**

Establishment of Economic Units is just one step towards reinforcing the MOFA for conducting economic diplomacy. Another major step is also necessary for communication, coordination and cooperation both within and outside the MOFA. For this purpose, a separate, and full fledged Division called Economic Affairs Division (EAD) within the MOFA is proposed. This Division will act virtually as the hub of economic diplomacy with several responsibilities. One of its functions is keep in constant communication with all Economic Units of other Divisions of the MOFA for collection of information and coordination with them. Second is the systematic processing and analysis of available information which can serve as inputs to government policy articulation for effective conduct of economic diplomacy. Third is to keep in regular contact with the Missions for two-way traffic –receiving necessary information from them and communicating them relevant

information. It is also to work as Secretariat of the Foreign Secretary in discharging his duties as Member-Secretary of EPCC and Chairperson of Partnership Forum. Above all, the chief of the Economic Affairs Division (Joint Secretary) has to serve as Member-Secretary of the Consultative Committee as well.

#### **Major Functions of Economic Affairs Division of MOFA**

- Collection, and compilation of information and data from Economic Units of the MOFA on a standard format and regular communication, coordination and cooperation with them.
- Collection and compilation of necessary information in a meaningful manner so that it can serve as inputs to policy decisions.
- Two-way feedback system – receiving necessary information from Embassies and Missions and sending them necessary information on a regular basis.
- Instruction to Embassies and Missions with standard format and guidelines for submission of their annual programmes with quantifiable targets where possible.
- Serving as the Secretariat of Foreign Secretary in discharging his duties as Member-Secretary of EPCC and as Chairperson of Private Sector Partnership Forum (PSPF).
- As a Secretariat, it has to maintain necessary data base and prepare all necessary documents for the meetings of EPCC, CC and PSPF.

#### **E. Embassies and Missions**

The role of our Embassies and Missions in economic diplomacy has to be made cost-effective and result-oriented. There are several reasons for their nominal role at present. One fundamental reason is that the role of the MOFA itself is virtually limited to acting only as a “post office” for sectoral Ministries which deal with ODA and other economic issues by themselves. Our own Embassies and Missions have virtually no knowledge or limited knowledge of what is going on with the governments of the countries where they are stationed (accredited). In the past, at the suggestion of a Royal Nepalese Ambassador, the MOFA initiated the practice of sending a copy of the letters requesting for assistance to concerned Embassies. Even without necessary details for the project/programme for which such requests were made, the concerned Ambassadors could pursue and expedite the matter with the governments of the host countries with positive results. If interested and knowledgeable, Ambassadors can even initiate negotiation for assistance for projects which were of interest to both the donor and the recipient countries with consent of the MOFA. There were cases of such initiatives resulting in substantial assistance. Such initiatives, however appreciable, are poor consolation. What is required is institutionalization of a system which can function irrespective of changes in individuals.

It is quite understandable that donor countries and institutions conduct their business through their own Missions and offices stationed at recipient countries. It is, therefore, necessary for the recipient country to deal directly with the Embassies and offices of donor countries and institutions rather than through its own Missions abroad. However, if the government of the recipient country could keep its Missions fully informed with all necessary details and instruct them to pursue the matter, they could present the case hopefully in a proper perspective or at least expedite the matter.

What is true of ODA is also true of other economic matters related to trade, tourism, investment etc which are the concerns of the sectoral Ministries and the private sector which have no direct institutional linkages with our Missions. The preoccupation and preparedness of our Missions are virtually limited to consular matters and internal administrative works like book-keeping along with some social and ceremonial activities which keep them apparently occupied.

In order to make our Missions meaningful in economic diplomacy, some feedback mechanism should be built in the system along with proper deployment of man-power, budgetary allocation and training/orientation, annual working plan/ programme with some quantifiable targets on a rational basis. There should, however, be no illusion that all this can happen in a short time. It is not only the question of mechanism. More than that, it is also the question of changing the attitude and mindset by doing away with the legacy of the past.

#### **Major Functions of Embassies and Missions**

- Collection, and compilation of latest information and data on Nepalese economy as suggested in Annex II from EAD of the MOFA and directly from sectoral Ministries where necessary.
- Collection and compilation of the latest information on the economy of the host country which can help in identification of potential areas for promotion of trade, tourism, investment, employment, technology etc.
- Preparation of annual programme to be implemented by the Missions independently and with cooperation of the Nepalese private sector and also the programmes to be implemented by the private sector with the cooperation of the Missions with focus on country-specific priority areas where the prospects are promising for promotion of Nepal's economic interests with quantifiable targets where possible.
- Projection of Nepal as a country with opportunities for expansion of trade, tourism and investment as a common minimum programme of all Missions.
- Progress report of programme implementation to EAD of the MOFA on four monthly basis.
- Official request for ODA to be pursued and expedited as per instruction from the MOFA.

#### **F. Private Sector Partnership Forum (PSPF)**

While the proposed EPCC, CC, EAD and EU along with the Missions will establish organic linkages between and among all agencies within the government concerned with economic affairs for common approach and collective efforts with necessary communications, coordination and cooperation, the major and active players of economic diplomacy are the people in the private sector in their roles as businessmen, industrialists, contractors, trekking and tour operators, bankers, investors etc. Some functional linkage should be forged for establishing a meaningful partnership between the government and the private sector for mutual communications, coordination and cooperation. It is precisely for this reason Private Sector Partnership Forum (PSPF) representing the private sector organization such as FNCCI, CNI, Chambers, bilateral chambers, commodity organization is proposed. The Forum may be headed by the Secretary of the MOFA with the Chief of EAD serving as Member-Secretary. Representatives, preferably Secretaries, of the relevant sectoral

