

Nepal's Economic Diplomacy in context to Central Asian Countries

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Received: January 10, 2019

Accepted: February 16, 2019

ABSTRACT: *Nepal's utilization of economic diplomacy as a tool is fairly contemporary and holds immense potential. For Nepal to reach its goal of becoming a developed nation, center of attention should be given in expanding its economic relations with instrumental alliances. In this context, this paper intends to bring about a possible positive relation between Nepal and Central Asian countries. Further, it spells out the current state of association and future capableness of the aforesaid countries.*

Key Words: *Nepal, Central Asia, Economic diplomacy, Central Asia, initiatives taken.*

Nepal, a small landlocked country with an area of 1,47,181 sq. km and a population count of roughly 29 million. It can be divided into three main geographical regions: Himalayan region, mid hill region and Terai region. The highest point in the country is Mt. Everest (8,848 m) while the lowest point is in the Terai plains of Kechana Kalan in Jhapa (60 m).¹The nation possesses 2.3 percent of the world's hydro resources attributable to four principal river systems, the life-line of Nepalese economy viz., Koshi (east), Gandaki (central), Karnali (Far-west) and Mahakali (Far- west). The theoretical hydropower potential is estimated to be 83,000 MW, and per capita hydropower capacity is assumed to be second highest next to Brazil.² Nepal, a Shangri-La of the World, is endowed with gorgeous mountains, magnificent panorama of flora and fountains, beautiful lakes, valleys and basins, medicinal herbs, precious stones, and sub-tropical forest. Nepal possesses magnificent biodiversity especially the forest resources, which are of great value from economic development point of view.

Nepalese economy suffers from inherent structural constraints comprising landlockedness, rugged topography, poor resource base, high extent of poverty, and sluggish economic reforms and liberalization. The major challenge to Nepalese economy is how to integrate the domestic economy with regional and global economies and maximize the benefits from globalization. However, against this backdrop there exists a vast potential for robust growth with poverty reduction through efficiently utilizing available domestic and international capital, technology, natural resources, raw materials and entrepreneurship to make a breakthrough in the economic front and move towards a great leap forward by the end of first quarter of twenty-first century.

Economic diplomacy is a fine craft which is put to use for serving economic security and strategic interests of the state. Promoting and protecting country's economic interests is imperative and in the process of execution, dealing with other state & non-state actors through negotiation, Lobby, forming alliances, mobilizing resources etc, becomes an integral part. Economic diplomacy is concerned with economic policy issues. The state engages itself with foreign and sending states' institutions, businesses and international organizations to advance the sending state's economic interests; seeks to resolve bilateral trade disputes and negotiate with trading partners to liberalize world trade; seeks to formulate official policy for development and formulate recommendations for sending state; facilitates negotiation on trade-related agreements and treaties; and identifies and coordinates financial assistance to troubled areas. Economic diplomacy does not stand alone. It is a convergence of economic and political interests.

New Horizons of Economic Diplomacy

When the world's eyes are transfixed on the giant states of Asia today, Nepal seems to be just another landmass in the globe but it does play a significant role especially in the political and economic stability of

¹ Nationsonline.org, K. K. (n.d.). __ Nepal. Retrieved from <https://www.nationsonline.org/oneworld/nepal.htm>

² Nepal. (n.d.). Retrieved from <https://www.hydropower.org/country-profiles/nepal>

its mighty neighbours. Nepal lies in a regionally strategic area of South Asia. Its two vast neighbours namely, China in the north and India in the south, east and west has considerably shaped the politics and socio-economics of Nepal. Apart from the two huge economies to deal with, Nepal has now unfolded new horizons of economic relations.

In the words of Girija Prasad Koirala, a democrat who strode through Nepal's modern democratic era -

In conformity with our constitution and declared policies of my government, our major thrust has been towards an open economy with the creation of a liberal economic environment in which the private sector has been encouraged to take the lead in business activities.(Koirala, 1993).

Economic Diplomacy was a tool in foreign relations long before the establishment of institutions that we have become part of and the foreign policy and diplomacy practiced by states today. The backbone of economic diplomacy is the underlining political purposes of a state in the international arena. Hans Morgenthau argued that:

It is necessary to distinguish between, say, economic policies that are undertaken for their own sake and economic policies that are the instruments of a political policy- a policy, that is, whose economic purpose is but the means to the end of controlling the policies of another nation. [...] The distinction is of great practical importance, and the failure to make it has led to much confusion in policy and public opinion.

