

Historical Progression of Nepal's Economic Interests in Foreign Policy and Economic Diplomacy

Prem Raj Khanal^a 

prem.khanal@dird.tu.edu.np

DOI: <https://doi.org/10.3126/japfcsc.v8i1.77601>

Article History:

Received: 12 January 2025

Accepted: 21 March 2025

Published: 20 April 2025

Keywords:

Economic diplomacy, economic interests, foreign policy, development, influence

To cite this article:

Khanal, P. R. (2025). Historical progression of Nepal's economic interests in foreign policy and economic diplomacy. *Journal of APF Command and Staff College*, 8(1), 74-95. <https://doi.org/10.3126/japfcsc.v8i1.77601>

To link to this article:

<https://doi.org/10.3126/japfcsc.v8i1.77601>

Corresponding Editor

Ramesh Raj Kunwar
kunwar.sangla2@gmail.com

Abstract

Economic diplomacy emphasizes the significance of global economic issues like trade, investment and finance, which has been employed in various forms within foreign policy directives of states. The subject is relevant as the Nepali government has been prescribing greater priority to economic diplomacy, seen within the several periodic plans that the paper has analyzed. The primary objective of the study is to identify the development of the idea through several foreign policy doctrines in Nepal's history, as it progressed from a monarchy to a federal republic, ascertaining both the growing usage of the term and its relevance in policy mechanisms, and the evolving functions of state representatives. A qualitative method has been employed that utilizes an analytical approach when discerning the different dimensions of economic diplomacy in Nepal's foreign policy. Focusing primarily on a rigorous review of literature, and also through content analysis of official state documents, the study has simultaneously assessed the perceptions of intellectuals and policy practitioners. This paper has found that historically economic interests have in many pivotal cases driven Nepal's foreign policy agendas in its immediate neighborhood, post-

unification, and also later when it expanded its presence in the globalized world order. However, in contemporary diplomatic practices, while Nepal has made several strides in carving economic diplomacy as a cornerstone of its foreign policy agenda, political transitions and inadequate incorporation of long-standing recommendations from stakeholders, coupled with lagging growth remain as significant challenges, which require further contemplation.

Introduction

Much has been written about the idea and issue of foreign policy as tool to achieve a country's national interest. As an often-utilized term, foreign policy has been considered to mean "all of the policies (including economic policies) adopted by a state in relation to the outside world" (Berridge & James, 2004). The Constitution of Nepal, 2015, when defining national interest, lettered the objectives of Nepal's foreign policy. According to Article 5, the state's national interest was defined in terms of "safeguarding of the freedom, sovereignty, territorial integrity, nationality, independence and dignity of Nepal, the rights of the Nepali people, border security, economic wellbeing and prosperity shall be the basic elements of the national interest of Nepal" (Constitution of Nepal, 2015). The primary objective of foreign policy then is to safeguard a nation's interests, ideological agendas and prosperity (Brown, 1971), and as a strategy factor in economic, diplomatic, military, social and cultural factors when conducting relations with states and relevant non-state actors.

Economic diplomacy is fundamentally "the process through which a country tackles the outside world to maximize their national gain in all field of activities including trade, investment and other forms of economically beneficial exchange where they enjoy competitive advantages" (Rana, 2011). In order to promote international trade, expand markets and bring in more foreign investment, economic diplomacy is employed through the "use of political influence and relationship" (Pokharel, 2011). It emphasizes informing potential foreign investors on investment opportunities, trade law and negotiating economic and trade agreements between different countries. Conventionally, economic diplomacy was used by developed countries to advance their political interest. They usually did so through the instrument of foreign aid. Many countries started to apply their political diplomacy to advance their economic interests, which become important in the wake of globalization, rise of interdependence and connectivity among the people and countries of the world (Cohen, 2013).

As inter-state relations are increasingly guided by their economic interests, "economic diplomacy" is taking over the place of conventional diplomacy (Bjola & Kornprobst, 2013). Today, economic issues have started to become political issues, evident in rise of protectionism and "trade war" between bigger powers (Chatterjee, 2020). This paper

extends the idea that economic diplomacy in this interdependent world has also become an essential consideration for smaller developing states like Nepal.

After 1990, the Government of Nepal gave high priority to promoting economic diplomacy, focusing on five key areas: promoting international trade, tourism, foreign aid and assistance, foreign investment, and foreign employment (Hamal, 2014). While other government documents and policy recommendations have expanded upon the different dimensions of economic diplomacy in Nepal, as highlighted in the sections below, there is a need to assess how it has developed in Nepal's practices historically, pertaining to the research gap, i.e., of the measures in which the state has in the past described and sought out its economic interests, forming a better understanding of why and how economic diplomacy entered the foreign policy lexicon in modern times. As an example, there have been instances where the matter of economic diplomacy has been brought to the center stage, as most notably stated by the report of the High-Level Task Force (HLTF, 1995).

Even so, such documents have rarely been given much weight in the policy considerations and limited focus has been put on the evolving potential of economic diplomacy for Nepal. This paper, therefore, aims to answer three research questions: i) how has Nepal's foreign policy historically developed when looking towards the economic interests that have been encased in its foreign policy practices, ii) why did economic diplomacy become a buzz word for state actors and institutional bodies responsible for crafting policy directives when underscoring its emergence in the state's policy frameworks, and iii) what are the enduring challenges that have been identified throughout the contemporary decades, but have not been addressed when implementing such frameworks, especially as the country is now looking towards transitioning to a developing country from a least developed country.

Review of Literature

Economic diplomacy has been widely explored in various literatures. The concept of diplomacy itself traces its origins to the classical Greek system of inter-state relations. It was later revived in medieval Europe and gained prominence in the diplomatic interactions among the city-states of Renaissance Italy and the emerging nation-state of post-Reformation Europe (Kerr & Wiseman, 2013). Similarly, Zartman (2013) emphasizes that "negotiation is the primary business of foreign policy" (p. 103). Foreign policy is the strategy that a government utilizes in its approach towards or during its engagements with external actors to attain its national interest (Smith et al., 2016, p. 14). C.C. Rodee, has additionally expounded that foreign policy is the "formulation and implication of a group

of principles which shape the behaviour of a state while negotiation with other states to protect or further its vital interest” (Ghosh, 2013, p. 96).