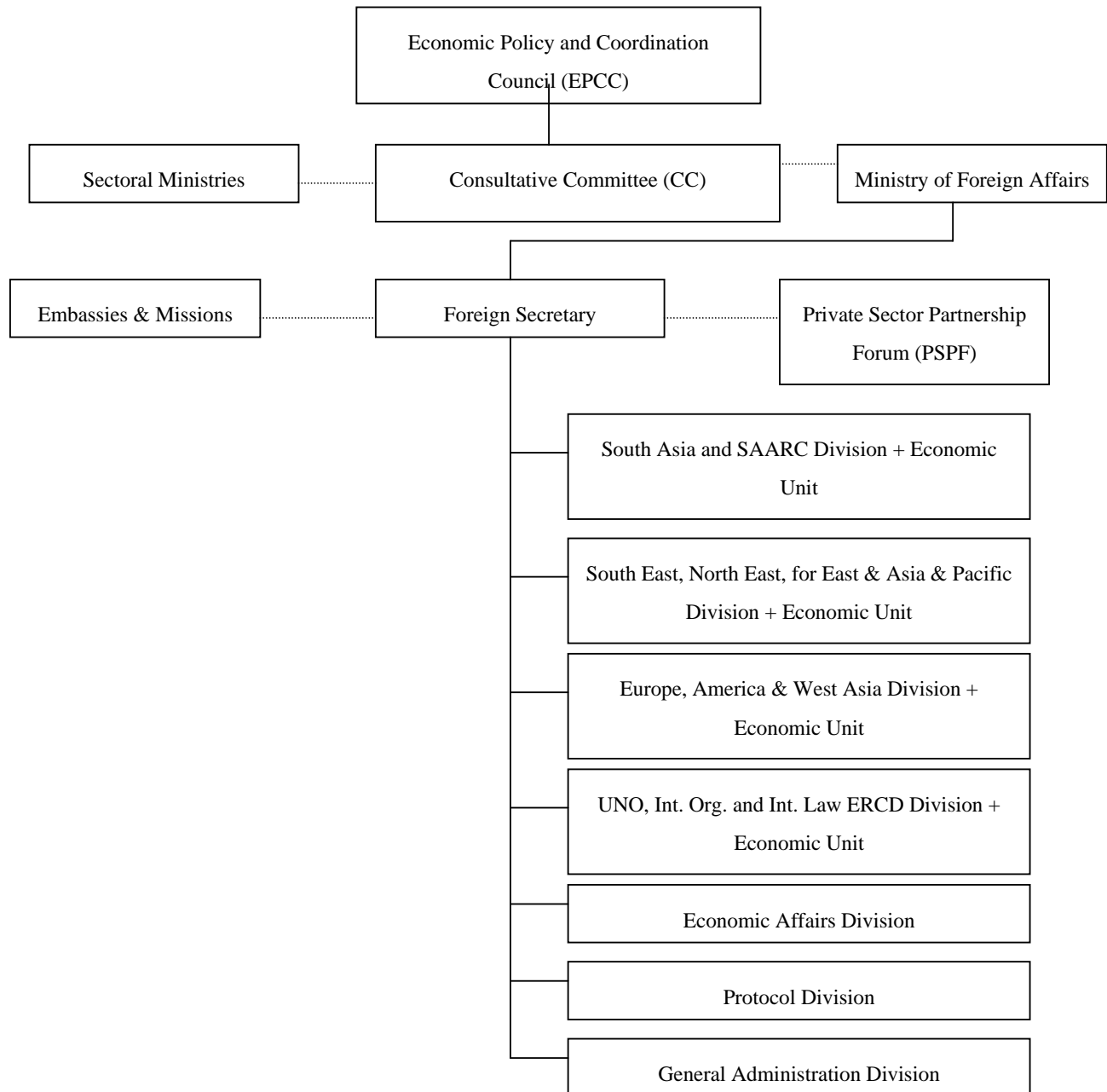
Ministries should also be included in the Forum. The Forum becomes more functional than formal only when it is output-oriented. It can be very much output-oriented only when it can generate concrete inputs to government policy articulation and rationalization and such inputs are also taken seriously by the government in its policy decisions. The Forum can also formulate joint promotional activities mutually sharing responsibilities for their implementation. In brief, the communication, coordination and cooperation between the government and the private sector will be functional and sustainable only when the private sector is convinced that the Forum is really useful and effective for further promotion of trade, tourism and investment.

**Major Functions of Private Sector Partnership Forum (PSPF)**

- Identification of policy and operational issues related to trade, tourism, investment, employment, technology transfer etc.
- Concrete suggestion for addressing the identified issues with options for further promotion of national economic interests.
- Presentation of the Forum outcomes at the levels of both CC and EPCC for necessary decisions/actions.
- Formulation of annual joint promotional activities, mutually sharing responsibilities for their implementation in clear terms.
- Forum meets at least twice a year and as and when necessary.

## G. Schematic Chart

The institutional structure and mechanisms as proposed above are summarized in the following schematic chart:



#### IV. Promotional Approaches

Despite the opening of the Nepalese economy through liberal economic policies, especially after 1990s, Nepal's economic relations with the outside world remain largely localized or concentrated in a few countries without much diversification, indicating the scope for harvesting opportunities and potentials for further promotion of Nepal's economic interests in trade, tourism, foreign investment, employment and in other areas. In foreign trade, for instance, India alone accounts for more than half of our exports and almost half of imports at present. Over the past decade, there has been less and less diversification with corresponding concentration of our foreign trade in India alone. In 1994/95 Nepal's export to India was only 17.7 percent of the total which increased to 59.3 percent by 2003/04, whereas the share of all other countries decreased from 82.3 percent to 40.7 percent over the same period. Likewise, imports from India which was only 30.8 percent in 1994/95 went up to 58.7 percent in 2003/04 with corresponding decline from other countries from 64.2 percent to 41.7 percent during the same period (Table 1). Equally striking is the very little trade with other SAARC countries, accounting for 2.4 percent of our exports and 1.2 percent of our imports in 2003/04, in spite of preferential trading arrangement since 1985 within the SAARC framework (Table II). Equally disturbing is the concentration of our major exports to one or two countries. The readymade garments, for instance, accounting for more than half of our total overseas exports in 2002/03, depend on the US market with its share of almost 80 percent of total overseas garment exports. Likewise, the woolen carpets accounting for one-third of our total overseas exports depend on German market for more than half of the exports in 2001/02.

**Table I**  
**Direction of Foreign Trade of Nepal**

	(Rs in Billion)									
Description	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
<b>Exports (FOB)</b>										
Total	17.64 (100.0)	19.88 (100.0)	22.63 (100.0)	27.51 (100.0)	35.68 (100.0)	49.82 (100.0)	55.65 (100.0)	46.94 (100.0)	49.93 (100.0)	52.72 (100.0)
To India	3.12 (17.7)	3.68 (18.5)	5.22 (23.1)	8.79 (32.0)	12.53 (35.1)	21.22 (42.6)	26.03 (46.8)	27.96 (59.6)	26.43 (52.9)	31.24 (59.3)
To other countries	14.52 (82.3)	16.20 (81.5)	17.41 (76.9)	18.72 (68.0)	23.15 (64.9)	28.60 (57.4)	29.62 (53.2)	18.98 (40.4)	23.50 (47.1)	21.48 (40.7)
<b>Imports (CIF)</b>										
Total	63.68 (100.0)	74.45 (100.0)	93.55 (100.0)	89.00 (100.0)	87.53 (100.0)	108.50 (100.0)	115.69 (100.0)	107.39 (100.0)	124.35 (100.0)	139.14 (100.0)
From India	19.61 (30.8)	24.40 (32.8)	24.85 (26.6)	27.33 (30.7)	32.12 (36.7)	39.66 (36.6)	45.21 (39.1)	56.62 (52.7)	70.92 (57.0)	81.65 (58.7)
From other countries	44.07 (69.2)	50.05 (67.2)	68.70 (73.4)	61.67 (69.3)	55.41 (63.3)	68.84 (63.4)	70.48 (60.9)	50.77 (47.3)	53.43 (43.0)	57.49 (41.3)

\*Figures in brackets indicate percentage of respective totals.

Source: Nepal and the World: A Statistical Profile, 2004, FNCCI, Kathmandu, Nepal, p 41.

