

**A Report
on
Emerging Challenges of Nepal's Foreign Policy
National Level Seminars**



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Jointly Organized by



Institute of Foreign Affairs



Friedrich-Ebert-Stiftung

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and
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Foreword

Nepal has undergone a massive shift in its political system in the last 4 years. A ten year armed uprising under the aegis of UCPN (M) and historical 19 day peaceful People’s Movement in 2006 waged under joint declaration with other seven political parties abolished the century old Monarchical rule and established the Federal Democratic Republic of Nepal.

The previously suppressed and marginalized people, especially the women, ethnic castes and sub-castes, Dalits, Madhesi, Muslim communities actively participated in the struggle against Monarchy and are now better represented in the political structures of the country and became more aware about their identity, roles and responsibilities. Their demand for federated Nepal is to be realized after the promulgation of a new constitution, soon after completing the political and electoral process.

In the changing context of Nepal, the international relations and diplomatic practices are not going to be the same as before. Our relationship with our immediate neighbours and other countries needs reassessment and rethinking. The political changes have provided immense opportunity for us and at the same time posed many new challenges. As the foreign policy is the extension of domestic policy, Nepal needs to tread a fine path that will enhance our relationship and diplomacy with our friendly countries and result in better socio-economy of the people of Nepal.

This report includes papers from two seminars on ‘Emerging challenges of Foreign Policy’ on August 9, 2010 and November 14, 2011, jointly organized by the Institute of Foreign Affairs (IFA) and Friedrich-Ebert-Stiftung (FES) as well as from a ‘Briefing and Orientation Programme (BOP) for newly designated Ambassadors of Nepal to various countries abroad organized by the Institute and Multilateral Economic Affairs Division (MEAD) of the Ministry of Foreign Affairs on April 2-8, 2012. IFA is thankful to all the contributors of the papers. The Institute of Foreign Affairs (IFA) wishes to extend its appreciation to Mr. Tika Jung Thapa, former Executive Director of the Institute for taking initiation in publishing this report. IFA is also thankful to Mr. Ram Babu Dhakal of MEAD for various supports and to Dr. Bal Bahadur Mukhia (Associate Professor of Tribhuvan University) for the good editing work done on the report of the 2010 Seminar. IFA also wishes to thank Mr. Madhavji Shrestha for looking through the entire report. Likewise, IFA must also thank its staff for their constant support during these seminars. This important publication of IFA is in your hand. I hope that this report will be an armory of thoughts and analyses on Nepal’s external policy and foreign affairs. IFA welcomes comments, suggestions and feedbacks so that we will be able to refine our future publications in improved forms.

Dr. Rishi Raj Adhikari
Executive Director

Introduction

Nepal's current transition period aimed at writing a new constitution and taking the peace process to its successful conclusion is faced with the usual (as well as unusual) aberrations that appear to disrupt the entire process. Even though the full attention of the national leaders intensely engaged in trying to grapple with this situation is focused on this matter, the nation cannot afford to close its eyes on the regular day to day running of the country in the best possible manner. In today's interdependent world, the importance of international relations is rated very high although it can be no match to sound domestic policies and order. Specifically, an important tool (always an integral component) of foreign policy i.e. diplomacy, must be conducted superbly at all times, particularly more so in difficult time such as the one faced by Nepal today. With a view to offering some support to the policy makers by examining the existing difficulties and available choices in this regard a humble start, in the form of a national debate, has been made by the Institute of Foreign Affairs with support from Friedrich-Ebert-Stiftung. Nepal's foreign policy is based on enlightened self interest that is to protect our sovereign status and foster partnership with other countries in the world for peace and prosperity. Nepal's foreign policy began from the time it attained nationhood and since then it has been dominated by pragmatism designed to safeguard independence and survival. The landmark events which introduced Nepal in global arena were when she joined the Bretton Woods institutions and the Bandung Conference, the latter which eventually gave rise to non-aligned movement. Foreign policy will depend on how the upcoming constitution will define. Nepal's foreign policy challenges are more within Nepal than beyond.

Concerned with economic policy issues that used to be dealt with by traditional diplomacy earlier (and later as trade diplomacy); economic diplomacy has gained in prominence in the modern world for both the developed and developing countries. Globalization of economies including markets further bolstered by the end of cold war and the establishment of World Trade Organization as successor to the General Agreement on Trade and Tariffs has provided greater emphasis on and support to economic diplomacy. The significant development has been the involvement of private

sector in the decision making process to influence "negotiating position to remain in the global or regional competitive market." Lacking exact definition, economic diplomacy has to do with the formulation and advancing policies relating to production, movement or exchange of goods, services, labor and investment in other countries. To pursue economic diplomacy it is beyond doubt that there must be a pool of skilled persons in the government and private sectors to understand and negotiate key economic and trade issues from national perspective. Economic diplomacy will fail if there is dearth of skilled persons who are able to negotiate from position of understanding and mental strength.

Economic diplomacy used to be confined to borders between the countries that influenced the domestic policies, but, now-a-days due to global integration its scope has extended beyond a country's border. Now it is influenced by INGOs, NGOs, Civil Society Organizations, MNCs, private sector organizations etc. In Nepal, the foreign aid is a crucial component of the development agenda. The total aid flow has been increasing in Nepal since 1950/51; especially after 1990s the flow of aid has increased as high as Rs. 12989 million and reached to Rs. 29300 million in 2008. Due to high fiscal deficits, high investment gaps and low share of domestic borrowing for meeting the expenditure needs, the role of foreign aid has been huge and important in Nepal, such dependency has made economic diplomacy the top priority agenda for Nepal. Maintaining economic interest with China and India should be Nepal's priority in economic diplomacy. Nepal needs to design foreign policies seeking to preserve sovereignty in the context of great power competition between the two countries. China is desirous of increasing trade with Nepal that may amount to several billions of US Dollars by the year 2025. Nepal's foreign policy should be especially constructed in developing hydropower potential and creating a hub for power generation, developing information and communication technology (ICT), culture, nature and tourism.

It is necessary to safeguard Nepal's national interest and install a workable mechanism within Nepal for achieving successful cooperation and derive support from the concerned ministries, semi-governmental and non-governmental organizations and agencies such as Institute of Foreign Affairs,

Nepal Council of World Affairs, etc. In support of foreign policy initiatives, the government of Nepal should conduct it through the Ministry of Foreign Affairs. Nepal's foreign policy should be guided by the national interests which are of fundamental importance. It is often urged by intellectual, diplomats, political pundits that the foreign policy of Nepal should be guided by geographical reality, socio-cultural settings and economic strength as Nepal is surrounded by rapidly growing two neighborhood economic giants –India and China. Furthermore, the country is bordering with these two most populous countries in the world. Nepal is geographically bracketed by India on three sides and as a result, India can control over access to the nearest ports which impedes Nepal's import and export business with other countries. For this concern alone, Nepal is always required to have a good relationship with India for economic diplomacy to succeed as desired. Maintaining economic interests with these friendly countries should be Nepal's priority in economic diplomacy. Economic diplomacy is of utmost importance for complementing to the development in trade, industry and investment.

Overview

Chapter I

Institute of Foreign Affairs and Friedrich-Ebert-Stiftung jointly organized a national seminar on “Emerging Challenges of Nepal' Foreign Policy” in Kathmandu on November 14, 2011. There was a wide array of participants including political leaders, experts, former ambassadors, diplomats and bureaucrats who shared their views, suggestions, comments and queries. The programme had inaugural and paper presentation sessions. Two experts presented their papers on the very theme while a number of participants expressed their opinions on it. It was observed that political stability, economic growth and grooming of diplomats are prerequisites for conducting effective diplomacy in this cutting-edge world. All speakers stood for preserving national interests, sovereignty and territorial integrity by forming a national consensus on foreign policy by domestic political actors sooner the better.

In his welcome address Mr. Tika Jung Thapa called for putting in place more effective diplomacy in the United Nations and the world at large. He said that Nepal is passing through the most crucial phase in its modern history. In international arena there are economic problems in the western countries while India and China are experiencing phenomenal growth. He noted that “under such circumstances Nepal cannot remain an autarkic state with many social and economic woes festering unabated.” Of late, Nepal has moved with a satisfactory note to enhance our bilateral relations with India and China. Nepal is apt to play a pivotal role in the regional integration in South Asia and has accepted to host the 18th SAARC Summit in 2013.

Delivering his speech Chinese Ambassador to Nepal H.E. Mr. Yang Houlan said that China would like to see peace process and constitution making in Nepal to be completed in stipulated time. He remarked that political stability and interconnectivity are preconditions for successful execution of foreign policy. And Nepal can reap benefits from the booming bilateral trade and rapid economic growth of India and China. He urged that China, India and Nepal should strive for trilateral cooperation benefitting all. He reiterated that

China is committed to stability, peace, security and economic prosperity in Nepal.

Former Foreign Minister and Finance Minister Hon'ble Dr. Ram Saran Mahat in his inaugural remarks underlined the oft-quoted maxim that foreign policy is the extension of domestic policy. He offered a historical glimpse of Nepal's international relations. For Dr. Mahat, a sound and robust economy in Nepal is a must. He outlined three important elements playing an important role in conducting effective Nepalese diplomacy in particular – 1. Political stability which is elusive must ensure the institutionalization of democracy and universal values and norms; 2. Economic performance and strength matters much in the contemporary world; and 3. Governance issues must be addressed promptly by implementing political commitments and agreements to fully restore the peace which has not been in place. He added that Nepal being one of the oldest nation-states in the world has been unable at present to pursue effective, efficient and assertive diplomacy due to political uncertainty and weak economic status. Therefore, its economic diplomacy does not yield desired results.

Dr. Mahat held a view that the quality of governance must be enhanced and the Nepalese bureaucracy, unless it attracts the best and the brightest human resource, the country cannot experience a smooth and swift delivery of public service. Foreign policy covers not only political issues and it is not executed solely by the Ministry of Foreign Affairs rather other ministries have also stakes in this realm. He gave an example of the issues at World Trade Organization, a complex multilateral trading body, which should be dealt skillfully and adroitly by Nepalese officials which requires real expertise, negotiation skills and specialized knowledge. Then can Nepal achieve success in international negotiations. Nepal cannot always live on the generosity and charity of the developed countries for the long period and we have to generate our own growth and development by working hard.

The presentation session began with Mr. Binod Prasad Bista's paper on "Nepal's Foreign Policy Challenges." Mr. Bista shed historical insights on Nepal's foreign policy covering the period of the 19th century to the first decade of the New Millennium. He saw the strategy and policy stance by

successors of Nepal's unifier Pirthvi Narayan Shah the Great in positive light with regard to conducting foreign relations and preserving territorial integrity, independence and sovereignty. He said Nepal has too much obsession on the present. Basics in Nepalese foreign policy guidelines follow immortal and immutable adage of yam theory (the country is a gourd in between two boulders). On the backdrop of interplay of multiple forces at the national, bilateral, regional and multilateral levels, a formulation and execution of Nepal's foreign policy calls for "a clear and unambiguous approach" to bolster national interests. He held a critical observation on Nepal's political parties and the government of the day which either incline too much on the established directives or put forward new and ambitious but untested agenda that in the long run could be harmful to the interests of the nation. There must be national consensus on the core principles of foreign policy that binds all future agreements. He urged the government to come up with a white paper on foreign policy which is time consuming but necessary in this period of historical transition. He was of the view that India-Nepal Treaty of Peace and Friendship of 1950 has become outmoded and requires timely revision. Some provisions of this treaty hurt the sentiments and pride of Nepal because it restrains the country to exercise full sovereignty. Moreover due to fluid nature of Nepalese politics the activities of foreign diplomats and foreign missions to covertly or overtly involve in donation drive have eroded national prestige and sovereign status. He seems to be wary about national integrity stating that the country should be alert round the clock for its survival and struggle as an independent and sovereign state. For some participants this caution was hyper-sensitive and exaggerated. Further, according to Mr. Bista Nepal should acknowledge the changing perceptions and priorities of its two large neighbours. If there is a lack of imagination in bilateral relations with India and China, then it will be intractable to conduct constructive diplomacy with them. Nepalese diplomacy must be directed towards fostering a growing sense of a community of nations. Though Nepal resorts to a structured diplomacy through normal channels we need a combination of both formal channels and personal diplomacy.

Commentator on Mr. Bista's paper was former joint secretary at the Ministry of Foreign Affairs and a prolific writer on foreign policy Mr. Madhavji Shrestha.

Mr. Shrestha observed that Mr. Bista attempted to give historical perspective to the country's foreign policy with focus on current issues that Nepal's foreign policy agenda needs to incorporate and clarify. Nepal has been pronouncing economic diplomacy which has become a major agenda, in fact propaganda (rhetoric) after 1990s. Nepal is suffering from the lack of preparedness and political stability. Our preparation is not serious and thorough. It has been difficult to attract Foreign Direct Investment as there is no international standard economic infrastructure. We are devoid of clear, coherent and coordinated rules and regulations on trade and commerce. Our poor capacity and dismal diplomatic skills pose obstacles to implement much-hyped economic diplomacy. A sound infrastructure and legal system should also be in place so as to protect foreign investors and guarantee their industrial security.

He called for a critical review of the budgetary expenditure made in the expansion of diplomatic missions abroad and questioned about a necessity and sustainability for Nepal to establish more embassies. He said that the real need is to impart professional skills to the Foreign Service officials even though Ministry of Foreign Affairs is not immune from political instability.

In reference to India-Nepal Treaty of 1950 which was not on equal footing, so were its outcomes and contents. Mr. Shrestha underscored on implementing public diplomacy in order to produce positive impact and feel the pulse of the people's opinions and concerns with regard to the execution of foreign policy.

He refuted the idea that Nepal is a small country. There are many nations in the world smaller than Nepal in geography and population. Therefore, the small state complex must be given up. The entrenched mindset should not go ahead in the conduct of our foreign policy as an independent member of the international community. He cited an example of Luxembourg,

the smallest member of the EU in terms of territory and population conducts effectively its external policy as an independent nation.

In terms of soft power with richness in natural resources, biodiversity and ethnicity we are not diminutive. As large countries possess hard power, Nepal must develop 'soft power' such as the ideals of democracy, pluralism, welfare state and human rights. Nepal has to manage pluralism and multiculturalism wisely and the Nepalese people are very fortunate to have the current configuration of the Nepalese nation-state. There must be a sense of national ethos and ideals which need to be protected, preserved and promoted to strengthen our sovereignty. However with the advent of information and communication technology coupled with globalization the concept of sovereignty is fast changing. To Mr. Shrestha, Nepal should best serve as a connector between India and China and furthermore land linked country to enhance better relationships with both of them. The makers and executors of foreign policy need to have good shape of views and concepts about this sensitive linkage.

One participant pointed out that Mr. Bista's paper failed to take notice of the role of Nepal's two giant neighbours at global level and creation of BRICS (Brazil, Russia, India, China and South Africa) as a powerful group. There is an improvement in amity and cooperation between India and China. As the US and European Union are confronting economic crisis one after another China has appeared in the international scene to bail them out. It is known that Chinese investment in US bonds is significant. The prospects of China to relieve them from economic recession if denied, the crisis-ridden nations would face daunting challenges. This dynamism has not been noted on the presented paper. Another concern raised was the bleak performance of Nepalese diplomacy in the international fora which is out of sympathy not on our diplomatic perseverance. It is suggested that Nepal should not put candidature in international organizations and United Nations if the country is not sure of credentials and diplomatic maneuvering. In the recent election to UN General Assembly Presidency and in not so distant past in 2006 during the election to the seat of non-permanent membership of Security Council at UN,

Nepal failed to garner votes from its closest neighbours such as India and China.