The practice of diplomacy according to Sir Ivor Roberts is an “application of intelligence and the tact,” and Ottee (2001) has stated that in the modern-day practice of the craft, it primarily rests on diplomats and consuls who enjoy a specific set of legal protection when residing abroad in foreign countries or international organizations. When coming to the economic component in the practice, scholars have agreed on the idea that economic tools have been utilized throughout history in global politics.

In recent times this component has become more explicit in formal usage. A prominent example has been the United States of America in 2017 when it published its National Security Strategy. The document noted that “economic security is national security” and propagated the usage of “economic statecraft” (The White House, 2017, p. 17). It exists in various forms, either in the practice of leveraging some interests or sometimes even as an instrument of creating and imposing pressure in international relations. From aid to sanctions, economic instruments have been an important part of conducting state relations in reference to achieving one’s interests, instead of using brute force to attain an end. An example has been of the Western coalition utilizing economic sanctions, not military, when Iran launched its own nuclear program and when Russia invaded Crimea (Wigell et al., 2018).

Economic diplomacy, in particular, as noted by Pokharel (2011) is the “formulation and advancement of policies relating to production, movement, exchange of goods, services, labor and investment in other countries” (p. 145). Woolcock (2013) provides a more expansive definition when claiming that the concept incorporates aspects of trade, finance and investment during negotiations and decision-making. The author further notes that “economic diplomacy facilitates trade and investment by negotiating market access, rules, or agreed norms and standards” (p. 209). Economic diplomacy becomes a significant aspect when achieving national interests in global institutions, bringing in the role of non-state actors in bilateral and multilateral channels. The idea lends to domestic decision-making and global negotiations, showing how these two processes interact (Phlipot, 2012, p. 187). The global economic order that has emerged post the wars from established organizations and global interdependence also facilitates these relations. However, Poudel (2023) has noted that conventional institutions such as IMF and WTO are being challenged by new institutions such as G7 alliance or BRICS.

In this context, the way that Nepal has been prioritizing trade, investments, aid and assistance, as well as mobilization of diaspora brings together its understanding of economic

diplomacy (HLTF, 2018). Pokharel (2011) has also commented that economic diplomacy is actualized through political influence (p. 145). A former ambassador of Nepal to Kuwait, Yagya Bahadur Hamal, has noted in his work that while diplomacy has branches extending to cultural, public and military, “economic diplomacy is a part of diplomacy that promotes economic interests of a nation in its interactions with other nations and international and regional organizations” (Hamal, 2014. p. 93). Gyan Chandra Acharya, former foreign secretary of Nepal has stated that “trade, transfer of technology, investment, finance, tourism, labor and development cooperation are natural areas of our economic engagement with the rest of the world” (Dahal, Sainju & Lohani, 2008). Economic diplomacy has been considered to be key for the state’s development.

In this regard, Panday, (2011) asserts that international trade has been crucial to the nation’s national growth and development. Similarly, Aryal, Subedi and Thapa (2011) devised prerequisites for a successful economic diplomacy including: good governance, stability in political and macro-economic affairs, transparency, consistent development of government policy, skilled human resources, integration in regional and international economy as well as skilled negotiation, coupled with the private sector participation in the state (p. 322). Subedi (2022) has also mentioned that for a country, economic diplomacy would require the state to identify and utilize its own unique features, and for Nepal it would stem from its natural resources, tourism and service sectors, that could benefit from prolonged political stability.

There is a necessity within the domestic arena of private and public actor interests to review and reassess the economic policies of Nepal. Similarly, as LDC graduation is nearing, to achieve the sustainable development goals (SDGs), socio-economic development of Nepal, to create more jobs inside the country, to improve the quality of life of Nepali people, big infrastructure development of the country, economic diplomacy is important policy of Nepal government (Thapa, 2081). Economic issues such as trade, finance and investment occupy integral positions in international relations, and as Nepal conducts her international economic relations with neighboring countries and other state and non-state actors, differing variables like changing political structures, relations between line ministries responsible for the conduct of the state’s foreign relations in various capacities, and the responsible actors, who operate beyond the state agencies, impact the state’s overall assessments of economic needs. The research, thus, focuses on the development of economic diplomacy in Nepal’s foreign policy practices, by highlighting the priorities areas of economic diplomacy in Nepal, while underlining the significance of the concept when dealing with the economic interests of the different actors involved in the interdependent global order.

Research Methodology

The research paper has incorporated literature from official government sources, i.e., official websites of ministries and other government bodies, containing reports and official press releases across several platforms, including the ministry publications as well as policy briefs and documents. Some confidential documents are also included, that consist of task force reports. The study has also incorporated academic sources like journal articles and books. Further, newspapers, online verified content and such has also been included where situational analysis was required for current developments in state relations, emerging developments in domestic and international affairs as well as the fluctuating patterns of the interests of state and non-state actors involved either in the foreign policy decision-making process or the various implementation avenues.

The primary objective of this research is to analyze the development of Nepal foreign policy and how economic diplomacy has been understood in Nepal. Similarly, this research studies the major features of the state's inclusion of economic diplomacy in official directives and other policy documents, analyzing how the state actors have defined the tools that could help achieve the targets set out to meet its economic interests. This research then further emphasizes the contexts in which the concept of economic diplomacy emerged in Nepal foreign policy discussions and how the term has been utilized in current times. Further, the analysis is directed towards comprehending how certain challenges have remained in state functions hindering the proper implementation of policy, in order to understand what gaps need to be addressed in the studies that may follow this.

This paper employs a qualitative methodology, involving a rigorous review of literature and the use of information from verified sources to substantiate its claims. Nepal's government reports, books, and historical documents are an important source.

In the initial phase of the study, which examines the historical developments in Nepal's foreign policy landscape, the paper utilizes archival materials obtained from university collections, public libraries, and academic web sites. Additionally, private records have been included with the official consent of the relevant individuals and institutions. For a contemporary analysis, the study incorporates documents featuring insights from diplomats, policy experts, and academics, along with relevant grey literature sources.

Findings and Discussion

There have been examples in Nepal's history where state relations, especially with immediate neighbours, have been dictated by economic interests. When looking at how the idea of economic diplomacy has progress in modern history, it can be argued that as global

directions changes and Nepal's internal structures evolved, the state sought to adjust itself to the developments in the region and beyond. This section of the study looks into how economic diplomacy grew to become a crucial facet of Nepal's foreign policy.