**Table II**  
**Nepal's Trade with SAARC Countries**  
**(Percentage of Total Exports and Imports of Nepal)**

	1999/2000	2000/01	2001/02	2002/03	2003/04
Total Exports to SAARC Countries	100.00	100.00	100.00	100.00	100.00
To India	99.18	97.87	98.84	98.00	97.57
To other SAARC countries	0.82	1.18	1.16	2.00	2.43
Total Imports from SAARC Countries	100.00	100.00	100.00	100.00	100.00
From India	97.80	98.58	98.23	99.12	98.76
From other SAARC countries	2.20	1.42	1.77	0.88	1.24

Source: Ibid, p. 190

Out of the total foreign investment of Rs. 54 billion in the form of authorized capital\* in operating joint venture industries numbering about 400 as of May 2003, India alone accounted for 28.6 percent (Rs. 13.9 billion), USA, 17.5 percent (Rs. 9.55 billion) and a group of European countries, 21.6 percent (Rs. 8.35 billion), while the other neighbouring SAARC countries and booming ASEAN countries accounted for only 0.83 percent (Rs. 0.43 billion) and 2.5 percent (Rs. 1.43 billion), respectively. China, the next door neighbour with the fastest growing economy in the world accounted for only 4.0 percent (Rs. 2.21 billion). In number of such joint venture industries also, India's share was more than a quarter (114 industries) while that of China, SAARC countries (other than India) and ASEAN countries, only 7.0, 2.5, and 2.7 percentages, respectively.

**Table III**  
**Private Foreign Investment in Operating Joint Venture Industries, May 2003**

S. N.	Country	Number of Joint Venture	Authorized Capital (Rs. Million)
1.	India	114 (28.6)	13904 (25.4)
2.	Other SAARC countries	10 (2.5)	433 (0.8)
3.	ASEAN countries	11 (2.7)	1342 (2.5)
4.	Japan	44 (11.1)	1576 (2.9)
5.	China	28 (7.0)	2207 (4.0)
6.	South Korea	21 (5.3)	611 (1.1)
7.	Europe	86 (21.6)	8356 (15.3)
8.	USA	48 (12.0)	9552 (17.5)
9.	Others	36 (9.0)	16722 (30.5)
	Total	398 (100.0)	54703 (100.0)

\*Figures in parenthesis indicate percentage of the respective totals.

Source: Calculated from venture wise details in Nepal and the World: Statistical Profile, 2004, FNCCI, pp. 70-82.

It is estimated that the labour force in Nepal is increasing by about 300 thousand persons every year. The National Planning Commission has estimated the fully unemployed at 5 percent of the labour force and the underemployed at 32.3 percent in 2002/03. By the end of the current Tenth Plan in 2006/07, the corresponding proportions are estimated to decline to 4.1 percent and 22.3 percent, respectively.\* This is very unlikely for the simple reason that the estimates are based on the targeted GDP growth rate of 6.2 percent a year during the Plan

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\* Actual paid-up capital not known

\* The Tenth Plan, National Planning Commission, HMG, p. 99

period. The average annual GDP growth during the first three years of the Plan (2002/03 – 2004/05) is likely to be just a little over half of the targeted rate. The insurgency over the past nine years has not only displaced the people from the rural areas but also forced them to runaway from their villages just to escape from forcible recruitment by the insurgents. The employment opportunities in the country are also drying up along with the declining economy largely due to insurgency. It is, therefore, natural for the able youths of the country to seek jobs outside the country. While the authentic figures are not available, it is believed that somewhere around one million (even more), Nepalese are presently working abroad. Over the past one decade, more than 346 thousand Nepalese were reported to have gone abroad for employment.

**Table IV**  
**Employment in Foreign Countries**

Name of Country	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	Total
Saudi Arab	2290	1041	1469	1959	4825	14948	17867	17966	21094	17990	101449
2. Qatar	391	245	505	477	1802	9030	8791	14086	19898	26850	82072
3. United Arab Emirate	132		23	95	284	1417	6360	8950	8411	12650	38322
4. Bahrain	91				111	787	583	904	695	818	3989
5. Kuwait	361	13	18	107	137	609	465	885	378	907	3880
6. Oman	43				7	90	32	68	96	44	380
7. Hong Kong	63	86	59	67	155	301	209	331	482	564	2317
8. Saipan			5	48	143		1	11	38	30	276
9. Japan						26	25	23	26	28	128
10. Maldives						46	71	35	42	15	209
11. Malaysia					89	151	171	11306	52926	43812	108455
12. Macao						102	119	82	50	41	394
13. Korea	234	774	55	455	192	267	766	245	131	712	3831
14. Brunei				51					132	239	422
15. 43 other countries				51		22	83	133	367	355	1011
Total	3605	2159	2134	3208	7745	27774	35460	55892	104372	104700	346049

Source: Ministry of Labour and Transport Management, HMG, Nepal

The foreign employment is serving three purposes. One is to act as a safety-valve for the frustration and desperation of the unemployed youths with potential for social unrest which may add fuel to the on-going insurgency in the country. Second, it is the major source of the household incomes. According to the second Nepal Living Standard Survey, 2003/04 almost one-third of households received remittances and more than half of such remittances come from countries other than India.\* Third, it has provided a cushion to the economy with huge remittances largely compensating the growing trade deficit. As may be seen from the Table below, the huge current account surplus is largely due the workers remittances.

**Table V**  
**Balance of Payments Position**

Particulars	Rs in Billion			
	1999/2000	2000/01	2001/02	2002/03
1. Current A/C Balance	17.08	20.14	18.16	11.61
Balance on Goods	-52.25	-56.45	-53.35	-70.29
Services Net	11.92	9.30	3.94	7.05
Balance on Goods & Services	-40.33	-47.15	-49.41	-63.24
Income Net	2.36	1.70	-0.60	-0.67
Current Transfer Net	55.06	65.59	68.18	75.53
Current Transfer: Credit	56.95	67.02	70.15	77.76
(a) Grants	(12.87)	(12.05)	(12.65)	(13.84)
(b) Workers Remittance	(36.82)	(47.21)	(47.53)	(54.20)
(c) Pensions	(5.94)	(6.31)	(8.27)	(7.33)
(d) Others	(1.32)	(1.45)	(1.70)	(2.39)
Current Transfer : Debit	-1.89	-1.43	-1.97	-2.23
2. Capital A/C Balance	7.90	6.18	5.69	5.39
Total of 1 + 2	24.98	26.32	23.85	17.00

Source: Economic Survey, 2003/04

So far only three countries, Saudi Arabia, Qatar and Malaysia, provided employment to more than 80 percent of the Nepalese youths who went abroad during the last decade. The effective and aggressive diplomatic initiatives are needed to explore further possibilities in Arab countries, Korea, Japan, Malaysia and some other countries facing impending labour shortage due to ageing population. However, the foreign employment happens to be one area fraught with numerous problems such as the problem of false and forged documents, several cases of deportation, false promise of jobs in fictitious companies abroad, actual salary payments much less than advertised rates, high cost of commission almost like extortion and a host of similar problems victimizing the youths desperately seeking jobs abroad.

It is not that the government is unaware of these problems. While presenting the government budget for fiscal year 2002/03, for instance, commitment was made by the government to send one hundred thousand (100000 persons) youths of the very poor, Dalit and Janajati (indigenous) communities with priority to the youths from the insurgency affected areas, providing up to one hundred thousand loan from the commercial banks without collateral against the guarantees of the concerned man-power companies. In the following year's budget of 2003/04, the government proposed to establish a Nepal Employment Bank in partnership with the organization of man-power companies for providing loans to the youths of depressed communities and also for channeling remittances

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\* Nepal Living Standard Survey, Vol. II, Central Bureau of Statistics, HMG, December 2004, p. 74

through the proposed bank. Again in the following year's budget of 2004/05, the government made even more commitments such as creation of "Loan Fund" for providing loans to selected youths from Dalit, exploited and poor communities who cannot afford to go abroad on their own, establishment of three "Skill Training Centres" in partnership with the private sector for training free of cost or partial cost, appointment of "Labour Attache" in some important Missions to explore employment opportunities and look after the interests of the Nepalese workers including their rights and security and finally, arrangement for "Foreign Employment Information" to rural youths through District Development Committees etc. Most or all of these commitments turned out to be merely the expression of intentions without implementation.