The morale of Foreign Service officials becomes low when the diplomatic staff is filled with discriminatory practices. Nepal should be confident, serious and adequately prepare for good performance in diplomacy abroad. It is lamented that Nepal, a state in transition, has become weaker and the country's position duly counted in the past has reached the lowest level today. Nepal's sixty-year long engagement with the United Nations has turned into dust. Venting ire to the so-called foreign policy experts who are coming to the front at the eleventh hour to suggest in Nepal's foreign policy agenda without substantial knowledge and expertise, it is remarked that it is premature to talk about the end of imperialism and colonialism which has not withered away as both have changed its forms.

Nepal is facing numerous problems in economic diplomacy. In the past, the country's export volume to foreign countries such as the US and Europe was notable but today exports have declined as well as scope of foreign investment is not promising either. Nepal should explore export items and market and give continuity to its past export growth. Citing a Japanese report that Nepal has great potential in the development of solar and hydropower energy. We need to have a clear strategy in harnessing water resources and keep in mind the security stakes of India and China sensitively. Nepal needs to fulfill inadequacies in trade, commerce, foreign direct investment, technology transfer, free trade agreements, etc and should stress on inviting Indian and Chinese investments. It is also identified that in the modern period a trajectory has discontinuity and disruptions; for example, Israel did not foresee the Arab Spring in the beginning of 2011 and Nepal was not anticipating about foreign employment two decades ago.

It is said that the country should pay serious attention to the plight of migrant workers. There is a need to explore employment opportunities in Japan, South Korea and other AICs. Therefore, a functional democracy is necessary to address the emerging challenges of Nepal's development, peace and security.

In the discussion it is stated that domestic politics has overshadowed foreign policy. India and China with their rhetoric whatever have deep rooted feelings of competition.

A common foreign policy guideline must be framed with the consent of all political parties to ensure a unanimous position on it. The future of Asia will be largely shaped by actions of China and the US at the regional and global levels. It is time to redefine 'yam' image of Nepal's foreign policy doctrine with an apparent reference to *Divya Upadesh*. The precise challenges on Nepal's foreign policy cannot be overlooked and a former Nepalese ambassador put forth his own paradigm governing foreign relations terming 4T model – Trade, Tourism, Transport and Transfer of Technology. Enumerating four major tasks Nepal must take care to enhance its diplomatic image such as economic transformation, confidence building, conflict resolution and disarmament. The paper presenter's remark that Nepal should be alert 24 hours misconstrues that our neighbours are foes. Instead the country has to instill assertiveness of its independence and sovereignty as and when necessary.

It is observed that political parties lacked capacity and craftsmanship in managing domestic issues. Global shocks, economic recession and financial crises are to be handled objectively and it must be addressed by institutional arrangements placed at global governance. We must respect the sensitivity of major powers – India, China and the US and not at the cost of our freedom. Nepal's best weapon is diplomacy which must be exercised with ammunition of skill, tactfulness, tenacity and competence.

“Border diplomacy” has become urgent to curb illicit activities of drug, arms trade and human trafficking and non-traditional security threats. When a credibility of power holders is questioned so does the credentials of our diplomats.

It is accepted that there is erosion in Nepal's sovereignty and the weakening trend of power of small countries along with the pace of globalization. We must own and implement policies that are adopted by the government of the day. The roles and responsibility of law makers are to set the agenda of foreign policy.

The second presentation was done by former secretary of the Ministry of Foreign Affairs Mr. Kedar Bhakta Shrestha on “Nepal’s Emerging Foreign Policy: Some Reflections.” Mr. Shrestha stressed on a forward looking and proactive foreign policy. Nepal should have a well planned vision when formulating policies. We should not harbor inferiority-complex situation in the country. Therefore, a diplomatic adroitness is needed to rise above the small state syndrome. Trade, aid and economic issues have a direct bearing in the formulation and execution of foreign policy. He called for focusing on the development-oriented foreign policy by energizing economic diplomacy. We have to hone our diplomatic skills (communication and negotiation capabilities) to effectively conduct and execute foreign policy. Communication gap between the headquarter (MoFA) and diplomatic missions should be narrowed and Foreign Service officials need to seriously handle the reports and information sent by the missions abroad. Foreign policy is no longer the sole domain of MoFA as other ministries, agencies and bodies do have stake in interconnected world. Nepal has to keenly watch, study and interpret developments in Sino-Indian relations in order to navigate its relations with them. The country should act sensibly in this geo-economic setting between the two economic heavyweights. It should attract maximum investment from both the countries.

Mr. Shrestha emphasized on the promotion of Track 2 diplomacy and also the fourth version of Track 1.5 diplomacy which involves both the government and private sectors jointly dealing with foreign governments and agencies. As Nepal is bracing for the restructuring of the State under federal set-up the central government must be strong enough to conduct foreign affairs. Nepal should also take the initiative to rejuvenate SAARC towards economic integration and promote the cause of South Asian regionalism. It must also exhibit strong and unwavering commitment to the principles and purposes of the United Nations. Nepal must actively participate in the endeavours of the United Nations particularly UN peacekeeping operations. Before fielding the country’s candidature in inter-governmental and international organizations we must accordingly plan in advance and groom our diplomats for the purpose to bolster our standing in the comity of nations. The principle of country first and competent candidate must be undertaken.

Commenting on Mr. Kedar Bhakta Shrestha’s presentation Dr. Ram Sharan Mahat admitted that the Ministry of Foreign Affairs of Nepal has to improve its diplomatic performance and to revitalize Foreign Service to obtain result-oriented diplomacy. He put his stray thoughts on to promote national

interests and to emphasize on the quality of diplomatic acumen and negotiating skills which are prerequisite to raise the quality of functioning of institutions. Bureaucracy must be staffed by a cream of Nepalese human resource for grappling technical issues astutely. Therefore attention must be paid to enhance the capacity of personnel to deal with challenges swiftly and promptly. Nepal must match the global standards of response while encountering serious problems in domestic and foreign issues. National interest should include burning issues such as responding to narco-trafficking, climate change and terrorism. He cited an example of the Maldives for disseminating widely the repercussions of a sea-level rise due to global warming which got prominence in attracting international attention. Nepal has shown lackluster in raising the issue of vulnerability to the climate change as proper focus and articulation are missing in the governance.

According to Dr. Mahat, in Balance of Payment (BoP) Nepal has trade deficit worth Rs 300 billion and comparative strength and advantage are weakening every day. When our exports used to finance our imports, now exports have declined to compensate foreign goods and services. Nepalese products are losing competitiveness in international market and our cost of production is high due to labour union problems. A good management of an economy will certainly assist in conducting effective foreign policy. The transition period in Nepal is prolonged and there is impending real danger as functionally and economically, politically and geographically viable federal units are to be delineated.

Questions were raised on the acceptance of federalism by mainstream parties if a trouble is in the offing. Federalism became an imperative due to the Madhes movement which was not in the agenda of major political parties in the beginning. Nepal is particularly considered for peacekeeping operations in the hotspots of conflict and concern was raised whether it has built our image abroad. Nepal deeply upholds values of world peace as a responsible member of international community Nepal sends its troop to maintain international peace and security under the aegis and flag of the United Nations. Grooming Nepalese diplomat on cross-cutting issues is very important to put forth our national interests abroad. A role of “bridge” between India and China is a mere rhetoric and non-sensical.

Chapter II

A National Level Seminar on “Challenges of Nepal’s Foreign Policy” was jointly organized by IFA and FES on August 9, 2010 which had participants from diplomats, experts, former Ambassadors, policy makers, reporter from different print and electronic media and professionals from various organizations related to Foreign Policy making. There were two comprehensive papers presented on the occasion. The first paper was presented by Dr. Bishwambher Pyakuryal highlighting different policy issues and problems faced by the country till date buttressed by statistical information. Dr. Pyakuryal made specific recommendations on improving the present scenario. The second paper was presented by Dr. Bhekh Bahadur Thapa illustrating the general picture of Nepalese foreign policy including economic conditions and political situation. Overall the participant expressed their concern that responsible individuals and organizations play a crucial role in capacity building of the country before the situation becomes worst. The programme objective was to set off a dialogue among concerned people on this very sensitive issue of foreign policy.

The programme witnessed queries, comments and answers. Concerns were shown for political stability to peace building. The role of United Nations Mission in Nepal for not disclosing information of the Maoist combatants to the government of Nepal which has a legitimate right to access to those details alleged that UNMIN was callous towards the combatants coming out of cantonments with weapons. Nepal must explore avenues of amity with great powers like Japan or the United States as the third neighbor. The country should work hard adequately on chalking out realistic strategies in foreign policy. Economic diplomacy is high sounding and we must refrain from playing around people’s sentiments and emotions. The country must bring in some far-sighted visionary leaders to guide the nation in a proper and goal-oriented direction. Though socio-economic indicators of Nepal have shown some progress, the country has to strictly enforce and execute policies to uplift the living standard of the people. It was observed that an open border with India is misused by forces inimical to the interests of both the countries. Democracy, development and peace must be simultaneously consolidated. Laxity in

security measures must be lessened. There is weak communication and coordination between the Ministry of Foreign Affairs and diplomatic missions which are performing ritual or traditional functions. The railway link from China to the nearest border in Nepal is in the pipeline which will take Nepal to attain development objectives. India and China can be our source of tourism market.

Even though international partners commit financial assistance, Nepal is not able to utilize it optimally. Public diplomacy is the greatest challenge for Nepal to attract attention of international community amid gloomy internal politics.

Responding to the queries posed to Dr. Pyakuryal who said that Nepal has to build capacity and set-up institutional arrangement. Nepal should have a long term plan and achievable vision. India and Nepal have to work out the Koshi water management.

Dr. Bhekh Bahadur Thapa defined sovereignty in three ways as follows: 1) territorial integrity, 2) civilian security, and 3) local people first for local resources. Dr. Thapa stated that “the global diplomacy has changed. It is not purported to hegemony and domination. This is the age of technical knowledge and economic diplomacy governs the country. Powerful countries govern big countries, big countries influence small countries. This has become the hierarchy of global relationship. The country which gained economic development, technological knowledge and managerial capacity brings their people in solidarity.”

Observing Nepal’s foreign policy Dr. Thapa said that “the conduct of foreign policy has been hijacked by our politicians away from professionals.” Using this statement deliberately hinting towards the nature of appointments during the recent visit of Mr. Shyam Saran, a special envoy of the Indian Prime Minister. We have all the same views to express as we feel bitterness from the inner heart. In the past two or three years we have witnessed the tendency of fragmentation in Nepalese politics which has adversely affected our solidarity. He admitted a reality of terrorist alert from the US State Department due to open border with India and he could not ignore the possible terrorist activities

in Nepal. He opined that Nepal's domestic policy makers are making foreign policy weaker. Therefore, politicians either drive the country or ruin it. It is very unpredictable situation in Nepal and without a common minimum framework can we talk about continuity. Knowledge of territory must be disseminated amongst the Nepalese people. He urged for setting up of economic think-tank in Nepal of regional standard.

Outcome

Some of the notable outcomes of these two national level seminars have been furnished below:

- * The seminars supported IFA on playing a vital role for developing better policies for the people living in the country and also stop the booming migration towards foreign countries.
- * The program reiterated the role of IFA in social change and transformation.
- * A dialogue among people from different walks of life on the issue of Foreign Policy.
- * Matters relating to safeguard Nepal's national interest had been intensively discussed amidst ongoing confusion.
- * The distinguished speakers suggested the utmost importance to install a workable mechanism within Nepal for achieving successful cooperation and support from line ministries such as finance, tourism, labour, etc. and to employ the services of existing governmental, semi-governmental and non-governmental organizations in support of foreign policy initiatives of the government of Nepal.
- * The external challenges mostly emerging out of targeted activities of stronger nations or regions generally falling outside the control of poor developing countries require timely response.
- * It must always be borne in mind that short term gains, however, attractive, can never be a substitute to the long term interest of Nepal.
- * Nepal is fully engaged with the group of Least Developed Countries (LDCs) for securing the rights and interests of the people of the LDC countries.
- * It is necessary to exert every effort to stabilize the economy of Nepal as soon as possible. With expanded roles that Nepal wishes to play in the regional and international arena after the declaration of federal democratic republic system, which can only help bolster Nepal, has been reeling under financial duress presently.

- * Nepal's foreign policy should be guided by the national interests which are of fundamental importance to a sovereign and independent nation.
- * As for its execution, we need to make a realistic assessment of the external settings that have a direct bearing on our capability to attain our foreign policy goals and objectives.
- * As an aid-dependent country our economic diplomacy attracting foreign direct investment is of vital importance for effecting progressive reduction in our level of aid-dependency and ensure higher rate of economic growth.
- * Promoting foreign employment for our unemployed youths and ensuring their welfare and well-being in terms of better working conditions and security have emerged as an extremely important part of work of our missions abroad.
- * The role of Economic Diplomacy has been prominent in complementing the development in trade, industry and investments.
- * The foreign policy of Nepal should be guided by our geographical reality, socio-cultural settings and economic strength. Nepal is surrounded by rapidly growing two neighborhood economic giants - India and China. Maintaining economic interests with these countries should be country's priority in economic diplomacy.
- * Global policy influences domestic policy-making necessitating the need for devising international economic relations.
- * Nepal's foreign policy that starts with the consolidation of Nepal's border and unified statehood has been dominated by pragmatism designed to safeguard independence and survival, from the time of the colonial empire till its breakup.
- * Nepal gained a position of an active sovereign member of the global community of nations and there was no turning back from international engagements.
- * When it comes to foreign policy, much will depend on how the new constitution will define our national goals that must also take into account dynamism beyond our border.

- * Fundamentally Nepal's foreign policy is based on enlightened self interest that is to protect our sovereign status and partner with other countries in the world for peace and prosperity.
- * First Nepal has to put house in order before pursuing proactive diplomacy.
- * Secure political stability and chart out common foreign policy.
- * Robust economy key to effective and result-oriented diplomacy.
- * Give up inferiority complex of smallness.
- * Train and groom Foreign Service officials for enhancement of their professional skills.
- * Focus on effective economic diplomacy for development of nation.
- * Be judicious enough while maintaining bilateral ties with giant neighbours.
- * Reenergize SAARC and increase participation in the UN peacekeeping missions.

Annexure

1. National Level Seminar entitled “Emerging Challenges of Nepal’s Foreign Policy” held in Kathmandu on 14 November 2011

a) Welcome Address by Mr. Tika Jung Thapa, Executive Director/IFA

Hon’ble Former Foreign Minister Dr. Ram Saran Mahat,
Distinguished Guests,
Ladies and Gentlemen

Today I feel honoured to preside over this seminar in which we are going to discuss a very important topic “Emerging Challenges of Nepal’s Foreign Policy”. I would like to extend my hearty welcome to you all who are kind enough to be here to make our programme successful.

I must be grateful to our Chief Guest Hon’ble Dr. Ram Saran Mahat, former Finance Minister and Foreign Minister who has kindly accepted our invitation to be present here despite his heavy official and political business schedules.

We are all aware that Nepal is passing through a most crucial moment of the history. In the meantime, the world is also going through a critical financial and economic situation; especially the developed countries. The United States and Europe have been facing challenges and difficulties of greater magnitude in most recent times. But the two giants of Asia, India and China are making the tremendous development with their fastest economic growth, not known earlier. Under such circumstances, Nepal cannot remain like an autarkic state with many social and economic woes festering unabated. Nepal must seek its own ways and means to get through the critical period of transformation so that we can make a safe trajectory for our own national security, desired development and prosperity with safeguarding of our much beloved sovereignty, independence and integrity, which our forefathers have so dearly saved and maintained with bravery, tact and sacrifice.