History of Nepal's Foreign Policy: The Broader Context

Many dynasties have ruled over the different geographical areas that is recognized as Nepal today, and each had different tools at their disposal to garner influence and achieve their interests as per the period that they governed for which they are generally more known in current times. One of the earliest was known to be the Licchavi dynasty that ruled Nepal from around c.386-750 CE (Formigatti, 2016), where, "Royal Marriages" was one of the more used practices employed to create friendships between states (Formigatti, 2016). Friendships between Nepal and Tibet (China) were also established through artistic exchanges like with the much referred to case of Araniko (Rose, 1971). Similarly, Manjushree came from China to Kathmandu, transforming the valley into a habitable land (Department of Information Technology, 2013).

The history of modern Nepal's foreign policy traces back to Prithivi Narayan Shah, the founder of modern Nepal, who pursued a unification policy through territorial expansion, bringing together numerous small kingdoms (Shaha, 1975). His foreign policy emphasized unification, military expansion, cautious diplomacy with British India and China, a balanced approach between offense and defense, and the strengthening of the national economy (Acharya, 2014).

So, the modern understanding of Nepal's foreign policy originated in 1768 along with the creation of an independent nation, after the unification and consolidation of many tiny states existing in the territory of the present-day Nepal. Acknowledging the threat of British Raj posed in India, PN Shah dismissed European missionaries from his court, and Nepal remained in isolation thenceforth for over hundred years. Due to the size and the geo-political setting of the country, PN Shah, architect of modern Nepal, took a balanced foreign policy approach and conducted relations with both the neighbours (Dahal, 2009). When the British Empire became a global hegemony, preservation of national independence, sovereignty and territorial integrity became crucial.

Post-Unification: Traces of Developing Economic Interests

PN Shah expanded the boundary of today's Nepal from a tiny Gorkha state to the east and west, including Kathmandu valley. Nepal's territory had been expanded up to the Tista River, to the east during his time. The foreign policy at that time was to preserve the sovereignty and territorial integrity of the unified nation. PN Shah adopted a neutral foreign

policy, that was essential given the country's geo-strategic location (Acharya, 2014). PN Shah took a balanced approach with the British East Company, without thwarting his vision of creating a strong, expanded and consolidated Nepal (Aryal, Subedi & Thapa, 2010). He adopted the policy of not giving any room for interference in internal affairs, noticeable in the expulsion of foreign pastors and merchants living in Nepal since the time of the Mallas. With the intention of not getting entangled in conflicts with the company, he resolved disputes, especially those concerning Bara, Parsa and Rautahat, providing the agreed taxes for their use by Nepal (Khanal & Paudel, 2022).

Even in such circumstances, Nepal had been active in advancing economic interests through diplomacy, evident with the ancient entrepot trade. One of PN Shah's most valued objectives was the re-establishment of Kathmandu as the principle entrepôt in the trans-Himalayan trade structure. His policy of non-alignment in Nepal's relations with neighboring countries remained a cardinal principle of foreign policy in subsequent eras (Acharya, 2014).

When Nepal was concentrating on expansion towards the west, differences with Tibet regarding the currency supplied by Nepal occurred, leading the two countries towards potential conflict. Nepal's attention was diverted to Tibet, where both sides reached a six-point agreement in September 1775 to resolve their differences, with provisions of allowing bilateral trade through the Kuti and Kerung, closing the eastern routes of Tibet (Rose, 1971). But when Tibet later closed the routes, a war broke out in 1788. Nepal's encounter with Tibet was also the product of conflict resting upon differing economic interests. The treatment by Tibet of the Nepali merchants and the issue of Nepali coinage, which was in use in Tibet, were important issues leading to a war (1789). Yet another Tibet-Nepal War (1791-92) was also fought on economic grounds, as Tibet had both refused to pay annual sums to Nepal, and use the Nepali coins (Basnyat, 2017).

On June 2, 1789, the two sides concluded the "Kerung Treaty" ending the war, with the provision of the closure of the trade routes between Tibet and India through Sikkim and Bhutan in favor of trade between Tibet and India, only via Nepal (Basnyat, 2017). As Tibet did not implement the provisions, another war broke out in 179, where China extended support to Tibet (Rose, 1971). Nepali rulers then took an expansionist policy. However, the Nepal-company war, better known as the Anglo-Nepal war concluded with the Sugauli treaty, which checked Nepal's territorial expansion from Sutlez to Tista to Mechi to Mahakali (Basnyat, 2017). The Sugauli treaty that followed on 4th March 1816 narrowed Nepal's map by one-third (64,000 sq.km.) (Rose, 1971).

In Nepal, economic objectives have always remained important in the conduct of diplomacy. Post-unification, PN Shah espoused a policy of economic protection, preventing foreign merchants from entering Nepal, fearing they could turn the country bankrupt (Rai, 2012). Bhimsen Thapa, the then Prime Minister of Nepal, wanted to uproot British rule in the Indian subcontinent. Though the primary intention was to protect Nepal's independence, there was an economic side to it, since the British East India Company had entered India with the pretext of trade (Rai 2012). This policy later culminated into a direct confrontation between Nepal and the British in India resulting into the war (1814-16).

A Shift with the Ranas

Nepal could not develop contacts with the rest of the world except British India in the aftermath of the war and the resulting negotiations. As relations with China were virtually inactive, Nepal's foreign policy was focused on developing relations with the East-India Company. The Rana Regime (1846-1951) later took on a 'Pro-British' and 'isolationist' foreign policy and were successful in maintaining territorial integrity, raising the state's status in international platforms (Khanal & Paudel, 2022). In mid-1800's Jung Bahadur Rana became the first Prime Minister, after Bhimsen Thapa, to exert absolute power, and the Shah kings became mere figureheads. The Rana Prime Ministers were a hereditary branch that continued for the next 104 years. Rana rulers on the request of the Company had also dispatched Nepali soldiers in the British Indian army for the two world wars. Nepal regained "Naya Muluk" from the company as a reward from Nepal's support (Hamal, 2014).

During the Rana period, the economic interests were side-lined as the primary objective of the Rana administrators was to ensure the continuity of their family rule in Nepal, together with safeguarding the country's independence (Acharya, 2014). They achieved this with a kind of alliance and policy of appeasement with the British in India, which also safeguarded the clash of economic interests. The Ranas were ousted during the 1950's democratic movement, with support from the monarchy, after which King Tribhuvan was reinstated as the Head of State.