Nepal's usage of economic diplomacy as a tool has been fairly recent and is in a developing stage. As the welfare-enhancing effect of economic diplomacy is known to all, Nepal too wishes to diversify its foreign economic relations and reap the benefits from it. Historically, Nepal has had a good rapport with, be it British India or Independent India or Tibet (now under China), relatively good but very few. Currently, Nepal has diplomatic relations with 158 countries altogether.

India, China and the United States are the country's leading investors. FDI flows to Nepal accounted for USD 198 million in 2017/18, an increase from USD 106 million in 2016/17 thanks to Chinese investments in infrastructures, cement products and mining.³ This amount is three times the amount of foreign investment Nepal had received in the previous fiscal year 2016/17. Hydropower and energy, mines, forest and agriculture, information and communication technology and tourism have become major attractions for foreigners to invest in Nepal.⁴

Nepal in the recent times seems to be exhibiting new diplomatic relations with Central Asian countries. When one might ask why is Nepal interested in bilateral relations with countries thousands of kilometers far away, some of who are still in their developing phase? This question should be rather diverted to - Why not? Central Asia is of geo-strategic significance, a land full of natural resources and a strategic foreground to deal with terrorism. Before all of this, Nepal and Central Asia share centuries-old cultural history. In Nepal there are several ancient subcultures of diverse origin and some of them are related mostly to cultural patterns that have been traced back to Central Asia. For instance, the Manjusri tradition, for example is said to have come to Nepal from Central Asia where it is still alive.⁵

The Trans-Himalayan Silk Road was the first ever Silk Road in human history and it had immense influence on the life of people living in the vast area stretching from the present-day Turkmenistan, Bamiyan (Afghanistan) and Mongolia to Nepal and other neighboring states, from Chaitya-gaon (Chittagong), Sri Lanka and Calcutta to Kashmir. The ancient trade route was first opened by a retinue of people that had accompanied Nepali princess Bhrikuti to Tibet after her marriage with the Tibetan ruler Son-tsen-Gampo in the 7th century. Together with Bhrikuti, both the Buddhism and Newar craftsmanship reached Tibet, and over centuries, they both became a part of life in Central Asia, Mongolia and Japan.

Coming towards the recent developments, June 30, 2015 in New York, the Permanent Representatives of the Republic of Kazakhstan and Nepal to the United Nations H.E. Mr. Kairat Abdrakhmanov and H.E. Mr. Durga Prasad Bhattarai, respectively, signed a joint communiqué on establishing of diplomatic relations between

³ Nepal: Foreign investment. (n.d.). Retrieved from <https://en.portal.santandertrade.com/establish-overseas/nepal/investing-3>

⁴ Nepal records threefold increase in foreign investment in FY 2017/18. (n.d.). Retrieved from <http://english.onlinekhabar.com/nepal-records-threefold-increase-in-foreign-investment-in-fy-2017-18.html>

⁵ SHAHA, R. (n.d.). *Modern Nepal: A political history, 1769-1955: Vol 1 1769-1885: Vol 2 1769-1955*. Manohar

the two states.⁶ During the signing ceremony, the two sides exchanged views on the status and prospectives of cooperation on the bilateral level, discussed a number of issues of the UN agenda important both for Kazakhstan and Nepal. They focused on seeking solutions of the problems of geographically disadvantaged states – Landlocked Developing Countries, sustainable development, environmental protection and climate change and others. The Parties noted the importance of expanding mutually beneficial contacts between the two states and cooperation in the field of tourism, trade, cultural exchange and education. It also highlighted the importance of partnership between the countries in the area of risk reduction and disaster management, including the establishing of the UN Regional Hub on humanitarian assistance and sustainable development in Almaty, Kazakhstan. Kazakhstan, most importantly expressed its interest the energy sector of Nepal. On 13-17 June 2018 the Embassy of Kazakhstan, together with Asian Institute of Diplomacy and International Affairs (AIDIA), held an interactive session "Kazakhstan-Nepal: cooperation in trade and investment"⁷ under which main potential areas of cooperation between Kazakhstan and Nepal were discussed like the creation a favorable business climate and increase the level of tourism between the two countries. Kazakhstan has also supplied humanitarian aid of 200,000 US dollars to support rehabilitation efforts after the earthquake in Nepal. Other than Kazakhstan, Nepal-Uzbekistan, Nepal-Tajikistan, Nepal-Kyrgyzstan and Nepal-Turkmenistan established relations on 26-01-2018, 13-09-2005, 26-03-1993, 17-10-2005 respectively.⁸ The table below shows the import and export commodities and trade balance for the financial year 2016/17. The table below shows the import and export commodities and trade balance for the financial year 2017/17.