Of late, Nepal has moved with a satisfactory note to improve our relationships with two great neighbours, India and China with whom our immediate relations are mostly concerned. The recent visit paid by the Prime Minister of Nepal to India has indeed enhanced our understanding and cooperation with our southern neighbor. Similarly, the intended visit of the Prime Minister of Nepal to China and Chinese Prime Minister’s likely visit to Nepal will, I believe, contribute to further strengthen our friendly ties with our northern neighbor. The government of Nepal, particularly, the present government appears to have floated the idea of building friendly and economic bridge between our two great neighbours. This intention is, I think, noteworthy as far as Nepal can materialize this with good outcomes and benefits for Nepal’s better relations with India and China in the years to come. I believe this proposition has come up in the context of this year’s SAARC Summit propagating the conceptual slogan of building bridges across the region and beyond.

I have looked with appreciation the idea expressed and role played by the high level delegations of Nepal in the SAARC Summit held just last week in the Maldives. I wish Nepal play an appropriate role in the coming months as Nepal is scheduled to hold the 18th Summit in Kathmandu in 2013.

Recently, Nepal has also expressed its intention to extend its support to the idea of the statehood of Palestine. In this context, Nepal has supported the proposal of Palestine to make it a member of the important UN agency UNESCO. Nepal has joined the majority stream of support to Palestine taking note of the global trend related to the question of Palestine.

So far Nepal has certainly maintained positive relations with the super power US and other major powers of the world as well as other important countries of the world at large. Nepal should no longer lag behind in further boosting our relationships with all the concerned friendly countries in view of the need to build Nepal’s democratic image in the world.

Furthermore, we are all aware that Nepal has to put in place more effective diplomatic ideas and energy to boost up its global standing not only in the United Nations but in the world at large.

Considering Nepal’s image in its own neighboring regions and in the world itself our two prominent presentators Mr. Kedar Bhakta Shrestha and Mr. Binod Bista will, I trust, bring forth new ideas and suggestions to meet the

newly emerging challenges to our foreign policy. All our participants will, I hope, express their views and considerations to make this seminar truly beneficial and useful to the planners and policy executors of Nepal's diplomacy and foreign policy.

Before I conclude my few words, I must express my big thanks to our Hon'ble Dr. Ram Saran Mahat for the valued time he has given us to make this programme successful. I would also express my appreciation and thanks to FES (Friedrich-Ebert-Stiftung) resident Director Mr. Dev Raj Dahal and Mr. Navaraj Dahal for their constant support.

Once more, I should also extend my warm welcome to all the distinguished guests, and ladies and gentlemen who have taken keen interest in this seminar.

Thank you all.

b) Concluding Remarks by Mr. Tika Jung Thapa, Executive Director/IFA

Ladies and Gentlemen,

First of all I wish to thank you for your time and patience during the entire proceedings of this seminar. Your participation underlines that foreign policy is a very sensitive area where the focus of entire nation should be on preserving, promoting and pursuing national interests.

I would like to compliment a few things about the seminar that we are about to conclude in a few minutes. I see that Nepal must be skillful in handling bilateral relations with its immediate neighbours India and China which are competing for global power status. Our geopolitical and geostrategic importances have increased as the global political power is predicted to be shifting from the West to the East.

We started our discussion today with Mr. Binod Bista's frank assessment beginning with a historical overview on Nepalese foreign policy, efforts in expanding diplomatic ties, implementation phase followed by consolidating the nation as an entity of international society. Mr. Bista touched upon the revision issue of 1950 India-Nepal Treaty and issues associated with it raised by the largest party in the country. He mentioned about dynamism in international relations and outlook of India and China related issues, and the greatest challenge Nepal has to confront with is in interactions and actions of our giant neighbours. Last, but not the least, we had a comprehensive presentation by Mr. Kedar Bhakta Shrestha, a seasoned diplomat and former foreign secretary delivering brief preliminary observations on geopolitics of Nepal. He stated that Nepal must give up inferiority complex. He strongly believes that Nepal should have a forward looking and a proactive foreign policy which must include the roles of line agencies of the government and non-governmental bodies and civil society. Most importantly he submits that Sino-Indian relations have the four basic characteristics with "C" – cooperation, competition, confrontation and conflict. Nepalese diplomats must be aware of subtle as well as noticeable changes in relations in the neighbourhood. I thank all who raised queries to the presenters and it will be injustice if I do not give credit to the respected commentators of the session. Finally, we will make our best efforts to do justice to the hard work put up by the speakers, commentators and audience by bringing out a report in time.

Thank you.

Paper Presentation 1

Nepal's foreign policy challenges

- Binod P Bista*

Premise:

Discussions on Nepal's foreign policy generally evolve around its two immediate neighbors and very rightly so. The precept enunciated by King Prithvi Narayan Shah, the founder of united Nepal in his famous sermon of "Nepal is a yam between two boulders" ('this nation is like a gourd between two rocks'— *Dibya Upadesh*) is the main source of Nepal's foreign policy. Nepal has enjoyed best of relations with both its contiguous neighbors ever since and that alone has helped Nepali rulers to protect and preserve Nepal's independence, sovereignty and territorial integrity. It is also to be noted here that Nepal lost a chunk of its territory after losing war in the early 19th Century to the British Empire that had colonized most of Africa and Asia including India.

Even during the great change that took place around the Second World War, primarily responsible for creating favorable conditions for independence of most countries of the Indian sub-continent, and afterwards, impending threat against Nepal's independence was averted on account of significant change in the regional architecture that supported Nepal's leaders to take timely action. Actually, during this period the constant threat of the British Empire's expansionist design from the South died out permanently and emergence of a new China under a communist regime on the north seems to have offered a good scope for a pragmatic foreign policy for Nepal. Nevertheless, during the transition period of 1947-1951, the last of the Rana Prime Ministers signed a treaty with independent India known as the 1950 treaty of peace and friendship, often discussed and debated in Nepal.

* Mr. Bista is former Deputy Permanent Representative of Nepal to the United Nations.

A third burst of change is in-the-making in the Asian region, particularly resulting from the rising economic might of Nepal's immediate neighbors—China and India, and though Nepal's position (on independence) today is much better than when it was during the early 1950s, yet the level of comfort in terms of exercising full sovereignty faces several problems. Currently, Nepal seems to have strained her relations with its Southern neighbor India in spite of that country's support in bringing the then insurgents (Nepali Maoists) and an alliance of seven political parties that ultimately ended internal conflict. That conflict, lasting over a decade, took over thirteen thousand lives and caused destruction of public infrastructure that Nepal had created with great efforts. Moreover, India's overwhelming concern against the terrorists' attack taking place in its homeland including the financial capital Mumbai threatening to upset its financial progress should be a matter of grave worry to its contiguous neighbors, particularly Nepal having a long open border. Although Nepal does not seem to have any problem as such with its Northern neighbor, China, yet it cannot remain complacent to the Chinese concern often reflected against the protests staged (and possible disturbance in Lhasa) by the followers of Venerable Dalai Lama and others in Nepal which it considers as a threat to the protection and preservation of its integral part adjoining Nepal – the Tibetan Autonomous Region.

Internally, Nepal is grappling to come to terms with its highly ambitious transformational agenda that is expected to usher progress and prosperity to the country through all-inclusive democratic governance under a republican set up. Ever since Nepal has been declared as a 'federal democratic republic' through its interim constitution written by the resurrected members of parliament, the duly elected members of the constituent assembly are trying to figure out a system that would fulfill the demands of all the people from mountains to hills to Terai plains at one stroke. Currently, Nepal's political make up has two distinct characteristics: Nepali Congress Party and its allies that believe in parliamentary system of democratic governance similar to India's political parties following capitalist economy under a free and open market; Nepali Communist Party (particularly CPN-UCPN-Maoists and scores of other left parties) whose socio-economic development model (under experimentation) is doubted by many in Nepal and abroad. Another major

communist party of Nepal that headed Nepal's government in 1995 and also pursued established capitalistic economic model for a brief period, the CPN-UML, supported the CPN-UCPN-Maoist party's economic policy later. China's successful economic development model has, however, offered an excellent hope to the remaining communist parties of the world including Nepal. Presently, Nepali communists dominate the political scene through its sheer strength in the Constituent Assembly as well as strong cadre based character.

The sole superpower, the United States of America's openly stated policy of democracy (western style, liberal one) as an essential factor in protecting and preserving the US's interests globally, especially pronounced after the terrorists attacks against it, calls for a serious consideration by all countries including Nepal. Also the increasing role of the international community to support regime change in pursuit of democracy and open markets has necessitated that every country remained alert to its policies and priorities. Development cooperation, earlier in the form of Official Development Assistance (ODA) being complemented largely by Foreign Direct Investment (FDI) and now remittances from foreign employment, has remained an influential factor in the economic development of developing countries. The cost to development is spiraling higher due to a variety of reasons, the prominent among them being sustainable development (particularly environmental friendly technologies requiring high cost), securing the rights (sometimes exorbitant) of local inhabitants affected by mega projects, and of late additional trans-border security arrangement against terrorists' threats. The influence of the external factor on the political and economic development of a country is gaining considerable strength today. Since political and economic developments are two sides of the same coin, no country can move forward without finding an appropriate balance between the two.

There are also scores of regional, sub-regional, cross regional and international economic and trade groupings from which a country can choose from to suit its development agenda. Since peace and security have become an integral part of effective trade, members of some such groupings have also agreed to enter into peace and security agreements besides economic

cooperation. ASEAN (Association of South East Asian Nations), by signing the treaty of amity and cooperation in Southeast Asia, has clearly provided full thrust to the maintenance of peace, security and stability as a necessary condition for socio-economic progress and prosperity of this association. It has further defined the rules of the game for the association to be: mutual respect for independence, sovereignty, equality, territorial integrity, and national identity of all member nations; right of every state to lead its national existence free from external interference, subversion or coercion; non interference in the internal affairs of one another; settlement of differences or disputes by peaceful manner; renunciation of threat or use of force; and effective cooperation among themselves. Besides these principles required for sustainable development of every member nation under an atmosphere of peace and harmony, the ASEAN members have also agreed to adhere to the principles of democracy, the rule of law and good governance, respect for and protection of human rights and fundamental freedoms.

The European Union is no different when it comes to adherence to democracy, transparency, good governance, fundamental freedoms and others. Additionally, the birth of the EU took place to avoid future wars in the continent so that the people of the continent could achieve peace, prosperity and stability by overcoming divisions of the continent. ASEAN and EU could be lumped together as similar organizations committed to securing, peace, stability and progress in their groupings. The other groupings such as NAFTA, APEC, MERCOSUR, BIMST-EC have adopted socio-economic development as the main agenda. SAARC (South Asian Association for Regional Cooperation) has clearly specified that this grouping would keep bilateral issues away from its discussions. Security discussions are confined to common problems such as terrorism, narcotics, disease and the like. Besides these regional groupings, there are other important groupings such as the Non Aligned Movement (NAM), Group of 77 (G77), the least developed countries (LDCs) as well as Land Locked Developing Countries (LLDCs), primarily for garnering support and providing strength to the collective efforts of developing countries in the international political and security matters, economic and social issues and member specific, i.e., the LDCs of which Nepal is a committed member, founder member in most.

Given the interplay of these and some more forces at the national, bilateral, regional and multilateral levels, formulation and execution of Nepal's foreign policy demands a clear and unambiguous approach to protect, preserve and further Nepal's national interests. A critical analysis of Nepal's present day foreign policy is warranted in order to lay a foundation for future measures. It is often seen that Nepal's political parties and their governments either lean too much on established guidelines or come up with new and ambitious but untested agenda that, in the long run, could be detrimental to the interests of the nation. An objective analysis on the core principles of Nepal's foreign policy, backed up by its supporting measures and executing mechanisms and instruments needs to be worked out by a group of academicians, practitioners and representatives of public (including civil society) for detailed discussions and acceptance by the public at large. 'Committee for international relations and human rights' of Nepal's constituent assembly (CA) cannot be expected to come up with extensive foreign policy directions and executing mechanisms. The best it can do is to clearly outline the core principles and directives of Nepal's foreign policy in the new constitution that must be binding to all future governments of Nepal. Based on such principles the all-party government is expected to come up with a white paper on Nepal's foreign policy, obviously a time consuming but extremely vital task for the protection, preservation and promotion of Nepal's independence, territorial integrity and sovereignty.

Overview of Nepal's foreign policy:

Nepal's state policy of isolationism with the outside world during the British Raj in India (1858-1947 A.D.) and the reign of Weakening Qing Dynasty in China (1644-1911 A.D.) served it well as protection from foreign intervention was deemed necessary to preserve Nepal's independence. Its direct link for trade with Tibet on the North, China being far away and less concerned about Nepal, provided for Nepal's basic minimum needs. Minting of coins for Tibet (called Mahendramalli - started during king Mahendra Malla's time and later negotiated by Prithvi Narayan Shah) was a constant source of revenue for the maintenance of its military, among others. In line with Nepal's founder's policy in neighborly relations, maintenance of friendly and harmonious relations

with its two immediate neighbors can be taken as a highly successful period in Nepal's foreign relations at the time. ("Maintain treaty of friendship with the Emperor of China. Keep also a treaty with the Emperor of the Southern Sea."— *Dibya Upadesh*). On the face of rising British Empire and the war that led to Sugauli Treaty whereby Nepal lost a chunk of its territory, Nepal's sole concern during this period would have been to protect its independence and territorial integrity from foreign aggression.

Turning points in Nepal's foreign policy:

After a lapse of uneventful period, at least in terms of foreign policy initiatives except astute diplomatic maneuvers by the rulers of Nepal following the death of Prithvi Narayan Shah, Nepal seems to have acted in a timely manner to bolster its position as an independent nation in two time periods. First, the Hindu-Muslim Riots in northern India and formation of an interim government in 1946 seems to have forced Nepal (Rana regime) to give away its traditional isolationist policy (restriction of diplomatic relations to other countries that Nepal regularly interacted with). On hindsight, it was a blessing in disguise for consolidating Nepal's independence as well as sovereignty. By raising the Nepali legation at London and British legation at Kathmandu to embassy status, existing contacts with each other through the government of India changed to direct contacts. Also, steps were taken to expand contacts beyond British-Indian-Tibetan relations to the United States and China.

Pronouncement of new policy: establishing diplomatic relations with all countries of the world:

A treaty of friendship and commerce was signed with Washington in April 1947, followed by diplomatic relations after ten months. However, accreditation was made to Nepal's embassy in London for Washington and the US's accreditation was given to its embassy in New Delhi. Nepal's overtures to China did not produce immediate results not as a matter of less interest of China but of Chiang Kai-Shek's preoccupations with communist rivals. However, it did not preclude continuation of diplomatic contacts between Nepal and the nationalist government of China. These events, boosted later by Nepal's state policy of entering into diplomatic relations with all countries of

the world as proclaimed by Prime Minister Mohan Shamsher JBR in 1948, can be taken as a turning point in Nepal's relations with foreign countries. It appears that Nepal sought to establish relations with China, France, the Netherlands, Belgium and such other countries as well and also applied for United Nations membership in 1949. Among others, Soviet Union's (now Russian Federation) objection to Nepal's UN membership at the time questioning Nepal's sovereign status frustrated Nepal's campaign but gave full credence to Nepal's opening up policy. The 'standstill agreement' between the governments of Nepal and India that recognized independent India as a successor power to the British and the terms of relationship as it existed prior to India's independence, i.e., 1923 treaty that recognized Nepal's sovereignty certainly played a vital role at the time, which was later replaced by the 1950 treaty.