Revisiting the Economic Paradigms: Iterating Economic Interests

The Democratic Era (1951-1960) marked the foreign policy direction of Nepal - till 1955, when King Tribhuvan passed away. Some authors and scholars observed this period as a 'Pro-Indian' period of "special relationship," since after the colonial period, Bhasin (1970) has argued that India continued with the "Himalayan Frontier Policy" of the British and presented Nepal as a fundamental part of its influence structure by restating Indian interest in the security of Nepal, referring to PM Nehru's speech in the Indian parliament. After

King Tribhuvan's death, King Mahendra carried a different vision of national interest, both in terms of domestic setups and foreign policy, when dealing with its neighbours and the global community. In 1955, Nepal gained the United Nations membership and established diplomatic relations with the People's Republic of China, while participating in 'Bandung Conference,' which was a foundation for 'Non-Aligned Movement' (Hamal, 2014). The opening of Nepal to foreign tourists in the 1950s was yet another big leap in defining the economic interests of Nepal, and added to many other significant developments during this period.

As a founding member of the non-alignment movement, Nepal followed non-alignment and peaceful settlement of dispute principles. Bishweshwar Prasad Koirala, as the first elected democratic Prime Minister of Nepal took an independent, and non-aligned foreign policy (Acharya, 2014). Recognition of the state of Israel by Nepal in 1960, when both India and China had not recognized Israel, reasserted Nepal's foreign policy as being truly independent and non-aligned (Kozicki, 1969). Koirala's speech in the United Nations General Assembly (UNGA), and a peaceful settlement of the border dispute between Nepal and China on Mount Everest showed Nepal's significant achievement when maintaining its own territorial integrity, sovereign equality, and dignity (Acharya, 2014). Establishment of diplomatic relations with the Soviet Union, Pakistan and Israel also showed diversification and balance within foreign policy. Nepal expanded her diplomatic relations with 21 countries, becoming an active part of the global political structure. Mohan Shumsher JBR signed the 1950 Treaty of Peace and Friendship and Treaty of Trade and Transit with India, and Prime Minister Matrika Prasad Koirala and BP Koirala concluded the Koshi and Gandak agreements with India (Aryal, Subedi & Thapa, 2010). Nepal-China diplomatic relations were also formally established on 1 Aug 1955. After the establishment of democracy in 1950, Nepal also started soliciting foreign assistance from bilateral donors for infrastructural and economic development, culminating into robust aid diplomacy.

The 1950 Treaty of Peace and Friendship between India and Nepal allowed the people of the two countries to do businesses in each other's territories. From the signing of Trade and Commerce Treaty with India (1950) to the 1989-90 impasses on trade and transit, Nepal witnessed various ups and downs in its economic relations with its neighbour. In the 1960s, Nepal aimed at import substitution and the diversification of trade doing away with over-dependence on India. As a landlocked country, Nepal had to concentrate on securing the right of access to and from the sea.

The 110 km long Araniko highway that was built through Chinese aid linking Kathmandu with Kodari (Acharya 2002), a border point between Nepal and China,

presented King Mahendra's balanced foreign policy. The Panchayat System (1960-1990), saw Mahendra's state visit to the Soviet Union (1958), China and Pakistan in 1961. He also gave an address in the joint session of the U.S. Congress in 1960, subsequently visiting the United States in 1967, meeting President Lyndon B. Johnson (Khanal & Paudel 2022).

King Birendra's foreign policy aimed to strengthen the nation's foreign policy through positive neutrality and non-alignment (Lohani, 2009), as his role was significant in the founding of South Asian Association for Regional Cooperation (SAARC). Establishing SAARC's secretariat in Kathmandu, his role was noteworthy in building Nepal's influence in South Asia (Acharya, 2002). The King stood resilient even through the economic blockade imposed by India from 1989-early 1990, when Delhi refused to renew the Trade and Transit Treaty citing Nepal's unwillingness to accommodate India overarching concerns (Lohani, 2009).

Therefore, throughout the decade, in the 80s, Nepal's economic interests were seen to be brought to the forefront with the establishment of the Joint Economic Commissions with several countries including Bangladesh, India, Pakistan and Thailand (Acharya, 2021). These commissions provided institutional mechanisms for economic cooperation. During the decade, Nepal also ventured into policies of "structural adjustment" of its economy on the advice of the Bretton Woods institutions, the IMF and the World Bank (Thapa, 2081).

The 1990 constitution played a key role in shaping Nepal's foreign policy, though the country had consistently prioritized territorial integrity, sovereign equality, and independence even before democratization. The Multiparty Democratic Era (1990-2007) introduced a system where executive powers rested with the elected government and parliament. After years of struggle, King Birendra accepted constitutional reforms, establishing a multiparty parliament with the monarch as Head of State, and the Prime Minister assuming an executive role (Sharma, 2019).

Nepal was quick to adopt economic liberalization and privatization and globalization after the democratic changes in the 1990s, which led to an increased significance of economic diplomacy in Nepal (Thapa, 2080). Until 1990s, the functions related to the promotion of economic interests of the country were not the highest priority. There was no mechanism in place for an effective liaison between the Nepali missions, the concerned ministries and the private sector. Moreover, the promotion of trade and investment was viewed as an activity under the domain of the private sector and the Nepali diplomats did not think fit to assist them, arguing that it would violate their "diplomatic sanctity", deeming themselves servants of the Government, not the private sector (Acharya, 2021). Nepal opened up its economy in the 1990s, adopting "economic liberalization" as the main economic policy of

the state (Thapa, 2080). Trade and currency regime was gradually liberalized. Investment was sought from private foreign companies. Nepal also actively engaged in promoting the country as an international tourist destination. Nepali workers started seeking employment in various countries. After the second half of the 1990s, economic diplomacy assumed a pronounced role in Nepal's foreign policy, which needed a new stimulus. The relations of the political tension in the world liberated the countries like Nepal to actively pursue their economic interests, thus allowing them to focus on economic diplomacy.