Some of these commitments, however, deserve serious consideration. There is no functional/institutional mechanism for any role of our Missions in respect of such foreign employment. The Missions come in the picture only when our youths in foreign countries contact them when they are stranded or in some serious problem such as deportation and imprisonment. In the first place, the government should establish and maintain the reliability and credibility of the man-power companies, presently more than 400, with necessary legal measures so as to minimize the irregular practices. The man-power companies should be required to submit to the government (Ministry of Labour/Dept) the documents and details of the foreign companies/agencies when they are sending Nepalese youths for employment. Once the Labour Ministry/Department receives all documents, they should be cross-checked through our Missions abroad regarding their reliability, legal status and standing, and consistency (or otherwise) with the advertisements made by the man-power companies before such companies are allowed to send out the youths for the advertised jobs.

Secondly, as most of the youths are presently going to Arab countries, the necessary documents and details may be in the Arabic language. Verification by the government and the Missions will be possible only when there is some one with the knowledge of the Arabic language. Thirdly, wherever possible, attempts should be made for some sort of bilateral agreement or MOU with the governments of the host countries to safeguard the Nepalese interests against the unfair practices of the employing companies in their countries as the one we already have with Qatar. Fourthly, at least in some important countries like Saudi Arabia, Qatar and Malaysia, the position of labour attaché, as mentioned above, should be created in our Missions and either the government employee with the knowledge of local language or a qualified local person should be appointed. Fifthly, some type of contingency fund may also be required for use by the Missions as and when required to help the Nepalese youths in times of difficulties. Such government fund can be created by imposition of some annual welfare-fees on man-power companies. Additional resources may also be mobilized for the fund by imposing surcharges at the time of registration of man-power companies or renewal of their registration. Finally, considering the importance of foreign employment, it may be suggested to commission a separate study on foreign employment which need reforms in many respects.

While there is a sharp decline in tourists inflow in Nepal in the past few years partly due to conflict situation and partly due to misinformation of such situation abroad, the fact is that we have not yet been in a position to promote tourism even in Asian countries (other than India) and in other potential areas such as Western Europe and America. Of the total tourists visiting Nepal in 2003 from North, South and Central America (total 25254), for instance, US alone accounted for about 75 percent (18838). Two – thirds of the total number of tourists (95162) from Western Europe visited Nepal in 2003 only from four countries (UK, Germany,

France and the Netherlands). India alone accounted for 43.2 percent of the total tourists (200045) from Asia in 2003. The corresponding proportion in 1999 was 56 percent. Other SAARC countries and ASEAN countries contributed only 10.6 percent and 11.9 percent, respectively in 2003. From China, the most populous country and our immediate neighbour, only 7562 tourists (3.8 percent) visited Nepal in 2003.

**Table VI**  
**Tourists Arrival by Regions**

<b>Region/Year</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
1. Asia	249793 (50.8)	224532 (48.4)	164989 (45.2)	148670 (54.0)	200049 (59.2)
2. North, South & Central America	53006 (10.8)	55108 (0.9)	43754 (12.1)	24058 (8.7)	25254 (7.5)
3. Western Europe	164913 (33.6)	159325 (34.4)	131661 (36.4)	87912 (31.9)	95162 (28.1)
4. Rest of World	23792 (4.8)	24681 (5.3)	20883 (5.8)	14828 (5.4)	17671 (5.2)
Total (1+2+3+4)	491504 (100.0)	463646 (100.0)	361237 (100.0)	275468 (100.0)	338132 (100.0)

Source: Ibid, pp 164-165

**Table VII**  
**Tourists Arrival by Countries and Regions**

**(In '000)**

<b>Countries &amp; Regions</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Asia</b>					
1. India	140.66 (56.3)	95.91 (42.7)	64.32 (39.0)	66.77 (44.9)	86.36 (43.2)
2. Other SAARC countries	26.94 (10.8)	29.60 (13.29)	21.64 (13.1)	18.21 (12.2)	21.19 (10.6)
3. ASEAN Countries	1411 (5.6)	19.60 (8.7)	12.98 (7.9)	1019 (6.9)	23.28 (11.9)
4. China	5.64 (2.3)	7.14 (3.2)	8.74 (5.3)	8.71 (5.9)	7.56 (3.8)
5. Japan	38.89 (15.6)	41.07 (18.3)	28.83 (17.5)	23.22 (15.6)	27.41 (13.7)
6. South Korea	5.37 (2.1)	8.88 (4.0)	11.57 (7.0)	8.8 (5.9)	13.20 (6.6)
7. Other Asian Country	18.18 (7.3)	22.32 (9.9)	16.92 (10.2)	12.76 (8.6)	20.53 (10.2)
Asia Total	249.79 (100.0)	224.53 (100.0)	164.99 (100.0)	148.67 (100.0)	200.04 (100.0)
<b>North, South &amp; Central America</b>					
1. USA	39.33 (74.2)	40.44 (73.4)	32.05 (73.3)	17.52 (72.8)	18.83 (74.6)
2. Others	13.67 (25.8)	14.66 (26.6)	11.70 (26.7)	6.54 (27.2)	6.42 (25.4)
America Total	53.00 (100.0)	55.10 (100.0)	43.75 (100.0)	24.06 (100.0)	25.35 (100.0)
<b>Western Europe</b>					
1. UK	36.85 (22.3)	37.76 (23.7)	33.53 (23.9)	21.00 (72.8)	22.10 (23.2)
2. Germany	26.38 (16.0)	26.26 (16.5)	21.58 (16.4)	15.77 (17.9)	14.87 (15.6)
3. Netherlands	17.20 (10.4)	16.21 (10.2)	13.66 (10.4)	8.30 (9.5)	8.44 (8.9)
4. France	24.49 (14.9)	24.51 (15.4)	21.19 (16.1)	13.38 (15.2)	15.86 (16.7)
5. Others	59.99 (36.4)	54.58 (34.2)	41.70 (31.6)	29.45 (33.5)	33.89 (35.6)
Europe Total	164.91 (100.0)	159.32 (100.0)	131.66 (100.0)	87.91 (100.0)	95.25 (100.0)

Source: Ibid, pp 164-165

The foregoing analysis indicates where economic diplomacy in future should be directed for expansion and diversification of our trade, tourism, investment with the concentration of initial efforts preferably in the most potential and promising areas such as, for instance, tourism promotion in China, Japan, Asian countries, Western Europe, foreign investment promotion in Asia, Japan, China etc. Proper identification of such potential areas by country and commodities, however, needs careful studies by the private sector, the government and the Missions.