Nepal's Trade statistics with Central Asia
Imports by Commodities for FY 2016/17 (2072/73)
Figures in '000 NPR

Description	Country	Unit	Qty	Value
Prepared foods obtained by swelling or roasting	Kyrgyzstan	Kg	25	8
Prepared cereals in grain form	Kyrgyzstan	Kg	64	25
Prepared cereals in grain form	Kazakstan	Kg	45	18
Organic surfaceactive Agents	Kyrgyzstan	Kg	1200	132

Figure 2. Shaping Minds Group. (n.d.). Retrieved January 02, 2019, from <https://www.customs.gov.np/en/annual.html>

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⁶ Kuandyk, A. (2018, July 03). Kazakhstan, Nepal discuss boosting tourism, trade, investment. Retrieved from <https://astanatimes.com/2018/07/kazakhstan-nepal-discuss-boosting-tourism-trade-investment/>
⁷ Nepal, Kazakhstan economic cooperation highlighted. (n.d.). Retrieved from <https://english.karobardaily.com/news/economy/335>
⁸ Primary Menu. (n.d.). Retrieved from <https://mofa.gov.np/foreign-policy/bilateral-relation/>

Figure 3. Shaping Minds Group. (n.d.). Retrieved January 02, 2019, from <https://www.customs.gov.np/en/annual.html>

Exports, Imports and Trade Balance for FY 2016/17 (2072/73)
Figures in '000 NPR

Description	Country	Unit	Qty	Value
Prepared foods obtained by swelling or roasting	Kyrgyzstan	Kg	25	8
Prepared cereals in grain form	Kyrgyzstan	Kg	64	25
Prepared cereals in grain form	Kazakstan	Kg	45	18
Organic surfaceactive agents	Kyrgyzstan	Kg	1200	132

Figure 4. Shaping Minds Group. (n.d.). Retrieved January 02, 2019, from <https://www.customs.gov.np/en/annual.html>

We can see that the numbers are not very sturdy but the fairly new relations are just in the making and the future trade potentialities are much more. Nepal as a Dialogue Partner in Shanghai Cooperation Organization (SCO) can take the advantage to construct a more rewarding relationship. A Memorandum of Understanding (MoU) was signed with SCO Secretariat on 22 March 2016 which defines scope of Nepal’s engagement with SCO in the field of trade, transit and investment, energy, agriculture, small and medium business; security issues; legal and customs affairs; transport and communications; science and technology, education, health, culture and tourism, and disasters.⁹

Recent bilateral agreement between Nepal and China to construct the railway line from Kerung to Kathmandu and Kerung-Pokhara-Bhairahawa as a part of the Belt and Road Initiative of China contributes a lot for the development and prosperity of Nepal.It canhelp it to liberate itself from the dependency upon a single country for all its economic activities and the land-lock character.These major projects if constructed as planned will certainly change the life and economic condition of Nepal. It will also allow Nepal to explore the Central Asian markets more extensively.

Further the relationship between Nepal and the Central Asian states have more grounds for partnership. Few of the sectors are discussed below.

Cultural Sector

Culture is a strong part of people's lives. It influences our views, values, our hopes, loyalties, and our worries and fears. So when we are working with people and building relationships with them, it helps to have some perspective and understanding of their cultures.

The Mongol invasion of Central Asia is one of the turning points in the history of the region. That event left imprints that were still discernible in the early twentieth century. The Mongols had such a lasting impact because they established the tradition that the legitimate ruler of any Central Asian state could only be a blood descendant of Genghis Khan. (Library of Congress, March 1996)

Nepalese population can be divided into two major groups; Aryan-Caucasian and Tibeto-Burman (or Mongoloid). The Tibeto-Burman group mostly inhabit the hilly and mountains regions and collectively make up 1/3 of the population of Nepal. Some of major groups of Mongol origin are Newar, Tamang, Kumal, Sunuwar, Majhi, Danuwar, Thami/Thangmi, Darai, Bhote, Baramu/Bramhu, Pahari, Kusunda, Raji, Raute, Chepang/Praja, Hayu, Magar, Chyantal, Rai, Sherpa, Bhujel/Gharti, Yakha, Thakali, Limbu, Lepcha, Bhote, Byansi, Jirel, Hyalmo, Walung, Gurung, Dura.

The two nations share a common culture to start with and this can act as a strong backbone to build a new foundation upon.