In 1996, a high-level task force led by Uddhav Dev Bhatta published a report titled *Role of the Ministry of Foreign Affairs in Conducting Diplomacy in a Changing Context: Task Force Report*, which emphasized the need to review Nepal's diplomatic practices and prioritize economic diplomacy (HLTF, 1996). It noted that there was a lack of policy and information on economic diplomacy in the nation, which was also true for the human resources in the country. Pointing out that there was little coordination between MOFA and other sectoral ministries, the report also detailed that the staff were not given detailed information about their roles and responsibilities when coming to the functions of other ministries and the policies of private actors (HLTF, 1996). The draft made suggestions broadly based on the idea that diplomatic missions needed to prioritize economic diplomacy while also creating systematic information lines between missions and MOFA. It, moreover, advocated for increasing staff by 15 percent, establishing a new unit within MOFA that focused on economic diplomacy, clear division of responsibilities and communication lines along sectoral ministries, and building the Institute for Foreign Affairs (IFA) as a strong training institution when moving towards these goals.

The HLTF, 1996 report recognized four important areas under the purview of economic diplomacy, namely trade, investment, foreign employment, and tourism, and this document influenced several developments moving forward, in the country. Development cooperation was later added in the list. In accordance with the recommendations of the HLTF report, the Government established an Economic Relations Coordination Division (ERCD) in the Ministry of Foreign Affairs, which was later changed to Multilateral Economic Affairs Division, and to the economic diplomacy and Non-Resident Nepali (NRN) division since 2013 (Acharya, 2021). In 2018, it was named as Policy Planning Development Diplomacy and Overseas Nepali Affairs Division. This Division has been entrusted with the responsibility of facilitating economic diplomacy functions, executed by various agencies and the diplomatic missions abroad. The coinage of "development diplomacy" was done without much change from the rest of the approach in programming and targeting the countries for economic diplomacy, adding to further confusion, rather than broadening the concept.

Thus, diplomacy for development appeared as a facet of foreign policy post-democratic restoration in 1990. National, regional and international factors contribute in economic diplomacy (HLTF, 2018). Based on the HLTF report, an International Business Forum (IBF) was also established for interaction between MOFA and the private sector, comprising of foreign business communities (Acharya, 2021). Chaired by the Foreign Minister, the IBF could only last for a few meetings. Many of its other recommendations were not implemented. Since then, the government kept recapping “economic diplomacy”, but without a programmed approach. In 1998, the Government appointment Economic Counsellors in a few missions, but they had to be withdrawn because of criticism relating to the appointment of kith and kin of political brethren in these posts (Acharya 2021).

In 2002, Economic Diplomacy Policy Study Group was formed that suffered delays in implementation. It had recommended the creation of the Economic Diplomacy Coordination Committee, to be head by the Prime Minister in 2003, but the suspicions that persisted within sectoral ministries of the importance and power that was being gained by MOFA halted the process (Acharya 2021). Consequently, MOFA was left out of loop and coordination lagged between line ministries. Later in 2006, another High-Level Policy Review Committee was set up that provided recommendations on economic cells being included in diplomatic missions and establishing chambers of commerce and industries in the bilateral associations.

In 2006, another high-level foreign policy task force was formed that released a publication titled “Renewing Nepal’s Foreign Policy in the Changing Context”. It recommended economic diplomacy as a major pillar of foreign policy. The document provided recommendations that were focused on: a) the significance of providing a “terms of reference” including the priorities for ambassadors and diplomatic missions when promoting economic interests abroad, b) work with “like-minded” nations to influence the global financial structure, highlighting the needs of developing countries, and c) the encouragement of seeking memberships in initiatives like the Shanghai Cooperation Organization (SCO) and the Asia Cooperation Dialogue. Further, suggestions were given to sort out the financial modalities, alongside public and private actors, that could enable “economic cells” to carry out promotional activities. It also promoted signing labour agreements with countries, though like before, much of the recommendations were not adopted. The programming approach was weak, and monitoring and evaluation was non-existent. That undermined the overall potential of Nepal’s economic diplomacy.

Federal Democratic Republic (2015) to Present: Prospects and Challenges

Sahana Pradhan, the former Minister for Foreign Affairs, highlighted that economic diplomacy has been a major component of Nepal's foreign policy post-1990 in Nepal. She emphasized that the MOFA gave high priority to promoting economic diplomacy to achieve national interest, further explaining that MOFA started organizational reforms to promote economic diplomacy (Dahal et al., 2008). For example, the Economic Relations and Coordination Division evolved, and the Multilateral Economic Affairs Division was established in the Ministry (Dahal et al., 2008).

Nepal has mainly focused on promoting international trade, and bringing in more tourists to the country. Meanwhile, foreign investment, foreign aid, employment promotions remain key areas where Nepal needs to focus on to achieve the economic interests of Nepal. The Government of Nepal has given high priority to the effective implementation of economic diplomacy. After the 1990's political change, the Nepal government focused on liberalization of the economy and new policies such as the Privatization Act 1994, Civil Aviation Policy 2006, Investment Policy 2015, Foreign Investment and Technology Transfer Act 2019 and Industrial Enterprise Act 2020 (Thapa, 2012).

The Institute of Foreign Affairs (IFA) further formed a Task Force which brought out a handbook on Nepal's economic diplomacy in 2008. The task force made numerous suggestions to make economic diplomacy more effective, like setting annual targets with objective indicators, country-specific annual plans, allocating yearly program budget to missions, direct monitoring and supervision of activities by High-Levels Committee under the Minister for Foreign Affairs, Foreign Secretary Level committee, and Multilateral Economic Diplomacy Division of MOFA, close coordination and cooperation with line ministries, private sector actors, and other prominent stakeholders (Hamal, 2014). The Three-Year Interim Plan (2010/11-2012/13) for the first time carried provision of economic diplomacy, considering it an important dimension of foreign policy. It stressed on making MOFA and Nepal's diplomatic missions abroad active for enhancing diplomatic role in areas of export, tourism, foreign investment, and foreign employment, advising on providing additional financial and human resources to Nepal's diplomatic missions (Hamal, 2014).

To build coordination between different ministries and departments, a high-level committee on economic diplomacy was formed under the Foreign Minister, including the Minister of Finance, Tourism, Industry etc., departments as well as the private sector (Thapa, 2012). The main objective was to formulate policies, make different strategies, monitor and evaluate the overall activities (Thapa, 2012). Along with the creation of the Policy Planning, Development Diplomacy and Overseas Nepali Affairs Division (Economic Diplomacy and

NRN Division), different mechanisms between the MOFA and sectorial ministries have been built. Similarly, different ministries have their own international cooperation division/section (Thapa, 2012).