Execution phase:

The second important event took place at a time when the political situation in the South Asian region, particularly India, was fluid and volatile. Following India's independence, Nepal was also able to free herself from the clutches of Rana Oligarchy in the year 1950. At around the same time the Chinese communist party (CPC) took control of China, and the emergence of two distinct superpowers (United States of America and Soviet Union) fiercely engaged in the cold war created some opportunity for Nepal for expanding its external relations beyond its closest friends and neighbors (India, UK and the US as the status of Nepal's relations with Tibet was in serious doubt especially after India signed an agreement with China in 1952 and converted its mission in Lhasa to a Consulate General level).

Notwithstanding this superficial advantage, three major factors appear to have worked in favor of Nepal at the time: Chinese 'historical' claim imposed on Tibet raised general apprehensions in Nepal and India whether Mao Zedong (Chinese leader) would stop at Tibet or proceed further claiming Nepal (who had once listed Nepal as one of the dependent states seized by the British— Ladakh, Nepal, Sikkim, Bhutan and Assam as five fingers that he mentioned in 1937); Newly independent India was trying to come to grips with problems caused by separation of Pakistan and possible threat of

secession of other states; Existence of the 1950 treaty of peace and friendship between Nepal and India. These three significant factors seem to have nudged the then Indian establishment to follow a pragmatic course of action and not obstruct establishment of Nepal China diplomatic relations taking place in 1955 immediately after King Mahendra's accession to throne in Nepal. Nepal was also admitted to the United Nations during the same time. It can be said that in the early 1950s there existed a real opportunity for Nepal to further push ahead with its distinct foreign policy initiatives for consolidating and strengthening Nepali people's desire to live as an independent and sovereign nation, that it was, free from foreign intervention and pressure. Fortunately for Nepal, its constitutional monarch, King Mahendra, seized this opportunity in time since he was also a staunch nationalist with vision par excellence.

The significance of this historic feat in Nepal's foreign policy can be better appreciated when viewed from the fact that prior to this action Nepal, though independent, followed India's counsel to a large extent in most matters including its security and external relations. It must be admitted that the new developments including its diplomatic relations with both contiguous neighbors, India and China, Nepal was able to retain its policy of independence and non-alignment and preserve its core foreign policy tenet by not siding with any one country during the war that took place between India and China later. Thus, the Yam remained intact in spite of the boulders colliding directly in 1962. Apparently seen as a border conflict between the two neighbors but other issues such as 1959 Tibetan uprising, asylum to Dalai Lama by India played a significant role in that conflict. Fortunately for Nepal use of air force was not resorted to in that war fought along the Himalayas.

Consolidation phase:

The third major initiative in Nepal's foreign policy can be traced back to the early period of King Mahendra's rule, indirect and direct. It can be termed as a period of consolidation and strengthening of Nepal's foreign policy's goals that it set earlier. Nepal took one of the most important decisions in its foreign policy chapter by becoming a founder member of Non Aligned Movement (NAM) at the height of cold war. It was also during his reign that Nepal talked it out with India to remove Indian military missions and check posts along its

northern frontier causing high discomfort to China. This timely action supported Nepal's established foreign policy base of maintaining a delicate balance between its two neighbors for its survival, stability and progress. Prior to the restoration of democracy in the 1990, Nepal, under King Birendra, proposed that Nepal be declared a Zone of Peace and thus further expansion of diplomatic relations continued in pursuit of garnering wider support for the proposal. Absence of support from India and the then Soviet Union cut the steam out of Nepal's proposal. Occasional differences and misunderstanding between Nepal and her neighbors did not go far enough to scuttle the best of relations that Nepal had inculcated with its neighbors. It must have been a very happy outcome for Nepal and her neighbors. Additionally, Nepal became an important member of various regional and sub-regional bodies such as SAARC as well as party to international treaties and instruments, most notable among them being non-permanent member of the United Nations Security Council on two occasions (1969-1970 and 1988-1989), further consolidating its rightful role as an independent and sovereign nation of Asia.

Nepal today is fully acknowledged and accepted by the world as an independent and sovereign country that is trying hard to make up for the lost opportunity owing to the isolationist policy that had remained a preferred option for survival during the era of imperialism and colonialism. People of Nepal, especially the present leaders, must appreciate the gigantic efforts made by their predecessors regardless of the system of governance, which alone has saved the sanctity of Nepal and its citizens. One can easily imagine the Herculean task that the forefathers had to accomplish in the midst of real threat in the past from Nepal's immediate neighbors in different time periods. The task of building a new Nepal has been made easy by the courage, vision and hard work put forth by the governments who led Nepal in the past 200 years. The best gift that they left for the present generation was to hand over an intact Nepal that is independent, sovereign and proud.

Current developments:

After full restoration of parliamentary democracy with constitutional monarchy in the 1990 Nepal formally announced its foreign policy in its constitution. The directive principle states that "...objective of enhancing the

dignity of the nation in the international arena by maintaining sovereignty, integrity and independence of the country". Under state policies of that constitution, it states that "...foreign policy of Nepal shall be based on the principles of the United Nations Charter, nonalignment, the principles of Panchsheel, international law and the value of world peace" Also, "...pursue a policy of making continuous efforts to institutionalize peace for Nepal through international recognition, by promoting cooperative and good relations in the economic, social and other spheres on the basis of equality with neighboring and all other countries of the world".

The Interim Constitution (2007) arrived at by the political parties' alliance and the then insurgents (Maoists) that ejected the institution of monarchy and declared Nepal a republic has similar directive principles as well as state policies in Nepal's foreign policy as per 1990 constitution. Except that it states in sub clauses 3 and 4 of article 155 (ratification of, accession to, acceptance of or approval of treaties and agreements) that "...unless a treaty or agreement is ratified, acceded to, accepted or approved in accordance with the article, it shall not be binding on the government of Nepal or the State of Nepal". In addition, another sub clause (4) states that "Notwithstanding anything contained in clauses (1) and (2) no treaty or agreement shall be concluded that may be detrimental to the territorial integrity of Nepal".

Commitment resolution on Rome Statute:

Very little or no public discussions have taken place, except by the human rights bodies, while deciding by the Nepali parliament on a commitment resolution directing the government to ratify the Rome Statute. Owing to earlier treaties with the UK and India, Nepal is allowing its citizens to be recruited in the military of those countries, besides contributing to the troops requirement of the United Nations in Peace Keeping missions. While the involvement in UN Peace Keeping operations would not normally create any problems to the Nepali soldiers on ground the same would not apply to the soldiers deployed by either the UK or India in conflict areas. So, in this sense, the fate of Nepal's soldiers would be similar to those of the United States of America whenever it decides to take unilateral military action against its enemies. It is thus necessary to conduct a serious study of the ICC Statute by

knowledgeable legal and constitutional experts (with requisite knowledge of international law), fully taking into account the reality, prior to ratification of the Statute by Nepal.

Revision issue of 1950 Indo-Nepal treaty:

The revision issue of 'Indo-Nepal treaty of peace and friendship', considered unequal by most Nepalese, was first raised publicly by Prime Minister Kirti Nidhi Bista in the year 1969 terming it as obsolete and outdated. The argument put forward for its revision had to do with India not abiding by the related clauses of that treaty (article II requires that both governments inform each other of any serious friction or misunderstanding with any neighboring state likely to cause any breach in the friendly relations subsisting between the two countries"). Letter exchanged with the treaty (July 1950-same date as the treaty) stipulates clearly that "...the two governments shall consult with each other and devise effective counter-measures" to deal with the threat from a foreign aggressor. India had taken two unilateral actions during its war with China in 1962 (along Ladakh region) and with Pakistan in 1965 (disputed region of Kashmir) without informing Nepal on both occasions despite the treaty obliging both parties to do so. Even later in the year 1971 India's direct involvement against Pakistan for Bangladesh independence without Nepal's knowledge breached the important article of that treaty.

Almost forty years down the line in 2008, the Prime Minister-in-waiting Pushpa Kamal Dahal, terming Indo-Nepal 1950 treaty as unequal from a security relation point of view called for scrapping it off. He also called for a revisit and review of several other treaties such as the Mahakali treaty of 1996. Now a look at the clauses of the 1950 Indo-Nepal treaty that hurts the sentiments and pride of Nepalese who chose to remain independent at the cost of progress and prosperity.

The provisions that offend Nepali national sensibilities are those giving India a say in Nepal's purchase of military equipment from a third country and granting India 'first preference' for industrial and natural resource projects in Nepal. Such provisions are clearly inconsistent with Nepal's exercise of full sovereignty. Also the reciprocity sought by the treaty between a nation of over

one billion population (India) and a mere 27 million people (Nepal) in according the same privileges to the nationals of both countries (articles VI and VII) poses a serious problem to Nepal in spite of a stipulation in the letter exchange for preventing unrestricted competition necessary for some time. The revision or signing of a new treaty with India, for which there are ample takers of this view in India, would not only restore full sovereignty to the Nepalese but also commence the beginning of a new partnership with Nepal's closest friend and neighbor, India. Moreover, the 1950 peace and friendship treaty was signed towards the end of Rana oligarchy by the last Rana Prime minister Mohan Shumsher JB Rana which was not even distantly representative of the people, it was natural that the treaty included several clauses that tried to encroach upon Nepal's sovereignty.

Other issues:

Successive governments under democratic polity since 1990 allowed foreign governments' resident envoys to travel to any part of the country and offer donations or charities to educational, health and other social agencies without receiving prior approval and accompaniment of the government. That action coupled with the practice of weak government leaders seeking foreign advice and support in petty but internal matters such as resolving political disputes among nationally elected representatives of political parties has largely eroded Nepal's sovereign status hard earned by their predecessors at a great cost and sacrifice. Increasing intervention in Nepal's internal affairs by all foreign actors in the past decade or so has remained a major irritant in Nepal's otherwise best relations with foreign countries. There is a need to resolve these unwarranted issues through astute diplomacy and tact.

Future prospects:

The study of international relations requires that it be viewed as a dynamic concept that is changing over time. The pace of change, however, is contingent on bigger powers, more so with the sole super power of today. The establishment of Security Council of the United Nations with two distinct types of membership, permanent and non-permanent, explains the concept of bigger power and lesser power better. Obviously, impact and influence of foreign

policies of lesser powers is utterly limited when it comes to exercising it in the international scene. Although larger countries in the region such as India and China in Asia, Brazil and Argentina in South America or Nigeria and South Africa in Africa do exert some amount of influence in their areas yet when that regional dispute or conflict takes the shape of an international character, other stronger powers get into action encroaching (even stunting) upon their ability to influence the events there. For lesser powers it is even difficult to maintain their neutrality and exercise real independence, much less influence, in vital matters requiring decision at the global level.

The people of Nepal must never forget that the country's survival and progress as an independent and sovereign nation is possible only by maintaining best of relations with both of its contiguous neighbors, India and China. History is witness to it. This reality gives a clear message that even before contemplating an action, bilateral or otherwise and however beneficial to the people, Nepal must ever remain cognizant of the changing perceptions and priorities of her neighbors and take timely actions (or make adjustments) to be in line with the changing needs for protecting her national interest. A discourse on emerging challenges of Nepal's foreign policy will remain incomplete (and perhaps useless) if it were not to try to take into full account the challenges faced by its two neighbors. Since it would neither be possible nor desirable to get into an in-depth analysis of real as well as perceived challenges of two most populous nations having to confront a myriad of internal and external issues. For the purpose of this paper and seminar, brief extract of views however limited, from observations and comments made by known experts through seminars and some publications is considered sufficient.

India related issues:

India's foreign policy challenges can be summarized briefly on the following lines: Challenge of securing peaceful atmosphere in the subcontinent but also achieving satisfactory economic growth, curbing terrorism, promoting peace and human security as well as a right strategy to deal with the US, the only superpower, Pakistan, China and the other Asian states in the new era. Challenges are many but strategies for confronting these challenges are limited because with disintegration of the Soviet Union, India's strategy of

non-alignment and close relations with the Soviet Union (Russian Federation) has lost much of its relevance. Internal problems, growing poverty, corruption, and poor infrastructure, and security challenges from Pakistan may constrict India's role to the South Asian region only.

China related issues:

China's foreign policy challenges extracted from observations made by experts can be laid down as follows: China is now in a delicate, sensitive and painful period of transition thus needs to maintain stable foreign relations while going through a learning curve. In the short and mid-term China would pay special attention to improving its relations with developed countries, particularly USA and with its neighboring countries for the modernization program and building a well-off society in an all round way by 2020. China's major foreign policy challenge pertaining to the United States lies in generating responsible strategic policies that in demonstrated performance do not induce strategic uneasiness in the United States or to its allies to which it is committed to in the Western Pacific.

Nepal's greatest challenge:

It is evident that Nepal's immediate neighbors' preoccupation in the twenty first century seems to be finding a right strategy to deal with the sole superpower, the US. It is needless to state that they have a larger role and responsibility in securing a peaceful and stable environment in their region. For sustaining their stupendous economic growth they will be competing against each other for energy and markets under a stable regional environment. This necessitates that both need to cooperate at a certain level. It is all the more essential that smaller neighbors of the Asian region like Nepal maintained friendly and harmonious relations with both countries as their interest can be easily compromised when these giants find commonality in their larger interest. Owing to a transition phase in the formulation of foreign policy measures of both India and China, the situation is extremely volatile and sensitive. Any slip up by smaller countries in the region in their relations with these regional powers could extract a heavy price endangering national sovereignty.

For countries like Nepal, owing to its geo-political situation (often considered as a buffer state between its two giant neighbors, India and China), scope and ability to play an effective role in international relations is greatly restricted. As things are, diplomacy should be the viable option for advancing Nepal's relations with its neighbors as well as the rest of the world for safeguarding its national interest including enhancing socio-economic development of the nation.

Of the four major instruments (fifth one, namely imperialism and colonialism, has become out of context today and thus not considered for now) for the promotion of national interests outlined in most textbooks, it is hardly possible for countries like Nepal to think 'war as an instrument' or use 'economic instrument' or get into 'propaganda and political warfare as instruments'. Given the present context, viable option would be to work on 'diplomacy as an instrument of national policy'. Before getting into the discussion of the appropriateness of diplomacy for exercising Nepal's foreign policy, it might be worthwhile to digress a bit on the definition given to it by the representatives of Super Powers during 1940s as follows:

General Joseph W. Stilwell (known as "Vinegar Joe"), the top American Military Commander in the china-Burma-India theater, calling himself as a 'deckhand diplomat' had said "It is a serious business. A lot of big figures indulge in it and a host of little ones trail along. The term diplomat to the average American evokes a vision of an immaculately dressed being—pen stripe pants, spats, cutaway and topper—and a coldly severe and superior manner which masks the lightning like play of the intellect"—The Stilwell Papers, edited by Theodore H. White (William Sloan Associates, 1948). Joseph Stalin from a different background seems to have described the art of diplomacy as: 'A diplomat's words must have no relations to actions—otherwise what kind of diplomat is it? Good words are a mask for the concealment of bad deeds — quoted in David Dallin, *The Real Soviet Russia* (Yale University Press, 1944).

Whatever the definition, a diplomat is supposed to function on the following broad areas: representation, negotiation, reporting and protection of interests of a nation. Harold Nicolson (whose book diplomacy has become a classic) has given emphasis on three developments of the Nineteenth and twentieth centuries which have greatly affected diplomacy. Growing sense of community

of nations, increasing appreciation of the importance of public opinion and rapid increase in communication have provided opportunities as well as challenges to diplomacy.