Secondly, the partnership between the government and the private sector should be the driving force behind all our promotional activities, sharing responsibilities commensurate with their respective abilities and authorities. At the government level, it is the primary responsibility of the government to articulate and implement economic policies which are market oriented and investment friendly. This needs more economic and governance reforms

to establish credibility and predictability of the government policies. Not only to comply with the obligations of WTO as its member, but also to offset some of the environmental disadvantages of the country, more liberal economic policies may be required to stimulate domestic investment and attract private foreign investment along with technology transfer which together can increase production and overcome the “Supply Constraint” which is limiting our export trade expansion and diversification by countries and commodities. As stated elsewhere in this study, no mechanism, however appropriate and efficient, can deliver the expected output without the appropriate and credible economic policies related to trade, tourism, investment, technology transfer etc.

The competitive capability of Nepal is to be enhanced. Productivity both in industry and agriculture is low due to several reasons such as inadequate infrastructure, high transport and energy costs, labour laws, inadequate legal framework, poor technology, poor regulatory mechanism, low savings, low investment and above all, poor governance infected with corrupt practices. This is where the EPCC should act on the advice of CC with inputs from PSPF as well. The MOFA should also mobilize its Embassies and Missions along with Royal Nepalese Honorary Consuls and Consul Generals with clear guidelines and instruction for their promotional activities in priority areas by countries and commodities. At present, we have 47 Royal Nepalese Honorary Consul Generals and Consuls in 32 countries. The recent amendments to Honourary Consulate Regulation is a right step in this direction and the system of annual plan of the Missions, as suggested in this study, could be an effective vehicle for such promotional activities.

Whenever possible, the private sector, concerned Ministries and Missions can work and share the costs together on some specific promotional activities like interactions with the private sector representatives in host countries, Nepal-projection events, exhibitions, sample studies and similar other activities with specific objectives.

The private sector on its part should also work out and implement promotional activities with specific objectives of its own. Wherever possible, the government should also support and facilitate such private sector promotional activities with some incentives, however nominal, such as cost-free passport, hassle-free customs clearance of exhibition materials, logistic support, lobbying at the political level by our Missions etc. which may not cost much to the government, but create an enabling environment for such activities. The private sector can also mobilize the good offices of several private sector bilateral economic organizations. The FNCCI alone, for instance, has already signed MOU (Memorandum of Understanding) with as many as 27 foreign chambers and organizations - as many as 18 in Asia, 6 in Europe and 4 in other countries. The Federation of Nepalese Chambers of Commerce and Confederation of Nepalese Industries also have similar bilateral cooperative arrangements. As many as 26 countries including 14 from Europe have appointed Nepalese business leaders as their Honourary Consul/Consul Generals in Nepal. Their functions are not limited to consular affairs alone. They are concerned with economic affairs as well. In order words, there already exists some useful institutional infrastructure for promotion of trade, investment, tourism and other economic relations with friendly countries. What is required is the capacity to make the best use of this infrastructure through proper mobilization and motivation.

The private sector can also make substantive contribution through the proposed Forum (Private Sector Partnership Forum) not only with its inputs for policy reorientation and reforms where needed, but also with joint promotional activities with sectoral Ministries and Missions abroad.

Annex III provides some illustrative promotional activities by specific areas to be undertaken by the concerned agencies.

While institutional and structural mechanisms coupled with enabling policy environment are necessary pre-conditions for attaining any specific objective, it is the man who actually runs the institutions and mechanisms for which they are created. Human resource is the most crucial and variable input in the sense that its quality determines the output. Economic diplomacy like any other undertaking needs quality manpower. It is not necessary that all those involved and engaged in economic diplomacy in various capacities and at various levels should be specialists. But a general understanding of the national economy, the government policies, plans, priorities and programmes regarding overall and sectoral development and related laws and regulations is perhaps the minimum level of knowledge required for conducting economic diplomacy in a meaningful manner. Knowledge is largely acquired. Proper training and orientation can serve as effective vehicle for acquisition of new knowledge, provided there is will and motivation for the same.

At present, there is no established system for such training and orientation based on a well structured package of contents as suggested in Annex II. Such orientation may be organized in the form of a colloquium for those already working in the MOFA and those to be assigned in our Missions abroad either by the EAD of the MOFA or by the Institute of Foreign Affairs with cooperation of the knowledgeable persons from sectoral Ministries and professional and experts from outside the government.

Diplomacy as an art of negotiation needs, among others, ability of expression and persuasion, grasp of the subject matter, understanding of others position and perception and capacity of articulation of options for accommodation of others views without compromising one's own vital interests. So long as we undermine the human input, all other inputs will not produce the intended output. Diplomatic assignment should not be treated as a post of reward and rehabilitation. On the contrary, it should be considered as a responsible position for dynamism and reorientation, matching the emerging challenges and opportunities in a changing world of competition in which only the fittest can survive.

## **V. Potential Sources for Generation of Resources**

In a resource-constrained country like Nepal, the government budgetary allocation and man-power deployment should be cost-effective. The suggestion for rationalization of the MOFA and its Missions along with re-assignment of available manpower on some objective criteria such as the placement of right man in right place, nature and extent of work load, importance of Missions in terms of possibilities and potentials for further promotion of economic interests of the country and critical examination of the possibilities of reducing the cost of running our Missions, will certainly result in better use of resources. As the Table VI below shows, the man-power allocation to our Missions abroad does not appear consistent with the importance of the Missions. Japan, for instance, account for a substantial proportion of our bilateral ODA, tourists inflow, private investment and also provides immense opportunities for further promotion of our economic interests. The man-power allocation in Tokyo Embassy is seriously disproportionate to its importance, while in some other Missions, some positions appear redundant. Within the MOFA, the manpower constraint presently experienced is the result of recent abolition of several positions as part of the government

policy of downsizing. However, downsizing should also ensure right-sizing which does not seem to be the case so far as the MOFA is concerned.

**Table VIII**  
**Manpower in Royal Nepalese Embassies**

S. N.	Country	Ambassador	Minister	Minister Counselor	Counselor	Military Attaché	1st Secretary	2nd Secretary	3rd Secretary	Attaché	Total
1	Bangladesh	1		1					1	1	4
2	Belgium	1		1			2 x			1	5
3	China	1	1	1		1	1		1	2	8
4	Egypt	1					1			1	3
5	France	1			1				1		3
6	Germany	1		1					1	1	4
7	India	1	2 *	1	4	1	3		2	5	19
8	Japan	1		1						2	4
9	Malaysia	+		1+					1		2
10	Myanmar	1						1	1	1	4
11	Pakistan	1		1						1	3
12	Qatar	1					1			1	3
13	Russia	1					1		1		3
14	Saudi Arabia	1					1			1	3
15	Sri Lanka	1					1		1		3
16	Thailand	1					1		1	1	4
17	United Arab Emirates	+		1+				1			2
18	UK	1		1		1			1	1	5
19	USA	1		1		1	1		1		5
	Total	17	3	11	5	4	13	2	4	19	87

\* one is Minister (Economic). + Charge'd Affairs. x one is designare

Source: Ministry of Foreign Affairs, Protocol Division, June 2004

The actual expenditure on 19 Royal Nepalese Embassies during the fiscal year 2003/04 amounted to Rs. 456 million of which salary and allowances accounted for 46.6 percent, rent and office operation (house rent, telephone, heating oil, gas, household goods, office consumables etc) accounted for 51.2 percent. The expenditure pattern of 5 Permanent Missions is not different from that of Embassies. The embassies of some South Asian Countries in Japan do not bear the costs of rent and utilities of officials. The officials themselves pay the rent of their rented houses and other bills an account of household furnishing and utilities (electricity, telephone, gas, water, heating oil etc.) However, based on local costs of living and price indices (or on some criteria), the reasonable costs of such housing and utilities are incorporated in the allowances of the officials. Such arrangements have several merits. First, it will certainly reduce the liability of the government as it will

eliminate the costs of carelessness and imprudence. Secondly, it will cut down to the bone the Embassy works of accounting and book keeping, making more time available for better use. More than anything else, the normal problem of balancing the ever growing demands of the Embassy staff for their household furnishing and others with the stringent budgetary constraints will be automatically resolved, creating within Embassy a healthy environment often polluted with the human problem of meeting the unsaturated staff demands with fixed budgetary allocations under different heads.