The 2015 Constitution of Nepal upheld core foreign policy principles established in the 1950s, with two significant additions: prioritizing economic diplomacy and reviewing past treaties for equality. Despite popular support, India expressed dissatisfaction with certain provisions, leading to a trade embargo that blocked Nepal's supply routes considered to be against the international law (Upreti & Subedi, 2019).

On the other hand, Nepal's northern neighbour China welcomed the new constitution and the then government signed the Trade and Transportation Agreement with China, agreeing for alternate transit routes through China (Sharma, 2081). Similarly, after the embargo was lifted, a new government was elected.

Another HLTF was once again formed in 2018. This time, the report titled "Reorienting Nepal's Foreign Policy in a Rapidly Changing World," addressed many of the evolving trends seen in the geopolitical and geo-economics space in the world. While emphasizing long-standing goals like trade, investment, transit and connectivity, and tourism, it also highlighted the need to focus on foreign employment, Official Development Assistance, climate financing and transfer of technology. While the report placed importance on the immediate neighbours, India and China, it encouraged a greater reach of diplomatic missions abroad, while simultaneously stressing on political leadership within diplomacy and political consensus on foreign policy. When talking about economic diplomacy, the 2018 report further looked into developing coherent agendas within bilateral and multilateral channels to promote the economic interests of the state.

In 2018, the then administration briefed diplomats based in Kathmandu, reiterating the country's key foreign policy priorities. A new focus was placed on trade, investment, and tourism, as well as expanding beyond labor issues in relations with labor-receiving countries, particularly in the Middle East. The government also expressed Nepal's support for global efforts against terrorism and highlighted the nation's concerns about climate change (Oli, 2018). Similarly, Acharya (2020) also explained that Nepal could obtain benefits from the economic rise of India and China, by focusing on aspect of connectivity and developing corridors, taking "strategic decisions in its economic policies, economic diplomacy and development cooperation"

The Actors: Potential and Challenges

MOFA has been the central agency when discussions arise of implementing the tools of economic diplomatic. Similarly, Nepali diplomatic missions (embassies and consular)

around the world are working every day to achieve the goal of economic diplomacy. Amongst the government bodies, The Ministry of Finance, Ministry of Commerce and Supplies, The Ministry of Tourism, Ministry of Industries, Ministry of Labor and Employment, Ministry of Energy, National Planning Commission, and the Trade and Export Promotion Centre are amongst the important public actors involved within various capacities (Hamal, 2014). The role of private sector is also important. Institutions like Nepal Chamber of Commerce, the Federation of Nepalese Chambers of Commerce and Industries, Federation of Small and Medium Industries, Nepal Tourism Board, Foreign Employment Entrepreneurs Association, Hotel Association of Nepal, etc. are important to achieve economic interests (Hamal, 2014).

However, in spite of the efforts made by both public and private sectors, a number of problems exist. Political transition and instability have not been a favorable factor (Mandal, 2022). Low economic growth rate has made it harder to play a supportive role in executing economic diplomacy. Similarly, lack of expert human and financial resources, free global competition, free trade under the WTO among other issues, are significant challenges for Nepal (Shrestha, 2021).

Another thing to consider is Nepal's low export trade, in comparison to her import, save in few items, and trade deficit has been increasing every year since 1948 (Shrestha, 2021), mainly due to lack of qualitative and globally competitive products. Nepal's production base is narrow and hence supply is constrained, the Nepali products lack quality, their price is high, while use of technology for production is of not global standard, and samples of export products are not made available for officials who publicize them in the international market. FDI flow has remained small, despite efforts to ensure investment-friendly environment in Nepal. This sector suffers from problems of lack of uninterrupted electricity supply, labor politics, insecurity, lack of infrastructure, and bureaucratic delays (Sharma, 2081). As studied from the HLTF reports, there is a lack of implementation of recommendations, and also underutilization of available resources, like the mobilization of NRNs.

Brief Look: Emerging Trends

Economic diplomacy requires prioritization in Nepal's foreign policy, especially with the geopolitical climate as inferred by the Foreign Minister Arzu Rana Deuba, where the challenges were also highlighted (The Rising Nepal, 2024). With the Donald Trump administration halting the USAID and freezing aid in countries like Nepal, the Nepal-U.S. relations have been called into question, since the countries have held diplomatic relations for a long time – even before Nepal established its ties with India and China, although it

remains to be seen how the situation will play out in the longer run. And while aid was also seen as influence, Nepal's developmental projects have been dependent on international funding. It would also be of import to gauge how the regional competition will be affected by these shifts in the status quo when looking at how the U.S.-China relations. There is an idea, however, that even with being great power rivals, the two states can cooperate if they focus on self-interest (Haas, McElveen & McElwee, 2025), but the situation is developing and it remains to be seen how the strategic alliances and competitions forms and affects the broader geopolitical and geo-economics game.

With conversations on geo-economics gaining more focus, there emerges a need to focus on the state's capabilities and look towards more engagement in the economic sectors through skillful negotiation and regional integration on priority areas, including trade, energy and tourism. The wars that erupted in the Asian and European continents have also proven to stress the global economy, but probabilities of intensified trade wars have irked policy analysts. As Tewari (2025) claims that trade wars in the past have affected economic history and moving forward, and with the advent of the twenty-first century it has become a potent tool of economic diplomacy, pointing towards the trade war between China and the U.S. in 2018. With what has now been dubbed as Trade War 2.0, Furman (2024) has warned that trade "tensions are expected to intensify globally now that Donald Trump is back in the White House".

Artificial Intelligence and the concept of "techno-geopolitics" have impacted the global order, raising numerous new challenges in state security and development. The digital divide that exists between the Global North and the Global South, and how governments respond to such change will determine the overall geo-economics landscape (Guragain, 2024). Moreover, the competition in the sector as AI advances, with China introducing Deep Seek, is set to create more ripples in the tech world, as Beijing seeks to fill the gaps created by the U.S. with it stepping back from global platforms and freezing aid (Shakya, 2025). As innovations and geopolitical changes impact the world economy, it would require greater focus moving ahead when engaging with the state and non-state actors in the field. Economic diplomacy for states like Nepal would reflect upon its own institutional integration and understanding of the ongoing developments.