Nepal may need to resort to structured (normal channels) diplomacy as well as personal diplomacy. Notwithstanding the advantages and disadvantages of personal diplomacy (practiced during critical periods of the events leading to World War II—Churchill and Roosevelt for Atlantic Charter (vision for post war settlement); with Chiang Kai Shek, Stalin; Churchill, Stalin and Truman, Post dam Conference 1945-punishment to the defeated), and a regular practice followed by Nepal in conducting high level dialogue with India's senior officials as well as China's, resorting to this mechanism at a critical moment might prove to be better than following the normal channels. Such a practice would require a proper combination of diplomats functioning at different circumstances. Although the appointment of Ambassadors is considered to be political decision making yet one cannot expect the bureaucrats to perform outside of the normal channels. Personal diplomacy would thus require suitable persons who can read the minds of the government leaders accurately and perform expeditiously and always in the best interest of the country and its people. Nepal must ever remain alert to the demands and aspirations of its neighbors and act in a proactive manner to either douse smallest of their doubts or help prevent any untoward incident affecting it.

Nepal is destined to be in a 24-hour working schedule simply for its survival as an independent and sovereign nation. Besides, Nepal needs to make judicious use and application of its scarce but invaluable resources including water resources; protection and preservation of its natural environment including bio-diversity, artistic and cultural legacy for choosing a pragmatic course for socio-economic development. While a bad internal decision on the use of public goods and resources would push back Nepal into a state of further underdevelopment causing rampant poverty and social unrest, lack of imagination in its bilateral relations with its immediate neighbors could easily land Nepal in an intractable situation taking decades to unwind unfavorable consequences and regain its composure. This is the biggest foreign policy challenge for Nepal.

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Paper Presentation 2

Nepal's Emerging Foreign Policy: Some Reflections

– Kedar Bhakta Shrestha*

It is often said, and rightly so, that domestic policies shape a nation's foreign policy. In order to study and evaluate a country's foreign policy one has to comprehend its geo-political compulsions, strategic concerns, socio-economic scenario, political system, method of governance and existing as well as potential resources – natural as well as human.

If we apply these parameters while discussing Nepal's foreign policy, certain factors come out as obvious and constant while quite a few others are variable and liable to influence the direction and conduct of our foreign policy. The oft-repeated observation that Nepal is a "yam between two rocks" first made in the second half of the 18th century remains valid, even more so, at the present day.

The geographical situation of Nepal is a constant in the determination of Nepal's foreign policy. Situated between two emerging giants destined to become the dominant world economic power houses within the next two decades, Nepal will well serve its national interests if we learn strategic skills to use proper ropes in our relationships with both India and China.

First, a few brief preliminary observations. Nepal is often perceived both inside and outside the country, and quite erroneously, as a small country. Such a notion within the country tends to develop a complex not very helpful in the conduct of our foreign relations. If we look closely at world figures, it will show that Nepal ranks number 40 in terms of population while its ranking based on size would be 92 in the comity of nations. Looking at these figures from a different perspective, it would mean that there are 153 countries in the world which have a smaller population and that nearly 100 countries are smaller in size than Nepal. We have to develop within ourselves the habit of

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looking at ourselves in this proper perspective to help us develop a wholesome attitude and approach towards the development of our foreign policy.

Second, as a land-locked and least developed country, we have to find our own bearings in the comity of nations. Land-locked we shall remain more or less for ever short of a natural miracle or a massive geo-political upheaval. But least-developed we should not and must not remain forever. Herein comes the role, dynamism and vitality of our foreign policy goaded by our domestic aspirations to graduate from this dismal position.

As a least developed country, Nepal's socio-economic indicators are understandably at the bottom. This state of affairs automatically places Nepal into particular groupings of nations in the international fora with distinct interests and priorities.

Third, issues like peace, democracy, human rights and good governance do impact on the perception by other nations about us thereby influencing their attitude and behavior in dealing with us. The recent developments in the peace process have been widely welcomed by the world at large. However, Nepal's records in the areas of good governance, transparency and accountability leave much to be desired. Multiple instances of impunity and violation of the principles of the rule of law are not something we can be proud of.

Trade, aid and developmental issues have a direct bearing in the formulation of Nepal's foreign policy. These areas have become increasingly important issues of foreign policy. Thus, enhancing of economic interests by promotion of trade, tourism, hydro-power, investment and overseas employment have become critical and important components of our foreign policy each passing day.

With this brief remarks let me touch upon the core issues and areas of interest in the context of Nepal's emerging foreign policy or in other words, the formulation or shaping of our foreign relations in the years to come.

Globalization, instant communication, advanced technologies such as Google, Yahoo, Skype, Facebook and Twitter have changed the way we perceive things, conduct business and interact with each other – among nations, groups, families or friends. These amazing scientific and technological advancements have presented both opportunities and challenges to everyone. How do we conduct ourselves in this changing world? What should be our focus and priorities?

First of all, I strongly believe that we should have a forward looking and a proactive foreign policy. When I say forward looking, I mean that we should look ahead and plan for the future and not be too much bogged down with the past if doing so would be a deterrent for beneficial and cordial relations with countries. We should have a vision for say, 20 years and plan for the next 10 years or so in the formulation of our policies.

Secondly, we should be proactive in areas that serve and promote our vital national interests in the conduct of our foreign relations in the bilateral, regional and international context. For that we need a clear vision, a proper plan and a coordinated action.

Third, as foreign policy is conducted through diplomacy, we have to hone our diplomatic skills. Unless we develop our communicating and negotiating capabilities, effective implementation of foreign policy becomes difficult.

Fourth, we have to understand that foreign policy is no longer the sole domain of foreign ministries and the diplomatic missions. Many other ministries, agencies and bodies have vital stake and useful role to play in the formulation and conduct of foreign policy. Although they remain at the forefront of diplomatic interaction the notion that the foreign ministries are the sole players and actors in the diplomatic field does not hold much water at the present day.

Whenever a finance minister attends a World Bank or IMF meeting, a trade minister a WTO conference, an education minister a UNESCO conference,

a tourism minister a world tourism gathering, they are, in essence, engaged in the field of diplomacy.

Fifth, a number of players and actors in the non-governmental sector have emerged. Be it the chambers of commerce, trade bodies, tourism organizations, sports, arts and cultural groups – they all are increasingly and usefully involved in, what is being known as Track -2 diplomacy. There has also emerged a third version of diplomacy known as Track 1.5 – meaning involvement of both government and private sectors jointly in dealing with foreign governments.

Coming to the specifics of Nepal's emerging foreign policy scenario – the most important factors lie within our country itself. How we manage the peace process, constitution making and thereafter the restructuring of the state, formulating economic and social policies, system of governance, and the sharing of power between the centre and the states will determine the course of our foreign policy in the years to come.

Irrespective of how things develop in the country in the days to come, we have to keep one thing in mind and that is that for the effective implementation of our foreign policy we need a strong role for the centre-particularly in areas that have relevance and touch upon the domain of foreign policy. A weak centre in the proposed federal structure will not lend itself to the making and conduct of an effective foreign policy.

Moving out of the national scene if we look around the world we see the most stunning and far reaching developments taking place all over and more significantly in our neighborhood itself. The dissolution of the Soviet Union, end of the cold war, rise of the United States as the sole super power and the phenomenal economic growth of China and India are developments that have changed and are changing the shape of the world.

Although the United States remains the mightiest military power in the world, its claim as the sole super power of the world will come under strong questioning in the days to come as China and India will continue to stride the world with their astounding economic growth. The impressive

economic progress made by Brazil, Russia and South Africa and who along with China and India constitute the now well known BRICS group will be a formidable force in the world stage whenever they act in concert.

Japan in spite of its problems will remain an economic power house. Germany although over burdened with the task of rescuing the problematic economies of the European Union will continue to be a major world economy. Then there are the second rung of countries like South Korea, Indonesia, Thailand, Singapore, Mexico and Turkey who will play an increasingly important role in world affairs in the days to come. Although political non-entities, Hong Kong and Taiwan are also heavy weights in world of trade and finance. Then there are, of course, the Arab and other OPEC member countries who, with their enormous wealth will continue to have their clout in the world.

According to several estimates, China is headed towards overtaking the United States in GDP and become the world's number one economy, some say as early as 2025 while some others put the date closer to 2035 or thereabouts. It will be a safe bet that 2030 will be the more approximate date. Then again, the forecasts of India catching up with China have also become a veritable cottage industry.

Forecasts apart, it seems almost certain that in the next 15/20 years, the world scene will be dominated by the US, China, India and EU, the latter if it could manage its internal problems. Japan, Russia and Brazil, closely followed by Indonesia will emerge as major players in the international arena.

Nothing would be more vital and important for Nepal than the course of Sino-Indian relations in the years to come. Economic power breeds confidence. It also nurtures arrogance. My submission is that Sino- Indian relations will have the four basic characteristics with "c" – cooperation, competition, confrontation and conflict. We can see the examples of the first two "c"s, namely cooperation and competition at play in their relations.

Both India and China have cooperative relations in the field of trade, investment, energy and environment. They are competing for greater

influence in and around the Indian Ocean region – China by forming the so-called “string of pearls” stretching from Hong Kong to the port of Sudan including ports in Myanmar, Bangladesh, Sri Lanka and Pakistan. We also see India stretching its muscles by conducting joint exercises with Vietnam in South China Sea and occasional naval exercises with Sri Lanka, the Philippines and New Zealand.

Will such competitive actions provoke confrontation between China and India? Unless there is some untoward incident caused by some miscalculation or overzealous action, it is unlikely that they will result in confrontation between the two countries. There may be complaints, accusations, harangues and verbal threats from both sides. But that need not necessarily lead to confrontation. Other sensitive areas are the border areas between the two countries. There again, in spite of some moves viewed as aggressive by the other side common sense has prevailed so far from escalating these actions into confrontation.

The ultimate scenario – that of a possible armed conflict between the countries is something nobody can predict or guarantee about its non-occurrence. Scholars have a tendency to point out that whenever two great power centers emerge, rivalry often escalates to conflict. Now that both the countries have nuclear capabilities, this in itself will be a deterrent for a large scale conflict.

So what is there for Nepal in these various scenarios of Sino-Indian relations? How do we steer ourselves in different situations of these sensitive and complicated relationship? We find ourselves placed between the two largest growing economies. In such a situation the most sensible thing will be to make the most out of it for our own benefit and growth. We should try to attract maximum investment from each of the countries.

China has become India’s largest foreign trade partner with 60 billion dollars worth of transactions. The bilateral trade is expected to reach 100 billion. Transportation cost, on average, amount to 10 % of the total trade. In other words, in a trade of 100 billion, transportation cost will be to the tune of 10 billion dollars. If we could have 10% of the transportation moving from

Nepal, we stand to generate 1 billion dollars worth of business annually, a substantial amount for a country like Nepal. As not all goods can be economically moved from one country to another by air or sea route alone, surface route can provide an attractive alternative for movements of goods. However we will need to develop our infra-structure to handle this traffic in trade. We will have to seek the assistance from both the countries in this respect. Also, development of such an infra-structure will also help to boost our bilateral trade with each of these neighbors.

How we handle Nepal-India and Nepal-China relations in the backdrop of the unfolding Sino-Indian relations will be the test of Nepalese foreign policy in the days to come. The continuous and frequent influx of Chinese officials to Nepal has raised concerns in India. The test of the strength and agility of our diplomacy will lie in how successful we are in convincing both of our neighbors that our policy is guided solely by our national interests without any intent to harm either’s interests. There are challenges and it is not always easy but we have to learn to walk the tight rope in dealing with either of our neighbors. All said and done, we cannot remain an island of poverty amidst this growing affluence all around us and only a sound foreign policy and the diplomatic tact and skill to implement it will help us to rise from this dismal position.

Moving beyond our immediate neighbors, we should concentrate on issues that matter most to us- development. In order to have a meaningful development-oriented foreign policy , we need to energize our economic diplomacy which has six major components, namely, promotion of trade, aid, investment, tourism, hydro-power and foreign employment.

Nepal’s foreign policy must be guided by and geared towards development through the medium of economic diplomacy. As hinted earlier, diplomacy is no longer the sole concern of the foreign ministry and the diplomatic missions alone. Various ministries, departments, agencies of the government should act in close cooperation in order to pursue a vigorous and fruitful economic diplomacy. Overall national interest should give way to petty and harmful considerations of turf. Moreover, non-governmental groups such

as chambers of commerce, tourism bodies, employment sector groups should be brought in for coordinated action in relevant areas.

Even in this age of globalization, one of the emerging trends is the formation of regional groups. The European Union, in spite of occasional problems, has become a truly pan-European movement with free movement of goods, services, capital and people with a common currency, except in a few cases. The resulting benefit has been too numerous to enumerate and far exceed the negative picture as may be reflected by the current crisis in some of the member countries. ASEAN has emerged as a formidable economic bloc. Similar groupings in different regions of Africa and Latin America have helped boost trade and economic cooperation among member countries.

In our own region, SAARC was established 26 years ago with much fanfare and expectations. There have been numerous declarations, conventions, agreements and understandings aimed at achieving economic and social development, poverty alleviation, combating terrorism and trafficking, several institutions and bodies like SAARC Regional Centers, SAARC University, South Asia Forum have been established. Likewise several instruments like Development Fund, Food Security Reserve are available. But it must be said in all fairness that SAARC's performance has fallen short of the peoples' expectations and it has failed to deliver the benefits of cooperation. Unless we are able to move ahead towards a more meaningful economic integration, SAARC will have limited impact in the lives of the peoples of the regional. We all are aware of that the main cause of the dismal progress made by SAARC is due to the deficit of trust among two of its largest members. Nepal should actively promote the cause of SAARC.

The other major areas of foreign policy in the days ahead will be terrorism, climate change, disarmament, trafficking of drugs and women and children. As regards terrorism, Nepal is a signatory to international as well as regional conventions and must be always on guard to live up to its obligations. There is no place for terrorism either home grown or imported in a modern society and we have to be alert and vigilant that it does not take root in our society.

Global climate change and its effect on environment have become increasingly important issues in foreign affairs. These issues have trans-national ramifications and the act or omissions of one nation or group of nations affect several other countries in an adverse manner. Nepal can reap rich dividends by learning properly what is being known as the "carbon diplomacy"- how to claim carbon credit from polluting countries.

Nepal has long been committed to the cause of peace and disarmament. It is one of the major troop contributors to the UN Peacekeeping operations and this has helped improve Nepal's image in the international arena. It should not only continue but try to enhance its peacekeeping activities by greater participation in future peacekeeping activities.

To conclude, I would like to reiterate that Nepal should have a forward-looking and a pro-active foreign policy. It has to closely watch, study and interpret developments in Sino-Indian relations in order to manage and navigate its relations with either of the neighbors. It should focus on strengthening its economic diplomacy in a manner that will yield positive results for its economic growth. It should continue its efforts to make SAARC more effective and result-oriented for regionalism is the trend of the modern day world and no country, however rich or powerful can make things happen on its own. And lastly, a strong and unwavering commitment to the principles and purposes of the United Nations. A larger and more active participation in the UN peacekeeping operations should be one of the major foreign policy agendas of the country.

1. A National Level Seminar entitled “Challenges of Nepal’s Foreign Policy” held in Kathmandu on 9 August 2010

a) Welcome Address

Mr. Tika Jung Thapa
Executive Director/IFA

Hon'ble Deputy Prime Minister and Minister of Foreign Affairs Madame Sujata Koirala,

Foreign Secretary Dr. Madan K. Bhattarai,
Distinguished Guests,
Your Excellencies,
Ladies and Gentlemen,

At the outset I would like to welcome you all to this wonderful gathering of personalities who are here today with a purpose. That purpose can be anything but one; How to help safeguard Nepal's national interest amidst ongoing confusion? Bearing this reality in mind the Institute of Foreign Affairs (IFA) has been successful in organizing this meet today with cooperation and financial support from our partner organization, the Friedrich-Ebert-Stiftung (FES). I would wish to express my thanks to Mr. Dev Raj Dahal, the Resident Director of FES for his constant support.