There could be another possibility of reducing the costs of our Embassies and Missions by substituting the government officials of junior level by local staff even if it needs a higher pay scale. This will eliminate altogether the costs on account of allowances, housing, furnishing, utilities and utensils which together account for a larger part of the Embassy and Mission expenditures. Likewise, it will also be much less expensive for the government to send officials, as and when the situation so demands, on a short visits to Embassies and Missions in countries quite close to home rather than to create permanent positions and posting officials on a residential basis.

**Table IX**  
**Actual Expenditures on Embassies and Missions in 2003/04**

S.N.	Budget Heads	Amount (Rs '000)	Percentage
<b>19 Royal Nepalese Embassies</b>			
1.	Salary	75,391	16.54
2.	Allowances	137,111	30.07
3.	Rent	124,681	27.34
4.	Utilities and Office Operation	108,866	23.87
5.	Capital Expenditure	9952	2.18
	Total	456,001	100.00
<b>5 Royal Nepalese Permanent Missions</b>			
1.	Salary	21,471	14.97
2.	Allowances	56,494	39.40
3.	Rent	42,874	29.90
4.	Utilities and Office Operation	22,007	15.35
5.	Capital Expenditure	541	0.38
	Total	143,387	100.00

Source: Ministry of Foreign Affairs, HMG

While the critical review of the existing man-power and expenditure of our Embassies and Missions along the lines suggested above will generate or release some resources for funding activities related to economic diplomacy, such resources alone will not be enough. The shortfall may be made good in another way. Until 2003/04 fiscal year, budgetary allocations to Embassies and Missions were made under the so-called "Regular Budget" and no fund allocated under the "Development Budget" either because the MOFA had not made request with concrete proposals for promotion of economic diplomacy or the request with such proposals for some promotional activities was not entertained. While we are prepared to spend as much as Rs 600 million or more every year in running our Embassies and Missions virtually for consular and ceremonial activities, we are not prepared to allocate a few millions

for promotion of trade, tourism, investment, employment etc. through our Embassies and Missions.

While the government should take steps to minimize the costs of running our Embassies and Missions along the lines suggested above, reasonable budgetary allocation for promotional activities in the areas of trade, tourism, investment, employment etc., initially in some promising countries will make our Missions cost-effective through reorientation and redirection of their functions and activities, matching the new challenges and opportunities emerging from our policy of liberalization and globalization. As a step towards such orientation, it is proposed to introduce the system of annual plan/ programme of our Embassies with quantifiable targets, where possible. Such annual programmes should also be discussed at the PSPF for mobilization of the private sector cooperation for joint efforts. The present “penny wise and pound foolish” policy should be discouraged with a positive attitude of giving a fair chance to reorientation of our Missions for playing their overdue role in economic diplomacy.

While making budgetary allocation to trade, tourism, investment and employment related Ministries, a small fraction of their total allocated budget may be exclusively earmarked for undertaking promotional activities abroad through our Embassies or jointly by them together.

The MOFA may also mobilize the resources of the private sector and some autonomous organizations through the proposed Forum (PSPF) for undertaking specific promotional activities abroad. The FNCCI, for example, collects 0.12 percent of FOB (free of board) invoice while issuing certificate of origin. Carpet and Wool Development Board charges Rs 3 and Rs 5 per square meter up to 80 knots and above 80 knots, respectively for GSP (generalized system of preferences) Form, while Garment Association of Nepal levies Rs 150 per one recommendation letter to customs on export of garments to European Union. Nepal Cotton Towel Experts Association charges 0.05 percent of the invoice value on certain category of cotton towels while recommending for export to USA. Trade Promotion Centre also charges Rs 25 per set of GSP Form. Nepal Tourism Board, which used to collect until recently 2 percent on all bills of hotels, travel and tour agencies registered with VAT offices (value added tax), now receives lumpsum grant from the government for promotion of tourism. Promotion of specific commodities or specific promotional activities may be jointly undertaken with the cooperation of such organizations having resources.

The recent amendment to Honourary Consulates Regulation has authorized the Royal Nepalese Honourary Consuls/Consul Generals to collect 20 percent additional charge as service fee which they can spend on their office operations and on trade and tourism promotional activities. Perhaps the government may look into the possibility of authorizing Embassies and Missions to charge some reasonable fee for certain specified services/activities such as market survey information, information on investment opportunities, orientation on laws, regulations and procedures related to establishment of industries in Nepal, exhibitions etc.

Our Embassies and Missions can also initiate and undertake promotional activities either without any cost or with very little cost, depending on their capacities for mobilization and motivation. Perhaps in every country, where we have our Embassies or Missions, there are either Nepal related NGOs/INGOs, Nepali residents’ organizations, Honourary Consuls/Consul Generals, trekking, tour and mountaineering organizations or friendship organizations. Our Embassies and Missions can do some promotional activities with them. If supported them once with some grant assistance for activities like cultural programmes and

exhibitions, for instance, the income generated through such activities may be recycled by them for organising similar promotional activities in future as well.

## **VI. Information Networking Modality**

The institutional mechanism, as elaborated above, are designed precisely for information networking and dissemination through the institutionalized channels for necessary communications and feedback for a well-informed and well-coordinated diplomatic initiatives in economic affairs. The modality is like a two-way traffic between and among the various agencies of the government and the private sector concerned with economic affairs, both at home and abroad.