Conclusion

Throughout Nepal's history, economic interests have evolved from the relations that its conducted with its immediate neighbors. The country's identity as an entrepot of trade defined its relations with India and China. Later on, post-unification the conflict around the

northern borders also held on to the notion that economic interests were of import to the state. The early days of the monarchy saw a sense of economic protectionism. The Rana rule signified a lesser focus on the economy and more so on the internal power dynamics in the royal court. It was during the democratic period, after the overthrow of the Rana regime, that the state expanded its diplomatic relations and signed treaties with its Southern neighbor that by and large dictated its geopolitical and economic realities. The late 90's with economic liberalization in Nepal provided impetus for the country to include economic agendas in its foreign policy. With the establishment of specialized institutions and the recognition of the importance of economic diplomacy within foreign policy directives in state documents led to the identification of priority sectors and emerging challenges for the country's economy.

Contemporary diplomatic practices focus on an integrated approach, which brings into focus the areas of aid, trade, investment, technology, tourism, people movement, employment, green economy, among others. It is guided by economic interests as much as political and security interests, which were considered a part of old diplomacy. Proactive, pragmatic and constructive economic diplomacy both at bilateral, regional and multilateral levels is essential to scale national development, keeping in mind the emerging trends.

Economic diplomacy requires active support and leadership of the private sector, alongside proactive engagement of diplomatic machinery and economic agencies of government and the private sector. In view of the rising role of interdependence and increasing need for economic integration at regional and global levels, economic diplomacy becomes mandatory in promoting economic relations. Nepal has made significant efforts in promoting economic diplomacy in the area of trade, investment, tourism and foreign employment. But the effectiveness is askew in view of changing priorities, low commitment of resources, poor economic orientation of diplomatic missions and lack of program-orientation in promotion of economic interests abroad. This also suffers from lacklustre support from concerned economic ministries and weak private sector leadership. It requires sincere implementation of the various reports that the government appointed committees have put forward on economic diplomacy. These measures include institutional, programmatic and managerial aspect of economic diplomacy.

Author Introduction

a. Prem Raj Khanal is an assistant professor in the Central Department of International Relations and Diplomacy at Tribhuvan University, Nepal.

References

- Acharya, J. (2002). *Yadunath Khanal: Jibani Ra Bichar* [Yadunath Khanal: Biography and Thoughts]. Sajha Prakashan.
- Acharya, J. (2014). *Nepal's Foreign Policy: A Reflection*. Sopan.
- Acharya, M. R. (2019). *Nepal Worldview: Diplomacy*. Adroit Publishers.
- Acharya, M. R. (2020). *Nepal's National Interests, Foreign Policy and Strategic Affairs* [Perspective Paper 011]. Policy Research Institute.
- Acharya, M. R. (2021). *Business of Bureaucracy* (5th ed.). Vidyarthi Pustak Bhandar.
- Aryal, D., Subedi, R. P., & Thapa, S. (2010). *Diplomatic Dealing*. Apex Academy.
- Basnyat, P. S. (2017). *Anglo-Nepal War: A Military Review*. Mr. Sarwochcha Man Singh Basnyat.
- Berridge, G. R., & James, A. (2004). *A Dictionary of Diplomacy*. Palgrave.
- Bhasin, A. S. (1970). *Nepal-India Nepal-China Relations*. Geetika.
- Bhatta, U. D. et al. (1995). *Role of Ministry of Foreign Affairs to Conduct Diplomacy During the Changed Context*. High Level Task Force Report.
- Bjola, C., & Kornprobst, M. (2013). *Understanding International Diplomacy: Theory, Practice and Ethics*. Routledge.
- Brown, M. A. (1971). The diplomatic development of Nepal. *Asian Survey*, 11(7), 661–676. <https://doi.org/10.2307/2642973>
- Chatterjee, C. (2020). *Economic Diplomacy and Foreign Policy-Making*. Palgrave.
- Cohen, R. (2013). Diplomacy through the ages. In P. Kerr & G. Wiseman (Eds.), *Diplomacy in a Globalizing World* (pp. 103–120). Oxford University Press.
- Dahal, M. K., Sainju, M. M., Lohani, M. P., Sharma, S. P., & Parajuli, U. (2008). *Nepal: A Generic Guideline for Development Through Economic Diplomacy*. Institute of Foreign Affairs.
- Dahal, R. K. (2009). Dynamics of Nepal's foreign policy. In S. R. Pandey & P. Adhikari (Eds.), *Nepalese Foreign Policy at the Crossroads* (pp. 1–20). Sangam Institute.
- Department of Information Technology. (2013). *Introduction to Nepal*. <https://doit.gov.np/pages/283/>
- Feilleux, J. R. L. (2010). *The Dynamics of Diplomacy*. Viva Books.

- Formigatti, C. A. (2016). Towards a cultural history of Nepal. 14th -17th century. A Nepalese Renaissance? *Nuova Serie Studies in honour of Luciano Petech: A commemoration Volume 1914-2014*, 89, 51-66 <https://www.jstor.org/stable/45112253>
- Furman, J. (2024, February 3). Trade war 2.0. *Harvard Kennedy School*. <https://www.hks.harvard.edu/centers/mrcbg/publications/trade-war-20>
- Ghosh, P. (2013). *International Relations*. PHI Learning.
- Government of Nepal. (2015). *Constitution of Nepal*. Nepal Law Commission.
- Gupta, A. (1993). *Politics in Nepal 1950–60*. Kalinga.
- Guragain, A. (2024, July 15). Legal blueprint for artificial intelligence and the Nepali techonomy. *Nepal Economic Forum*. <https://nepaleconomicforum.org/legal-blueprint-for-artificial-intelligence-and-the-nepali-techonomy/>.
- Haas, R., McElveen, R. & McElwee, L. (2025, January 15). Advancing U.S.-China coordination amid strategic competition: An Emerging Playbook. *Center for Strategic and International Studies*. <https://www.csis.org/analysis/advancing-us-china-coordination-amid-strategic-competition-emerging-playbook>.
- Hamal, Y. B. (2014). *Ecology of Nepal's Foreign Policy* (3rd ed.). CEDEP.
- Joshi, B. L., & Rose, L. E. (1966). *Democratic Innovation in Nepal*. University of California.
- Kerr, P., & Wiseman, G. (2013). *Diplomacy in a Globalizing World*. Oxford University
- Khanal, P. R., & Paudel, I. (2022). Nepal's Foreign Policy Since 1950. In A. Pande (Ed.), *Routledge Handbook on South Asian Foreign Policy* (pp. 66-80). Routledge.
- Khatri, S. et al. (2018). *Reorienting Nepal's Foreign Policy in a Rapidly Changing World*. Report of the High-Level Task Force.
- Kozicki, R. J. (1969). Nepal and Israel: Uniqueness in Asian relations. *Asian Survey*. 9(5), 331-342. University of California. <https://doi.org/10.2307/2642460>
- Lohani, M. P. (2023). Nepal's development diplomacy: Road to prosperity. *NCWA Annual Journal*, 54(1), 11–18. <https://doi.org/10.3126/ncwaj.v54i1.54909>
- Lohani, P. C. (2009). Dynamics of Nepalese foreign policy. In S.R. Pandey & P. Adhikari (Eds.), *Nepalese Foreign Policy at the Crossroads* (pp. 1-20). Sangam Institute.
- Mandal, R. B. (2022). Impact of political instability on the economic growth of Nepal. *The Economic Journal of Nepal*, 45(3), 55–74. <https://doi.org/10.3126/ejon.v45i3-4.63149>