Tourism Sector

Tourism is one of the mainstay of Nepalese economy. It is also a major source of foreign exchange and revenue. Possessing 8 of the 10 highest mountains in the world, Nepal is a hotspot destination for mountaineers, rock climbers and people seeking adventures.Lumbini, birth place of Lord Buddha, is a great centre for international pilgrimage; Pokhara is an international destination for pleasure trip;

⁹ Ministry of Foreign Affairs. (n.d.). Retrieved from <https://mofa.gov.np/nepal-and-sco/>

Mountaineering and rafting are adventure tourism to attract additional tourists in Nepal. The tourists visiting Lhasa via Kathmandu could stay back in Nepal for a longer period, and Chitwan Safari Park has immense potential to attract a large number of tourists. They can enjoy their holiday trips to Nepal with full assurance of tranquility, security, high quality services and facilities at par with international standard and at cheaper rates.

Tourism sector has a lot to offer as it is economical and rewarding at the same time. The people of Central Asia, many of whom are followers of Islam will feel homely as Nepal's is also a house to many muslims who live in peace and harmony with various other religions. Nepal is known to be the least of the countries where religious conflicts appear.

Nepal Tourism Board (NTB) has played a crucial role in the development of tourism in Nepal since its inception in December 1998. According to NTB, four-fifths of tourists come by air to Nepal through different carriers, which are: Nepal Airlines Corporation (NAC), Indian Airlines, Royal Thai Airways, Qatar Airlines, Gulf Air, Austrian Air, Biman Bangladesh and China Southwest. Since the Government of Nepal accorded top priority to development and promotion of tourism sector, foreign direct investment in joint ventures is most welcome.

Trade

Most of the Central Asian terrain suffers from very low precipitation and extremes of temperature between summer and winter. Rice needs humid climate, monsoon rains and water which is something not to easily come by in Central Asia. In Nepal, the economy is dominated by agriculture. Rice is the major staple food and the major source of income of Nepal. It contributes more than one-fourth of the GDP and occupies 80% of the working population and provides nearly 90% of the total calorie requirements supplied by cereals.¹⁰ The total output and marketable surplus ratio is significantly higher in larger farms. Marketable surplus is the part of harvest available for sale after meeting family needs, seed requirements, wages in kind and gifts to relatives and friends, etc. Rice is just one of the items, there are more which can be exported to Central Asian countries.

Initiatives Taken

Nepal and Kazakhstan established formal bilateral diplomatic relations on July, 2015, according to a press release issued by Permanent Mission of Nepal to the United Nations, New York.¹¹ The Asian Institute of Diplomacy and International Affairs (AIDIA) hosted a Round Table Meeting on "Trade and Investment Opportunities in Kazakhstan" in Kathmandu on June, 2018¹² where Bulat Sarsenbayev, Ambassador of Kazakhstan to India, who is also the Ambassador to Nepal but has not yet submitted his credentials to Nepal president was present and discussed various prospects of trade between the two nations. During the visit, Ambassador met the heads of the largest cities of Nepal - Deputy Mayor of Kathmandu Khadgi Haribrabh, and Mayor of Lalitpur Chiri Maharjan. The mayors of these cities were invited to participate in the conference "G-Global Silk Road 2018", July 2-3, 2018.¹³

Conclusion

There is a need to induct indicative strategic plan comprising of commercialization of agriculture by developing high value cash crops such as tea, coffee, cardamom, yarshagumba (rare species of plant widely used both in clinical medicine and as a household remedy) and mushroom; attracting considerable size of FDI and technology transfer in joint ventures, especially in large- scale industries with special reference to hydropower and transport sector (road). Nepal needs to diversify its destinations and products for exports such as carpet, garments, pashmina and handicrafts having comparative and competitive advantages by improving and matching quality to international standard. Looking forward towards trade exchanges with Central Asian

¹⁰ Rice development programme in Nepal. (n.d.). Retrieved from <http://www.fao.org/docrep/v6017t/V6017T04.htm>

¹¹ Nepal, Kazakhstan establish formal diplomatic relations. (n.d.). Retrieved from <http://kathmandupost.ekantipur.com/news/2015-07-01/nepal-kazakhstan-establish-formal-diplomatic-relations.html>

¹² Nepal, Kazakhstan economic cooperation highlighted. (n.d.). Retrieved from <https://english.karobardaily.com/news/economy/335>

¹³ Main page. (n.d.). Retrieved from <http://mfa.gov.kz/en/content-view/kazakhstan-i-nepal-rassiraut-dvustoronnie-svazi>