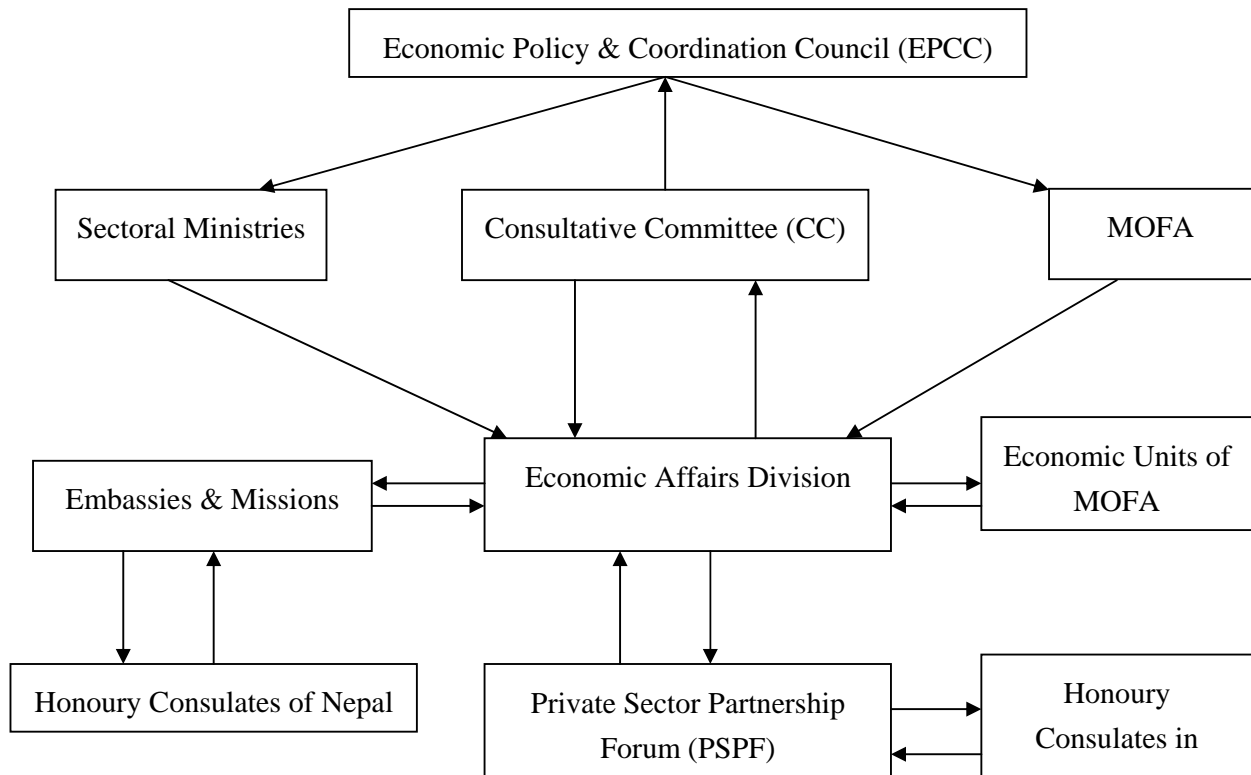
At present, the MOFA is structurally and professionally deficient for effective conduct of economic diplomacy which encompasses the entire gamut of the government policies, priorities and programmes in general and in specific areas such as aid, trade, tourism, investment, employment etc. As economic diplomacy is an integral part of total foreign policy, cutting across all territorial and regional divisions of the MOFA, each such division should be professionally prepared with relevant territorial and regional information. As explained elsewhere in this study, economic diplomacy should not be compartmentalized in one single division/section. All the existing divisions should be brought into the mainstream through de-compartmentalization of economic diplomacy with shared responsibility and with the sense of belonging and ownership as well. This is the rationale for establishment of Economic Unit within each territorial and regional Divisions of the MOFA for feeding EAD with relevant information on economic policies of the territories and regions they represent.

Likewise, the MOFA will not be in a position to undertake diplomatic initiatives in economic affairs without the necessary inputs and cooperation from the sectoral Ministries. For this, the Consultative Committee, CC, is proposed not only for sharing information but also for identification of issues which need decisions at the political level for promotion of national economic interests both at home and abroad. It is for such decisions as well as for necessary coordination and direction of policy orientation, EPCC is proposed and its decisions and directives are to be implemented by the concerned sectoral Ministries and the MOFA as the case may be.

The proposed PSPF will serve as a bridge and conduit for two-way feedback system between the government and the private sector which, in its turn, can also mobilize the contribution and cooperation of Honourary Consulates of friendly countries in Nepal. Likewise, our Embassies and Missions should also mobilize the support of Honourary Consulates of Nepal abroad.

As already stated above, EAD of the MOFA has to act as a hub, receiving necessary information and instructions from all relevant sources and disseminating them to all relevant agencies. Besides, it has to work as a secretariat of both CC and PSPF for which it has to do a serious analytical works. The following schematic presentation shows how the modality of the networking of information and dissemination for necessary coordination and cooperation between and among all agencies both within the government and the private sector actually works:

**SCHEMATIC PRESENTATION  
OF  
INFORMATION NETWORKING & DISSEMINATION**



→ Arrows indicate the flow of information

The schematic presentation above clearly shows the flow of information between and among all the relevant agencies both within and outside the government, thus establishing an all inclusive type of information networking system for mutual communications, coordination and cooperation so essential for effective conduct of economic diplomacy. It also shows that the information between the Embassies and the sectoral Ministries is normally communicated through the Economic Affairs Division of the MOFA. This ensures an institutionalization of the system. This does not, however, mean that the Embassies should not contact the sectoral Ministries when some important information is urgently needed. Likewise, the annual promotional programmes of the Embassies should be discussed at the PSPF where the economic affairs related sectoral Ministries are also represented. This will help in formulation and implementation of the promotional activities jointly between the government and the private sector, thus ensuring partnership in action as well.

For proper storage, immediate retrieval and also for easy access and wider dissemination, it should be very much cost-effective to use electronic media with website facilities by our Embassies and Missions as well by the Economic Affairs Division of the MOFA which is expected to serve as the hub in conducting economic diplomacy.

**Annex I: Policy Action Matrix for Implementation and Operationalization of the  
Report (Initial Actions)**

<b>Constraints</b>	<b>Action to be taken</b>	<b>Indicators for action to be taken</b>	<b>Time Frame</b>	<b>Responsible Agency</b>
1. Lack of policy decision making and coordinating body	Formation of Economic Policy and Coordination Council (EPCC)	First meeting of EPCC as soon as possible	3 Months	MOFA
2. Absence of any inter-sectoral consultative body	Formation of Consultative Committee (CC)	First meeting of CC as soon as possible in consultation with Sectoral Ministries	3 Months	MOFA
3. No Mechanism for participation by the entire MOFA	Establishment of Economic Units (EU)	To start its works immediately	3 Months	MOFA
4. No full-fledged Division for specialization and coordination within MOFA for economic diplomacy	Establishment of Economic Affairs Division (EAD)	To start its works immediately	3 Months	MOFA
5. Lack of mechanism for forging meaningful partnership with private sector	Formation of Private Sector Partnership Forum (PSPF)	First meeting as early as possible	3 Months	MOFA
6. Lack of programme and target oriented activities of Embassies and Missions	Rationalization of Embassies and Missions on a priority basis	Necessary exercise for rational allocation of manpower, budget and annual programme	6 Months	MOFA
7. Critical shortage of manpower with necessary skill and experience	Creation of new positions (Darbandi), where necessary	To initiate necessary exercise for necessary sanction	6 Months	MOFA

### Regular Actions after Initial Actions

S. N.	Action to be taken	Responsible Agency	Time Frame	Remarks
1.	EPCC meetings on a regular basis	MOFA	Quarterly/ as necessary	Necessary preparation in consultation with CC on policy decisions on identified issues of legal, institutional, administrative, budgetary nature for effective economic diplomacy.
2.	CC meetings on a regular basis	MOFA	Quarterly/ as necessary	Identification of issues and constraints for policy decisions and directives by EPCC for effective diplomacy.
3.	Private Sector Partnership Forum (PSPF)	MOFA	Half yearly/as required	Identification of issues and constraints and Formulation of joint promotional activities.
4.	Economic Affairs Division as Secretariat of EPCC, and PSPF makes necessary preparation for their meetings	EAD/MOFA	Regularly	Necessary information and data from Sectoral Ministries, EUs of MOFA and Private Sector members of PSPF
5.	Feedback to Embassies and Missions	EAD/MOFA	Regularly	Updated information as per Annex II, and other relevant information for promotional activities of the Missions
6.	Annual Programmes of Embassies and Missions	Embassies and Missions	As required by budget cycle	Discussion on PSPF for promotional activities and discussion with Finance Ministry for budget allocation
7.	Colloquium	EAD or Institute of Foreign Affairs	Half yearly	With cooperation of sectoral Ministries, EU of MOFA, Private Sector Members of PSPF and professionals.