- Oli, K. P. S. (2018, March 27). *Remarks by the Prime Minister Right Honourable Mr. K.P.Sharma Oli at the Luncheon Hosted for Diplomatic Community*, Baluwatar, Kathmandu. Ministry of Foreign Affairs, Nepal.
- Panday, D. R. (2011). *Looking at Development and Donors: Essays from Nepal*. Martin Chautari.
- Pandey, S. R., & Adhikari, P. (2009). *Nepalese Foreign Policy at the Crossroads*. Sangam Institute.
- Paudel, D. B. (2023). An analysis of emerging trends in economic diplomacy: A comparison between Group of Seven (G7) and BRICS alliance. *Journal of Foreign Affairs*, 3(1), 86-106. <https://doi.org/10.3126/jofa.v3i01.56568>
- Phlipot, C. (2012). *Economic Diplomacy: Theory of War and Strategy*. U.S. Army War College.
- Pokharel, K. (2011). A critical overview of Nepal's economic diplomacy: Prospects and constraints. *Prashasan*, 7(9), 59-63. http://elibrary.mofaga.gov.np/elibrary/pages/download_progress.php?ref=39&size=&ext=pdf&k=
- Rai, A. B. (2012). Nepal's foreign policy: Historical outline and future perspective. In S. K. Bhattarai (Ed.), *International Relations and Foreign Affairs* (pp. 3-21). Sopan.
- Rana, K. (2011). *21st-Century Diplomacy: A Practitioner's Guide*. The Continuum International Publishing Group.
- Roberts, S. I. (2012). *Satow's Diplomatic Practice* (6th ed.). Oxford University Press.
- Rose, L. E. (1971). *Nepal: Strategy for Survival*. Oxford University Press.
- Sainju, R. S. (2021). *Economic Diplomacy and International Trade Facilitation*. Institute of Foreign Affairs.
- Shaha, R. (1975). *An Introduction to Nepal*. Ratna Pustak Bhandar.
- Shakya, S. (2025, February 4). *Thriving in the chaos*. Nepal Economic Forum. <https://nepaleconomicforum.org/thriving-in-the-chaos/>
- Sharma, M. R. et al. (2006) *Renewing Nepal's Foreign Policy in the Changed Context*. Report of the High-Level Foreign Policy Task Force.
- Sharma, S. (2019). *The Nepal Nexus: An Inside Account of the Maoists, the Durbar, and New Delhi*. Penguin Viking.

- Sharma, S. (2024). *Bhiksu, Vyapar Ra Vidroha* [Monk, Trade and Rebellion]. Kitab Publishers.
- Shrestha, R. (2021). Economic diplomacy for development partnership. *Institute of Foreign Affairs*, 1(1), 59–78. <https://doi.org/10.3126/jofa.v1i1.36249>
- Smith, S., Hadfield, A., & Dunne, T. (Eds.). (2016). *Foreign Policy: Theories, Actors, Cases* (3rd ed.). Oxford University Press.
- Subedi, S. P. (2022). *Foreign policy of Nepal: Past, present and future* [Yadu Nath Khanal Lecture Series]. Ministry of Foreign Affairs. <https://old.mofa.gov.np/abc/>
- Tewari, M. (2025, February 10). Rethink policy, boost infra to survive Trade Wars 2.0. *Asian Age*. <https://www.asianage.com/opinion/columnists/manish-tewari-rethink-policy-boost-infra-to-survive-trade-wars-20-1860277>.
- Thapa, B. (2023). *Rastra-Pararastra* [Nation-Foreign Affairs]. Fine Print Books.
- Thapa, K. (2024). *Nakabandi Ra Bhurajni* [Blockade and Geopolitics]. Sambardhan Publisher.
- Thapa, L. B. (2012). *Economic diplomacy*. Department of Passport Nepal. <https://dms.nasc.org.np/sites/default/files/documents/Eco%20Diplomacy.pdf>
- The Rising Nepal. (2024, November 27). Minister Rana urges envoys for economic diplomacy. *The Rising Nepal*. <https://risingnepaldaily.com/news/52653>
- The White House. (2017). *National security strategy of the United States of America*. <https://trumpwhitehouse.archives.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>
- Upreti, P. N., & Subedi, S. P. (2019). Nepal. In S. Chesterman, H. Owada & B. Saul (Eds.), *The Oxford Handbook of International Law in Asia and the Pacific* (pp. 629–655). Oxford University Press.
- Wigell, M., Scholvin, S., & Aaltola, M. (Eds.). (2018). *Geo-Economics and Power Politics in the 21st Century*. Routledge.
- Woolcock, S. (2013). Economic diplomacy. In P. Kerr & G. Wiseman (Eds.), *Diplomacy in a Globalizing World: Theories and Practices* (pp. 209–225). Oxford University Press.
- Zartman, I. W. (2013). Diplomacy as negotiation and mediation. In P. Kerr & G. Wiseman (Eds.), *Diplomacy in a Globalizing World* (pp. 103–120). Oxford University Press.