The topic chosen for today's meet is named "Challenges of Nepal's Foreign Policy" which will be discussed at length by former minister and Ambassador Dr. Bhekh Bahadur Thapa and its economic aspect, generally referred to economic diplomacy, will be dealt with by the prominent economist of Nepal, Prof. Dr. Bishwambher Pyukuryal. I am sure that all of us will benefit from the wealth of experience that these gentlemen carry.

While our speakers will be offering their informed assessment later today when you will have ample opportunity to also share your views with them, let me simply state that the challenges have ever remained in the formulation and execution of foreign policy to all nations, big or small. However, there is one stark difference that, too, has been ever present in the treatment of foreign policy issues. Smarter nations have turned these challenges into opportunities but the less prepared ones have been overwhelmed by the depth of these challenges. I believe that we should not leave any stones unturned to face

these challenge so that we can proceed smoothly on the path to development and prosperity in an atmosphere of peace and stability.

The complexities surrounding the world today in every sphere have been signaling us quite clearly that in order to move forward we must accept and adopt a coordinated approach including in our dealings with foreign countries. In fact, the foreign policy challenges that everybody has been referring to can be classified in two areas; internal and external. Intergovernmental coordination is the prerequisite for taking up any initiative that can also be executed. While it is of utmost important to install a workable mechanism within Nepal for achieving successful cooperation and support from line ministries such as finance, tourism, labour etc. it is equally important to employ the services of existing governmental, semi-governmental and non-governmental organizations and agencies such as Institute of Foreign Affairs, Nepal Council of World Affairs in support of foreign policy initiatives that the government of Nepal conducts through the Ministry of Foreign Affairs.

Similarly, the external challenges mostly emerging out from targeted activities of stronger nations or regions generally falling outside of the control of poor developing countries require timely response. Lacking sufficient resources including skilled manpower smaller nations like Nepal have to make right choice for the overall interest of the nation. It must always be borne in mind that short term gains, however, attractive, can never be a substitute to the long term interest of Nepal.

At present Nepal is fully engaged with the group of Least Developed Countries (LDCs) for securing the rights and interests of the people of the LDC countries. As the Chairman of the Group, Nepal will have to play an important role in the meetings of the forthcoming General Assembly of the UN. Needless to state that everyone, including the distinguished participants, needs to contribute it share in this national endeavor.

The Government of Nepal has proposed the candidature of Mr. Kul Chandra Gautam for the Presidency of the 66th UN General Assembly. Since it would be a matter of honour and pride for Nepal to have its own at the world body, it would be in the interest of all Nepalese to support this candidature.

Ladies and Gentlemen,

All present here today would bring with you profound knowledge and invaluable expertise earned through hard work over a long period of time. It is my conviction that this government and all succeeding governments of Nepal must not lose sight of the contribution and excellent work that each of you has made in the service to the nation. It can only benefit the foreign ministry if systems were established through which individual expertise and experience as well as institutional expertise of IFA, NCWA and such other organizations could be harnessed for the overall benefit of the nation. It is my understanding that all nations including our neighbors follow this practice for improving effective delivery of national policies.

Since it is granted that the major work needs to be carried out by the concerned ministry or department of the incumbent government, the aforementioned idea pertains to supporting the ministry in a supplemental role. With expanded roles that Nepal wishes to play in the regional and international arena after the advent of federal democratic republic system, it can only help bolster Nepal's effectiveness in several areas. Leading the group of LDCs at the United Nations, contributing to preservation of the Himalayan eco-system, helping Nepali people uplift their living standard by raising economic growth and development through regional groupings such as SAARC, BIMSTEC, promoting foreign direct investment by creating a conducive atmosphere in Nepal through effective execution of economic diplomacy and bringing about necessary changes in administrative and legal systems and procedures are some areas that can be considered.

Let me state a few words on economic diplomacy before I conclude. For Nepal, which has been reeling under financial duress presently, we must make every effort to stabilize our economy as soon as possible so that we can implement our plans for growth and development. In my view, economic diplomacy or in other words emphasis on economic area in our relations with foreign countries has more relevance in our present state of economic stagnancy. It is needless to state that this task can hardly be achieved if we either lacked coordination within the country or failed to energize our missions abroad.

Last but not least I would like to offer my appreciation to Deputy Prime Minister Madam Sujata Koirala for being present on this occasion despite a tremendous demand on her available time. Thank you for being patient.

b) Keynote Address by Hon'ble Deputy Prime Minister and Minister of Foreign Affairs, Madam Sujata Koirala

Mr. Chairman,
Excellencies,
Distinguished Guests,
Ladies and Gentlemen,

It is a pleasure for me to attend the inaugural session of the debate on Challenges of Nepal's Foreign Policy organized by the Institute of Foreign Affairs in cooperation with the Friedrich-Ebert-Stiftung. I would like to express my sincere thanks to the hosts of today's program for the kind invitation extended to me.

I should not hesitate to acknowledge the fact that informed and intellectual debates on foreign policy issues are rare events. This initiative, therefore, carries special significance. I hope the intellectual debates and discussions on this important topic of contemporary relevance would be of great interest and importance to us all.

The foreign policy of a state is determined by its national interests. National interests are generally expressed in terms of the maintenance of national sovereignty, territorial integrity and political independence of the state, attainment of higher economic growth and national prosperity, and enhancement of the state's international image, Nepal's foreign policy is also guided by these national interests of fundamental importance to us as a sovereign, independent nation.

The Interim Constitution of Nepal 2007 says: our foreign policy is based on the principles of the United Nations Charter, nonalignment, the principles of Panchasheel, international law and the norms of world peace. (Article 35.21) Constitutionally, therefore, this is where we stand as far as the broad principles of our foreign policy are concerned.

As for its execution, we need to make a realistic assessment of the external settings that have a direct bearing on our capability to attain our foreign policy goals and objectives.

Foreign policy, by definition, is directed towards other states in the international system and is executed beyond one's own borders. As such, it is not, and cannot be, a unilateral affair. All sovereign independent states in the international system are free to conduct their foreign relations as they see it fit, appropriate, and beneficial to themselves, the only possible restraints being

international comity and the norms of international law. Therefore, the proper execution of a state's foreign policy becomes a very sensitive matter.

The end of the Cold War and the breakup of the Soviet Union has been a watershed event in the recent history of international relations. With this, the nature, structure, scope and dimensions of international relations have all transformed. Meanwhile, rapid globalization, increased interdependence and reinvigorated multilateralism have added new dimensions to the conduct of foreign affairs in this century.

The United Nations has become a truly global organization dedicated to international peace, security and human welfare. Human rights assumed a new height of importance together with the establishment of the International Criminal Court in 1998. The establishment of WTO in 1995 as a global institution is for ensuring a non-discriminatory, rule-based and predictable trading, therefore, need to maintain a very cordial and friendly relationship with both of our immediate neighbors.

As an aid-dependent country, our relations with bilateral donors and multilateral aid agencies are equally crucial for us. Making our economic diplomacy more effective in terms of promoting tourism and attracting foreign direct investment is of vital importance for us to bring progressive reduction in our level of aid-dependency and ensure a higher rate of economic growth.

Meanwhile, promoting foreign employment for our unemployed youths and ensuring their welfare and well being in terms of better working conditions and security have emerged as an extremely important part of work of our missions abroad. This also calls for making our diplomatic missions more resourceful and better equipped.

Expanding the reach of our diplomacy across the world is yet another challenge of our foreign policy. In a world with almost 200 states, Nepal maintains diplomatic relations with 131 countries and has established residential diplomatic and consular missions in just 32 of them.

Through a long and continuous participation in the UN peacekeeping missions around the world, Nepal has earned a distinct recognition in the international community. We need to continue this in order to maintain and further improve our international image as a democratic, peaceful and peace loving country.

With these observations, I would like to stop here. I hope some of these ideas will stimulate further discussions at this distinguished forum.

I wish you all a very fruitful afternoon.

Thank you.

c) Concluding Remarks

Vote of Thanks

Ms. Anjan Shakya
Deputy Executive Director/IFA.

Chief Guest Hon'ble Deputy Prime Minister and Foreign Minister,
Foreign Secretary, Executive Director of IFA,
Distinguished Guests,
Ladies and Gentlemen,
Good Afternoon to Everybody,

It is a great privilege for me to extend the vote of thanks on behalf of Institute of Foreign Affairs (IFA), let me state a few words on today's subject prior to taking up the task at hand. No country can promote its foreign policy in the international arena until and unless it is able to address its internal problems and come up with clear and concrete policies with national consensus and solidarity. For every country, its foreign policy is a reflection of internal policies which are further determined by the country's domestic situation and necessities.

Today, it is also relevant to reiterate the significance of maintaining best relations with neighboring countries as well as other friendly countries. It is imperative that we have to move beyond bilateral relations so that we can take part and benefit from newly emerging sub-regional, regional and international groupings, mostly focused on socio-economic agendas. In the context of promoting economic diplomacy, I am pleased to inform you that IFA published a Course Design for Ambassador Designates and Officials of Ministry of Foreign Affairs with the help of the core group formed by its Board. I would like to emphasize that the implementation is more important than mere publication and hope that we can move in that direction.

At this juncture the expectation of the people is relatively high due to the new development in our country. The present leadership of the Nepali politics shouldn't lose this opportunity to resolve the problems and transform

Nepali society into a genuine democratic republic by drafting a new constitution in time.

It is necessary to conduct such discussions periodically between political leaders, civil society, experts, scholars and academicians to generate constant views on national issues with national consensus. Therefore, the institutionalization process will be developed gradually for strengthening our country's capabilities. If we can consolidate our internal affairs then it enhances our image and performance in the conduct of international affairs.

While organizing the national debate, such as this one, cooperation and support from Ministry of Foreign Affairs is indispensable. We are happy to extend our sincere thanks and gratitude to our Chief Guest Honorable Deputy Prime Minister Sujata Koirala for her presence in this August gathering and I would like to thank her for launching the publications of the Institute. I would like to extend my thanks to the former Executive Director Prof. Dr. Gopal Prasad Pokharel for preparing the book on "Foreign Policy of Nepal: Challenges and Opportunities" in 2009. All of the authors of that book equally deserve thanks for their contributions. I would like to appreciate the Ministry of Foreign Affairs and United Nations' offices here for providing materials to publish a book on the compilation of the Speeches of Heads of the Nepalese Delegation to the United Nations General Assembly.

We would like to extend our appreciation and thanks to Foreign Secretary, IFA Board Members, distinguished guests and participants, especially today's eminent speakers, Former Foreign Minister Dr. Bhekh Bahadur Thapa and Economist Prof. Dr. Bishwambher Pyakuryal for supporting our work. Mr. Dev Raj Dahal of FES deserves high appreciation for his support and cooperation. I would also like to thank the media representatives, our supporting staff and management of Hotel Malla for their cooperation. We are very happy that your gracious presence has made this function successful. I look forward to your active participation in the working session. I would like to announce that the inaugural session now stands closed.

Thank you for your kind attention.

Paper Presentation 1

Challenges of Nepal's Foreign Policy Relating to Economic Diplomacy

Prof. Bishwambher Pyakuryal, Ph.D. *

CONTEXT

As economic diplomacy (ED) involved commercial activities and foreign policy was categorically a political task, the high-flying diplomats considered ED as a secondary career track. In Nepal, economic diplomacy has been a buzzword largely after reinstating democracy in early 1990, which aimed at promoting economic interest through country's foreign policy. The structural changes in global trading system after the establishment of WTO demands a new policy orientation in maintaining international relations to promoting economic activities. The challenge therefore, lies in sustaining competitiveness in both the multilateral and bilateral trading arrangements. There is a possibility in gaining comparative advantages in trade in services. Identification of key areas should not be a problem. For example, Nepal has comparative advantage in Commercial presence-tourism (Mode 2) and Temporary movement of natural persons (Mode 4). However, administering trade through economic diplomacy is again a challenge to the newcomer in the context of changed structure in global trading system.

It seems in present day Nepal, politics is the ultimate determinant of developmental outcomes. If this is the case, economic diplomacy can't yield any result or may become ineffective when political diplomacy fails. The fluctuations in Nepal-India bilateral relations, for example, can offer some policy guidelines for orchestrating Nepal's future policy for economic diplomacy. The result of Nepal-India trade stalemate in 1989 and huge trade deficit was because of the political misunderstanding between the Panchayat regime and Government of India led by late Rajiv Gandhi. Relaxation in trade restrictions immediately after new democratic government in early 1990, followed by historic Nepal-India Bilateral Trade Agreement in 1996, which offered unrestricted free access to India's market, was again the result of

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normalcy in political relationship between India and Nepal. The bottom-line is when economic interest has converged, political mistrust has normalized and when political interest converges, economic diplomacy has worked.

DEFINING ECONOMIC DIPLOMACY

There is no single definition for the term "Economic Diplomacy". Traditionally ED was concerned around borders to influence domestic policy. Today, global integration has extended the scope for ED beyond country's borders, and therefore, influenced by NGOs, Civil Society Organizations, private sector organizations etc.

During 1950s and 60s, there was a wave of nationalization of industries. As persuasion and negotiation skills of the diplomats were desired to sell products of the nationalized industries, economic diplomacy was termed as "trade diplomacy", which integrates foreign affairs and commerce (trade, finance, aid, technology exchange, investment etc). For simplicity, economic diplomacy can, therefore, be taken as the *importance of economics in diplomacy*. ED integrates commerce and foreign affairs. Therefore, it includes, trade, finance, energy, investment, aid, technology exchanges, global environment, and multilateral economic negotiations etc. In this sense, the role of ED has been prominent in complementing to the development in trade, industry and investments.

AID IS INDISPENSABLE: ECONOMIC DIPLOMACY INSEPARABLE

Foreign Aid has been critical component of development agenda in Nepal since its early effort of planned development. As foreign aid is a function of both demand and supply factors, the ever increasing flow of foreign aid can be attributed to both increase in developmental activities and increase in number of donors over the years.

The case for redesigning foreign policy from the perspective of economic diplomacy is strengthened when we exhibit the role of foreign aid in fulfilling savings-investment gap. Nepal has historically been practicing deficit budgets as a part of its fiscal policy. The fiscal deficit, which is defined as difference between total expenditure and total revenue, shared nearly 50 percent of total expenditure in early 1990s. With reform in public expenditure

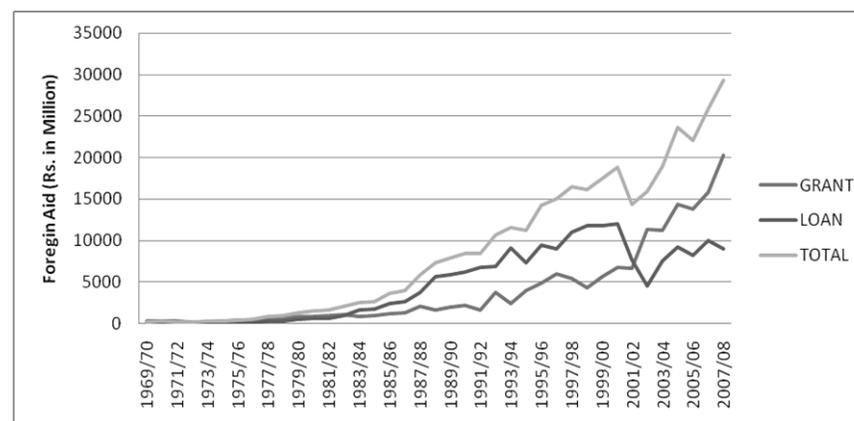
and revenue front under Enhanced Structural Adjustment Program (ESAP) during early 1990s, the trend, however, shows a declining trend. The decline was nearly 35 percent in FY 2000/01, which further decreased to nearly 33 percent in FY 2007/08.