## **Annex II: Suggested Information on Nepal for Colloquium, Training, Briefing and Orientation of Embassies and Missions**

- 1. General Information**  
Size, Location, Climate, Physical and Administrative Divisions, Population etc.
- 2. Macro-Economy**  
Gross Domestic Product, Gross Domestic Saving, Investment, Consumption, Balance of Payments, Inflation, Current Five Year Plan etc.
- 3. Foreign Trade**  
General Understanding of Trade Liberalization Measures, Trade Policy, Basic Import & Export Procedures, Highlights of Trade Treaties, especially with India, SAARC Free Trade Area (SAFTA), WTO Membership & its Implication, Volume of Trade, Major Trade Partners, Direction of Trade, Trade Balance, Major Exports and Imports etc.
- 4. Industry & Investment**  
General Understanding of Industry and Investment Liberalization, Policy, Industrial Policy, 1992, Foreign Investment & Technology Transfer Act, 1992, Foreign Investment and One Window Policy, Industrial Enterprises Act, 1992, Foreign Investment in Nepal, Identified Industries for Foreign Investment, State Owned Enterprises and Privatization Policy etc.
- 5. Employment**  
Economically Active Population, Labour Force, Employment, Unemployment, Underemployment, Labour Laws and Regulation, Foreign Employment, Foreign Employment Laws and Regulations, Remittances, Man-power Companies etc.
- 6. Tourism**  
General Understanding of Tourism Policy, Tourist Attractions, Nepal Tourism Board and Promotional Activities. Frontier Formalities, Trekking and Mountaineering Formalities and Regulation, Transport Facilities, Hotel and Lodge Facilities, Tourist Arrival, Foreign Exchange Earnings etc.
- 7. Money and Banking**  
General Understanding of Liberalization of Financial Sector, Laws Governing Banking in Nepal, General Information on Central Bank, Commercial Banks, Development Banks, Financial Institutions, Foreign Exchange Laws and Regulation, Foreign Exchange Rates etc.
- 8. Infrastructure**  
Road and Air Transportation, Telecommunications, Hydropower, Transit etc.
- 9. Social Services**  
Status of Health, Education, Drinking Water, Sanitation, Mortality, Longevity, Human Development Index etc.

**10. Public Finance**

General Understanding of Fiscal Policy, Government Annual Budgets, Revenue and Expenditures, Foreign Assistance (Loans & Grants), Debt Servicing, Deficit Finance etc.

**11. Country Specific Information**

General Understanding of the Economy, Economic and Technical Cooperation from the country, Private Investment and Tourist Flow from the country, Bilateral Trade, Potential Areas and Opportunities for expansion of Trade, Investment, Employment and Tourism etc.

### **Annex III: Illustrative Matrix of Promotional Activities by Specific Areas**

#### **A. Trade**

1. Participation in as many regional and international trade fairs as possible.
2. Organization of exhibitions for selected Nepalese products in selected countries
3. Distribution of literature on Nepalese products with photographs and necessary details in local language (e.g. Japanese, Chinese, Arabic, German etc.)
4. Permanent exhibitions of selected Nepalese products in Embassies and Missions with the cooperation of the private sector
5. Periodic interactions with business leaders in selected countries by Embassies and Missions in collaboration with the private sector
6. Commodity specific promotional activities in potential markets. (e.g. Carpet, Garment, Handicrafts, Hide and Skins, Spices, Medicinal Herbs, Agro-Products etc.).
7. Market surveys for assessment of demand for selected Nepalese products in selected countries jointly by the concerned Ministry, private sector and Embassies and Missions.
8. Concerned Ministry with the cooperation of the MOFA and the private sector to sponsor periodically colloquium either in Kathmandu or in other countries for briefing Embassies and Missions on Nepalese trade policy, strategy, programmes and procedure both on long and short terms.
9. PSPF to formulate annual programmes in line with the trade related annual and periodic targets of the government jointly by the concerned Ministry, private sector and Embassies and Missions.
10. Electronic media facilities including the use of website to be used by the Embassies and Missions for easy access to and for wider dissemination of all necessary information and data on trade in host country.
11. EPCC and CC meetings to be held regularly to address the specific problems and issues so as to create enabling environment with appropriate policies for trade expansion.

#### **B. Investment**

1. MOFA through PSPF to organize Conference of non-resident Nepalese once in 2-3 years with specific agenda and targets for promotion of investment in Nepal from NRN as the one organized in 2002.
2. Regular meetings of Honourary Consul and Consul Generals of other countries stationed in Kathmandu to discuss problems and prospects of FDI in Nepal. Meetings to be hosted by PSPF.
3. Regular meetings to be held by Embassies and Missions with the Honourary Consul Generals stationed in host countries for investment promotion.
4. Invite, for tea/launch/reception, the industry and business leaders of the host country for briefing them occasionally on investment opportunities, laws, regulations, procedures etc. Embassies and Mission to host such meetings with the cooperation of the concerned Ministry and private sector.

5. Invite for tea/launch the selected media representative of host countries for briefing them on investment opportunities by Embassies and Missions with the cooperation of the concerned Ministry and the private sector.
6. MOFA through PSPF with the cooperation of concerned Ministries to organize international gathering in Kathmandu for investment promotion as the one held in the past.
7. Electronic media facilities including website to be used by the Embassies and Missions for easy access to and for wider dissemination of all necessary information and data related to investment opportunities in Nepal.
8. EPCC and CC meetings to be held regularly to address without delay the problems and issues with necessary policy measures so as to create investment friendly environment.
9. Professionals and sectoral Ministry personnels of Nepal to visit potential countries for series of meetings with their business and industry leaders for investment promotion with the cooperation of the Embassies and Missions.

### **C. Employment**

1. MOU to be signed with as many important countries as possible for protection and promotion of Nepalese workers' interest as the one signed with Qatar.
2. Appointment of labour attache' in selected Embassies – local or national.
3. Labour market studies in countries with high employment potential.
4. Institutionalised skill training for Nepalese youths seeking jobs outside the country in partnership with man-power companies
5. Rationalization and effective enforcement of laws and regulations related to manpower companies and foreign employment to protect the interests of those seeking employment abroad.
6. Enforcement of cross-verification system as suggested in this study.
7. Establishment of “workers welfare fund” to help Nepalese workers abroad when they are in specified types of distress situations. Its “Modus Operandi” and funding also to be specified.
8. Based on experiences so far, some workable arrangement to be made for providing loans to those going abroad for employment.
9. More liberal policy to be introduced to encourage workers' remittances through banking channels.
10. A study to be commissioned to make the productive use of remittances for the benefits of the concerned households and the national economy.