The budget deficit also shows a similar trend. As percentage of total expenditure, it was as high as 45 percent in FY 1990/91 but decreased to nearly 30 percent in FY 2000/01. In recent years, the budget deficit shares around 20 percent of total expenditure in Nepal. Moreover, Nepal has not been able to meet the saving-investment gap through domestic sources of financing its expenditure. Additionally, total consumption is also growing over the years accounting nearly 88 percent of total GDP (Economic Survey 2008/09)

Given high fiscal deficits, high saving-investment gap and low share of domestic borrowing on meeting its expenditure, the role of foreign aid has been crucial in Nepalese case. Even if resources are effectively mobilized and directed to productive sectors, the inability to achieve required level of development makes foreign aid compelling. Such dependency strengthens the case for pushing economic diplomacy as Nepal's top priority agenda.

Following figure 1 exhibits trend in foreign grant and loan:

Figure 1: Trends in Foreign Aid in Nepal (1969/70-2007/08)



Source: Pyakuryal et.al (2008) and Economic Survey 2008/09, MOF

Figure 1 above shows both grants and loan in absolute figures have been increasing over the years. Nepal received Rs. 1.01 million in FY 1950/51 as grant. This amount significantly increased after FY 1958/59 and reached as high as of Rs. 86.42 million. Since then, total aid flow in Nepal continued to show upward trend over the years except in few years. The amount further increased and Nepal received an average of Rs. 466 million in 70s while the figure reached to an average of Rs. 3705 million in 1980s. The significant increase in foreign aid in 80's was attributed to substantial amount of borrowing from donors. During 1990s when Nepal escalated the reform process, average figure for 90s increased to as high as of Rs. 12989. Nepal received total aid of Rs. 18787 million in FY 2001/02 which has reached to a total of Rs. 29300 million in 2007/08.

The distribution of the foreign aid between grant and loan shows a mix picture. In early years, the grant has been dominating component of foreign aid. Up to 1982/83, the grant component was higher than the loan on total foreign aid flow. During sixties and seventies, share of grant used to be around three fourth of total aid. But share of grant started to decline gradually. After FY 1983/84, loan started to be higher than grant up to FY 2002/03. During this period, the grant component on an average decreased to nearly 32 percent leading to a significant increase of loan component to as high of 68 percent on average. However in recent years, after FY 2002/03, the grant component again started to out-weight loan. For instance, the grant component for a period of 2002/03 to 2007/08 has remained at 64 percent on average while the loan has decreased to 36 percent.

ECONOMIC DIPLOMACY INFLUENCES FOREIGN POLICY

The foreign policy of Nepal should be guided by our geographical reality, socio-cultural settings and economic strength. Nepal's geo-physical setting and time zone location assume strategic significance in South Asia. Nepal is surrounded by rapidly growing two neighborhood economic giants, India and China, the Elephant and Dragon economies. Maintaining economic interests with these countries should be country's priority in economic diplomacy. There is a broader security and economic implications on how Nepal designs foreign policy seeking to preserve sovereignty in the

context of the great power competition for exercising hegemony over them (Dabhade and Pant, 2004).

For long time China was pictured as a country whose decisions most of the times were made unilaterally. After entering into WTO and agreeing to open up key sectors of the economy, China also realized key challenges to its economic diplomacy. The benefits of being one of the major actors in international stage was possible when China expanded bilateral agreements, initiated foreign aid and investment projects in Africa and participated in global financial regulations and climate change meetings by contributing to the global interest. China's involvement in wide range of these activities was based on economic diplomacy in China's foreign policy regime.

After Mao, China's trade and investment policy, which also offers considerable incentive packages to the former adversaries like United States, Japan, South Korea and others is the ideal example to show how economic relations influence political relations by even neutralizing deep-rooted ideological differences. The reason India has been successful to exercise economic diplomacy in her foreign policy is largely because of the successes of diplomatic missions abroad and relevant ministries to reach out foreign partners to market products, projects and services and their capability to mobilize Foreign Direct Investment.

Traditionally, Russian definition of economic diplomacy also rested on the promotion of trade and economic exchanges with foreign countries. The globalization and connectivity with international community has made a huge difference in Russian thinking about economic diplomacy. In other words, economic diplomacy now encompasses a wider spectrum of investment cooperation, interaction with international economic organizations and financial institutions, and the involvement in the analysis, & search for solutions to global economic challenges (<http://www.usrccne.org/news2.phtml?m=122>). This is not the case for only Russia; exercising diplomacy by linking economic agenda has been meaningful to most of the countries immaterial of their political philosophy.

In reality, the importance of economics in international affairs got due recognition after widely talked "oil shock" in 1973, when the per barrel oil

price shoot up overnight from around a dollar to 7-8 dollars. There was a global lobbying for getting contracts and putting up experts and technicians in lucrative jobs in other countries. Available information shows that French and German ambassadors had once told in New Delhi in a business meeting that they spend some 60 per cent of their time on economic promotional work (Rana, 2004).

Nepal's integration with global community has increased international interest in domestic political processes. Major political events can therefore, be expected to make both direct and indirect impact in regional political economy as well. Harnessing diplomacy to serve national economic interests remains woefully inadequate in Nepal.

This necessitates consensus with regards to country's top foreign policy priority that complements to economic goals. The weakening of macroeconomic stability and prolonged political instability also compels to design a foreign policy that helps creating congenial environment for international support.

Foreign policy, in this regard should be the outcome of economic policy. Initiating partnership in development with both the big and small countries that enable us to push our development process forward is the key priority. Nepal's foreign policy should be especially constructed in harnessing huge hydropower potential and creating a regional hub for power generation, developing Information Technology because of country's favorable climate, and developing cultural, nature, religious and environmental tourism. Although building relationships around the world and sustaining a higher rate of economic growth in such a difficult moment is really a big challenge, fruitful efforts is possible through sound policy in economic diplomacy.

China and India have been overwhelmingly assisting Nepal through the economic and technical assistance in strategic projects. Their interest in Nepal's development is not of temporary nature. Maintaining a long-term sustainable growth and a balanced political relation with India and China, Nepal needs to handle economic diplomacy rather cautiously and delicately. Information is available, which indicates China's desire to increase trade to Nepal amounting to \$30 billion by 2025. The planned highway to connect Nepal to Tibet and near completion of Kathmandu-Rasuwegadhi road is

expected to enhance Nepal-China trade relations. China is looking forward to assist Nepal to connect China from eastern part of Nepal. The repair and widening of Kathmandu-Syafubeshi road can also promote religious tourism by encouraging Nepali and Indian pilgrim tourists to go to Mansarovar and Kailash in a day or two¹. These opportunities will have significant meaning to country's development only when economic diplomacy is made a part and parcel of Nepal's foreign policy.

Global economic crisis has shifted foreign policy orientation from restrictive trading regime to maintaining stability for sustaining growth process. The case for US-China relationship is important in this regard. The two adversaries have become closer to address global economic crisis than ever before. China has used economic crisis to increase its global influence without injuring US economy and therefore, it can safely be said that Bush-Rice doctrine of containing China is being replaced by the Obama-Clinton doctrine of co-opting China to deal with the economic crisis.

ECONOMIC DIPLOMACY TO APPROACH "NEW DONORS"

Literature shows China wants to test itself how it can be a new international power center by extending development assistance to Asia and Africa. Many think Africa can be taken as a test case for China to experience its own potential role in the world. Secondly, observers believe as both China and United States are oil consumers, there is potential for US-China cooperation in the region (Kurlantzick, Shinn and Minxin 2006). In recent years, as communist parties combined together are larger than democratic parties, China's advantage in Nepal to neutralize political risks is higher compared to even India. Public debate may be necessary to further elaborate and sharpen this issue.

China being itself a developing country, has additional advantages to understand the failures of Washington Consensus and develop separate model for development based on their political system and also their eagerness to become a helping hand in trade negotiations. In Nepal's case, it is realized that after the peace accord of seven party alliances with the Maoists in 2006, China's interest in post-war recovery and increased frequency of the visits by Chinese diplomats and leaders, a new model for partnership in development

¹ <http://www.kantipuronline.com/kolnews.php>

should be developed. For example, as the history of Nepal-China bilateral economic ties is comfortable if not very encouraging, the effort should focus on identifying mutually beneficial areas of cooperation. The authorities in both countries should not be preoccupied with controlling imports than promoting exports. The combination of Chinese capital and technology with Nepal's untapped resources can no doubt benefit both countries enormously. The opportunities Nepal can offer for the partnership include, investments in agro-based and forest-based industries; hydropower; construction materials; banking and financial institutions; the production of cement; electronics & electrical items; medicinal herbs & pharmaceuticals, fertilizers; IT sector; solar power; training of professionals and the promotion of regional tourism.

CONCLUSIONS AND RECOMMENDATIONS

Global policy influences domestic policy-making necessitating the need for devising international economic relations. The policy issues may include:

- a. how domestic decisions are made?
- b. how countries negotiate with each other internationally? and
- c. how do these processes interact?

Increased dependence has pushed economic diplomacy beyond country's borders. The paradigm shift is visualized through the emerging players such as the state & non-state actors (NGOs, Civil Society Organizations, Private Sector etc.) who influence economic diplomacy by contributing to financial and technical assistance as alternative donors.

It's a recent phenomenon to link economic diplomacy in Nepal's foreign policy documents. We do not have disaggregated data to find out percentage share of the expenses in government's total expenditure for the promotional activities in economic diplomacy. Although some good reports have been produced on economic diplomacy in the past, Nepal's current economic woes and emerging priorities necessitate reengineering economic diplomacy-specific foreign policy for economic partnership largely with Nepal's trading partners.

It is believed; most of the allocated budget to the Missions abroad goes for regular expenditure. The time has now come to make a paradigm shift from the notion of *"economic diplomacy subject to budget constraint"* towards the system of *"budget, subject to the merit of economic diplomacy"*.

Nepal has been seriously facing macroeconomic difficulties – declining foreign exchange reserves & deposit collection by the financial institutions, reduced private sector borrowing for productive sector investments and widening balance of payment deficits. Furthermore, continuing inter-party and intra-party conflict, failure in maintaining stable government, deteriorating governance and weakening of government institutions indicate that Nepal may still face prolonged political instability and severe economic difficulties. It is, therefore, recommended that the role of foreign missions abroad should be redesigned to playing the role of facilitators in disseminating economic information with regards to the prospects in trade and investment provided by the country's new Commerce and Industrial Policy, 2010.

Enhancing cooperation with international economic organizations, increased frequency of public-private interactions, continuation of business related conferences, seminars, and forums by Nepal's diplomatic missions abroad, can help accessing foreign capitals, technology and markets.

Nepali business community doing business abroad have been complaining about the indifference & non-cooperation from Nepalese missions. This is partly because of the absence of well-defined terms of reference and extent of activities by the diplomatic staff in business-related activities. Therefore, conducting need assessment of the business community and their expectations while doing business abroad can help redesigning functional implementing rules in economic diplomacy.

A unit of Economic Diplomacy in the overall foreign policy courses should be developed for the Foreign Service aspirants who appear in the entrance examinations.

A frequent training in economic diplomacy and promotion of economic information system between the key players with economic responsibilities can help strengthen the case for economic diplomacy.

International economic relations should not be regarded as a highly specialized job, which is assigned to specialists. Unless we get out of this mind set, and prepare lead role to be played by the diplomats themselves it will be difficult to make economic diplomacy as an effective tool of Foreign Policy.

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Paper Presentation 2

Challenges of Nepal's Foreign Policy

Dr. Bhekh Bahadur Thapa*

I am not sure this is the right time to launch either a review or a debate on foreign policy of Nepal. Clearly we are in a very difficult, long political transition of over two years that was preceded by a decade long conflict and the struggle for a change in domestic power politics. As we sit here and discuss foreign policy of Nepal, the uncertainty of the current struggle for power and the shape of the new constitution make it difficult to outline the contour of foreign policy. In last week's Economist (July 31st – August 6th) writing about Italy and the European Union, a writer concludes that "Italy is stuck in an era where the victory of one faction over another without any consideration to the nation's future is what matters". I was struck by this comparison because Nepal has been preoccupied and obsessed with struggle for power and the chair with little or no regard to the constitution formulation or Nepal's place in a changing world.

In spite of my reservation on the timing of this debate I also appreciate this initiative to bring us together to examine the track record of our foreign policy as we search for greater dynamism into it. While I am pleased to be a part of it, my own experience in the conduct of foreign policy of Nepal is somewhat limited. Of the more than forty years I spent with the governments of various shades, I have spent more than half that time dealing with issues of development, economies and finance. Any inadequacy in my presentation should be understood in that light.

To begin with Nepal's foreign policy that starts with the consolidation of Nepal's border and attained nationhood it has been dominated by pragmatism designed to safeguard independence and survival, from the time of the empire till its breakup. Adventurism dating back to over 250 years by the Shah's, the Thapa's, the Pandey's and the Rana's until Anglo-Nepal war of 1814-16 has been an interesting part of Nepal trying to establish territorial identity with expansion it desired and as situation permitted. When the

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empire became too powerful the policy adopted by successive governments centered on survival and coexistence. That policy continued for over a century until the empire left the sub-continent that saw the emergence of independent countries in the neighborhood. A review of our policy until then and the search for a new order calls for a good understanding of history hence this reference.

The end of imperialism and rise of nationalism and quest for independence globally before the middle of last century is when Nepal faced real challenges to assert its place in the sub-continent and beyond. Precisely during that period, discontent among the Nepalese with authoritarian regime gained momentum and emboldened by the political environment in the sub-continent, Nepal also chose a democratic path since 1950. This is the period that can be called the dawn of Nepal's emergence in the global arena. Prior to that Nepali foreign policy exercise remained extremely limited even to the extent of deliberately remaining aloof of major developments in the rest of the world. From 1950 onwards, a continuous search for greater identity, bigger role and an active participation on a global scale continued to gain momentum. The decade of the 50s, 60s and 70s of the previous century can be termed as a period while Nepal despite political and social setbacks continued to march forward to assert its identity and gain space for itself in a changing world.

Membership of the UN followed by Nepal joining the Bretton Woods institutions and host of other multilateral bodies thrust Nepal into activities that gave the country a role bigger and effective than expected. We must also look at the Bandung conference that eventually gave rise to non-aligned movement as a major landmark that propelled Nepal to the international arena as one of the founder nation alongside with India, Egypt, Indonesia and Yugoslavia. Those were the landmark events and the rest as they say is history.

Nepal thus gained a position of an active sovereign member of the global community of nations and from then there was no looking back. I share this perspective with you as events and process because I personally witnessed these as it evolved. Today's Nepal and specially the place she occupies in the globe is attributable to the courage, vision and diplomatic efforts of that generation of leaders and administrators. If we do not give credit where it is due will also be failing in our duty and an act of decency.

While taking note of all the above our challenge today should necessary focus on what next, how much of continuity is in our national

interest and what degree of change we want. It may be worthwhile to remind ourselves that the world is changing very rapidly and gaining momentum even as we assemble here today. Few of us would have thought some time ago that China would make economic and scientific progress to become the world's second largest economy. India's economic progress over the last decade has propelled her as a country to watch and benefit from cooperation on a global scale. The European Union has become a power block that comprises of countries who in the past have gone to war for the sake of separate national identity. Of the two super powers of previous century one has lost identity and the remains have been reduced to a mid-sized power. The sole super-power is struggling hard to maintain its standing and image as it faces multiple challenges at home and abroad. The ongoing global economic crisis is a real challenge and threat to the existing world order.

On top of all these developments the horizon of foreign policy conduct is becoming more extensive as time goes. Issues related to trade, environment and climate change are now becoming issues of global concern and very integral part of international dialogue. The concept of diplomacy is becoming all embracing and extends to almost every aspect of human behavior. From this perspective, the conduct of foreign affairs has become complicated and therefore extremely challenging not just to a middle size country like Nepal but to every nation in the world.

Let me make it clear that any thought I express advocating either continuity or change in foreign policy must wait for the new constitution to emerge. During this transition our behavior is understood or tolerated as being on the margin of legality and globally accepted norms. The interim constitution has undergone several changes and yet remains less than effectively implemented. That combined with a precarious and fragile security environment and the conflict within and between parties makes it difficult to project the road ahead. Weak governance and growing conflict has given room for external pressure if not intervention, and thus this may not be the time to outline a realistic course. Frankly speaking Nepal is at a crossroad and a possible slide back to another conflict is in the horizon as against fulfillment of common goal based on enlightened self interest that is the new constitution and a new era.

When it comes to foreign policy, much will depend how the new constitution will define us and set our national goals that also takes into an account changes beyond our border. Foreign policy is the external dimension of Nepal's national interest and this is what must guide us. But the rapid change taking place in the sub-continent impacts us more directly and affects our daily life and therefore it should be the cornerstone of policy formulation. A review of the legacy left behind from our hooray past to the present will be a good place to start. To review and adjust the past structures to current national aspirations is something that has preoccupied us for the past two years with little or no progress. This crucial task and challenge has received sporadic attention. A search for new Nepal has been interrupted by divisive politics at home and also made more cumbersome by pressures from outside. Fundamentally Nepal's foreign policy is based on enlightened self interest that is to protect our sovereign status and partner with other countries in the world for peace and prosperity. This concept took deeper roots following our participation in the Bandung conference. That conference ushered a new era in global diplomacy and the theme of nonalignment, be it is in the region or beyond, got near universal acceptance. To stay this course is a major challenge and our occasional lapses deliberate or otherwise must not be repeated. The changing environment on both sides of our border must be seen as an opportunity to move forward and gain a position of respect. It is a goal to be pursued with consistency and vigour. All this must await the new constitution that hopefully, will enable the nation to speak with one solid voice.

Beyond the region enhanced participation and effectiveness in global fora including the regional setups, must received priority attention. The concept of global village, market linkages, open trade, environmental concerns, and economic and financial linkages poses to Nepal a challenge of unprecedented scale, that if handled, properly also presents to us a window of opportunity. For far too long we have become the recipient of the residue and charity for want of leadership and foresight in our conduct abroad and good governance at home.

This is not the age of super power status or rivalry based on economic and technical advance combined with strategic capacity to destroy or deter. All that has given way to a shared orientation based on human welfare where human right, peace, rule of law and cooperation are the basic and common

goals of humanity at large. Foreign policy must take a new turn and be conducted not just by the wearers of gray suit and ties but just as much by those with unconventional wears and looks. The essence of change is our common identity called humanity in which what divides us is less important than what unites us, that is the right of living human being protected by law and implemented with earnestness.

I have not said a great deal and when it comes to prescription for the future and I may sound more symbolic and less specific. It is not for an individual to become all seeing, I only advocate for a change and the direction of that change. I am only attempting to explain to you the world I have seen and the world that is emerging with a Nepalese eye. It will require many others and over a longer period to find a path acceptable to all. In this I seek indulgence of the coming generation that will add to what my generation has attempted or understood.

To put it bluntly and in one sentence, in the immediate future, our Foreign Policy challenge is more within Nepal than beyond. That scenario has been compounded by lack of national perception and discipline in our conduct. Foreign Policy has been forcibly hijacked by non professionals and calls for a rescue.

I thank Institute of Foreign Affairs, its executive director and members for giving me this opportunity.

Briefing and Orientation programme for newly designated Ambassadors of Nepal April 2-8, 2012

Foreign Policy in the Changed Context of Nepal*

Sridhar K Khatri**

It is a pleasure to be part of this orientation exercise organized by the Ministry of Foreign Affairs and Institute of Foreign Affairs for newly appointed Ambassadors. Having spent most of my life in the academic field, and not in the government or diplomatic service, I don't know how much insight I can provide to the distinguished participants, but let me try to do justice to the important theme that has been assigned to me by the organizers. The organizers have assured me that the topic assigned to me is meant to provide a general overview of Nepal's foreign policy to this group, while lectures on specific themes will follow afterwards from the concerned Ministries and other stakeholders. I am sure that whatever gaps I leave will be filled in by other lectures to follow.

II

Let me begin my presentation by contesting the theme of the paper assigned to me. The title of the paper "Foreign Policy in the Changed Context of Nepal" assumes that the country's foreign policy goes through completely new orientation with the change in the political process of the country. This is only partly true because, as any student of international relations will tell you, there is more continuity than change despite the change in regime or political system of the country. This is so for a number of reasons.

First, some of the basic components of national power, such as territory, are constant factors that do not change overnight with changes in the political system of the country. Nepal's territorial frontiers have remained the same

* The is an updated version of the paper presented at a programme organized at the Ministry of Foreign Affairs, 3rd April 2012.

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since the Anglo-Nepal War from 1814-16, although some territories were returned to Nepal by Britain after the Sepoy Mutiny in India in 1857, due to Jung Bahadur's proactive policy at the time in sending troops to quell the insurrection. Today, our boundary to the North with China is clearly defined, whereas our borders to the South with India have yet to be fully demarcated. Some of the controversy that we have with India in demarcating the borders will continue to pose a challenge despite the changes in the political orientation of the county. We witnessed that controversy over the Tanakpur Agreement with India in the early '90s, and again over the Mahakali Treaty in the mid-'90s after the parliament in Nepal approved the agreement by two-thirds majority by making it conditional on four strictures that basically re-defined the treaty.² Over the years border delineation teams from both sides have been working on a regular basis to ensure that there isn't any encroachment from either side.

Second, geography is another constant factor that rarely changes over time. As the old saying goes in English, "you can change your friends, but not your relatives or your neighbours." Nepal's situation between the two giants of Asia is an inescapable reality, which was once termed by Prithivi Narayan Shah as "a yam between two stones", or more recently by political leaders as "bridge" between the two countries. The country's geographic location is constant that makes the country look smaller than it actually is since the asymmetry in size and capabilities of those countries always pose a challenge in policy making. Some inquisitive people did a quick calculations a few years ago and came up with figures that might astound you. Despite the fact that we are used to referring to Nepal as a small country, our size is actually larger than over 80 member states of the United Nations and we have larger population than 125 countries in the world. What matters is not only the reality of our situation and status in the world, but also our perception of who we think we are and the capability we have for what we are willing to be.

Whether you look at geography as a threat or an opportunity depends both on your perspective at a given time and/or the intentions you assign to your neighbours. When India intervened in Sri Lanka in the late 1980s, and

² Dipak Gyawali, "Mahakali Mess: Article 126 and the Cumulative Cost of the Path Not Taken," in Ananda P. Shrestha and Pushpa Adhikari, *Mahakali Treaty: Pros & Cons for Nepal* (Kathmandu: Sangam Institute, 2009), pp. 1-26.

eventually established the Indian Peace Keeping Force (IPKF) as a way of helping resolve the Tamil issues in the country, my Sri Lankan colleagues used to remind me that Nepal was fortunate to have China as a neighbor to balance the Indian interest in the country. And I used to remind my Sri Lankan colleagues that his country was fortunate to be an island state surrounded by waters, and didn't have to deal with the problems of transit through other countries for international trade.

As a landlocked country, Nepal's prospect for international trade and contact with other countries is severely limited since the country is more India locked as the prospect for trade through China is limited, unless significant infrastructures are rapidly developed on the Chinese side of the border. With the rapid growth of China and the development of Tibet, this scenario is now changing, though we have yet to reach a point where access through the North is an available option for Nepal at the moment. Part of the reason why this is not feasible now is that it is not only on the Chinese side of the border that has to develop the necessary infrastructure, but there must also be concomitant progress on the Nepali side to make that happen. A study by the Asian Development Bank (ADB) has proposed a number of access points on Nepal-China border, in addition to the Kodari road, but very little progress has been made on this front. Similarly, the SAARC Multimodal Transport Study has proposed a comprehensive set of programmes that could link Nepal by road and rail transports to the rest of South Asia.³ Geography is a fact of life that can be altered somewhat with development in infrastructures and improvement in technology, but is not dependent solely on the internal changing political realities.

As a former World Bank development expert, Paul Collier, has taken pains to point out landlocked countries are "hostages to their neighbours" since "transport costs for landlocked countries [depends] upon how much its coastal neighbor[s] had spent on [their own] transport structures." He notes that in general all countries benefit from the "growth spill over" of their neighbours." The global average is that if a country's neighbours grew by an additional 1 percent, the country grew at an additional 0.4 percent. But in case if a

³ SAARC Regional Multimodal Transport Study (SRMTS), SAARC Secretariat, Kathmandu, Nepal. The report is not dated, but the original draft report prepared for SAARC by ADB was completed in 2006.

resource-scarce landlocked country made a special effort to "piggyback on the growth of their neighbours", the spillover is not 0.4 percent, but 0.7 percent. The trick is not to orient your economy to the global market, which the coastal countries are in a better position to do, but towards yours neighbours.⁴ The emergence of India and China in the recent decades as a global economic powerhouse opens up for Nepal unprecedented economic opportunities that has neither been realized, nor clearly articulated by any of the governments that have come to power in the country.

Third, national capability is another factor that often remains consistent, but can alter through conscious and vigorous efforts over a period of time. The change in national capabilities comes not with the change in the political system of the country, but due to sound and forward looking strategies and policies designed to enhance the interest of the country. Sometime positive developments can occur without political initiative, where governments become the follower rather than the leader in the process. At other times, a change in political environment of the country can create propitious conditions that can lead to a possibility of increasing the national capabilities of the country.

Concerning the former case let me give you two examples where this has happened. One is the case of Indian economic growth that has been exemplified since it began its liberalization programs in the 1990s. In the past two decades, the size of the middle class in India has quadrupled to almost 250 million people, and 1 percent of the country's poor have crossed the poverty line every year. India is now the world's fourth largest economic power and many expect it to surpass Japan to become the third largest very soon. As Gurcharan Das suggests, "what is most remarkable is that rather than rising with the help of the state, India is in many ways rising despite the state." The entrepreneurs, especially in the IT sector, are the catalyst in India's economic miracle and have managed to fuel growth through the service sector and consumption. India has managed to maintain an average of 7.5 percent

⁴ Paul Collier, *The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It* (New York: Oxford University Press, 2007), p. 52-53.

growth rate for nearly a decade, despite archaic labour laws and “bureaucratic high modernism”.⁵

The other example is closer to home in Nepal and has to do with the labour force, especially the youth, in the country. With a relatively high level of unemployment in the country, labour migration not only provides an outlet to the growing youth bulge, but also brings in annually around \$3 billion into the country. Remittances were largely responsible for sustaining the Nepali economy during the decade old Maoist insurgency, and have been credited with reducing poverty by 11 percent between 1996 and 2003, and increasing the country's reserve in foreign currency.⁶ Comparatively speaking, foreign aid (grant and loans) today accounts for less than one-third of the money coming through remittances in Nepal,⁷ even though bringing in aid has been one of the priorities of successive governments for decades.⁸ The benefits of labour migration to Nepal came not because of initiatives taken by governments, but because poor and hard working people in the country took the initiative and risk their scarce resources to uplift their economic status. The government has followed this initiative taken by the public, but it is a matter of debate whether the policies at the official level is as good as it can be to support the interest of the migrant workers and accrue significant benefits for the country.

On the other hand, change in political environment can create better opportunities for the country to increase its national capabilities, provided

⁵ Gurucharan Das, “The India Model,” *Foreign Affairs*, Vol. 85, No. 4 (July/August 2006), pp. 2-16.

⁶ Sridhar K. Khatri, *Labour Migration, Employment and Poverty Alleviation in South Asia*, (Kathmandu: SACEPS, 2009), pp. 6-15.

⁷ *Economic Survey: Fiscal Year 2010/11: Statistical Tables Vol. II*, Ministry of Finance, Government of Nepal, July 2011, p. 39.

⁸ The benefits of foreign aid has increasingly become a subject of debate in Nepal. A seminal report prepared by Institute for Integrated Development Studies (IIDS) was one of the first effort made in the country to examine the utility of foreign assistance. *Foreign Aid and Development in Nepal*, IIDS, Kathmandu, 1983. The latest study suggests that although the overall contribution has been positive, there is need to reduce the level of loans, which has been increasing over the years, and ensure better disbursement of the grants under the aid programmes. See, Bishwambher Pyakuryal, Dadhi Adhikari, and Dipendra Purush Dhakal, *Is Foreign Aid Working?: An analysis of aid effectiveness and growth* (Kathmandu: Mandala Book Point, 2008).

that there is a general consensus among the political forces and civil society in the country. We need only to backtrack a bit to realize how destructive internal dissension can become when we look at the experience of the Arun III project, which had to be scrapped due to the objection of the environmentalist and civil society. We are today witnessing a significant change regarding the exploitation of natural resources in the country, particularly our water resources, to meet our energy requirements. After over 35 years of acrimonious debate that has led to drastic energy shortages, a number of major hydro-projects are in line or in the final phases of negotiations to meet the energy needs of the nations. However, our ability to sustain and develop our capabilities is not uniform. Government regulations and the capacity of the bureaucracy to initiate and policies and programmes lag substantially behind. Since the 1st jana-andholan in 1990 and the change after the 2nd jana-andolan in 2006, we have largely politicized the bureaucracy and failed to develop capacity of institutions and professionalism of our bureaucrats that are badly required to sustain the growth of "New Nepal" for the future.

And the fourth reason why I see more continuity in Nepal's foreign policy than change, despite the political developments in the country, is the simple rule of international law that obliges nations to fulfill all previous treaty obligations regardless of regime changes. This means that Nepal is bound by obligations under the United Nations Charter and other multilateral agreements, as well as by its bilateral treaty obligations—including the 1950 Treaty with India that has been the focus of political debate for many years. International law has an important principle known as *rebus sic stantibus*, that deals with question of treaty obligations in change of circumstances, but that does not apply to regime or political changes but deals with other circumstances that might impede the implementation of international agreements.

III

Having strongly emphasized the point that regime changes do not necessarily lead to a new foreign policy orientation let me now take a different tack and argue that there have been significant changes in international situation that requires reorientation of Nepal's foreign policy for the future. For the last decade and half, we have been so engrossed in our internal affairs that we have failed to take into account the changes that have been going around the world, which has been largely to our detriment. As a consequence, Nepal has

been increasingly exposed to external pressures and has not been able to clearly assess and define our opportunities that have been available at the international level.

Past experience shows that domestic and regional upheavals always leave the country to vulnerable to external influences, the consequences of which we have come to regret in later years. In the 1950s, we witnessed the positive role of India in bringing about the demise of the Rana regime and the introduction of democracy in the country, but were left with the baggage of the 1950 Treaty, and the even more controversial Letters of Exchange attached to the Treaty,⁹ that continues to remain controversial in the relations between the two countries. In 1990, India also played a role in reestablishing democracy in Nepal by helping bring down the Panchayat system, but also brought with it the famous proposal by Foreign Secretary S. K. Singh, which was meant to reinforce the 1950 Treaty even in stronger terms than before.¹⁰ Fortunately, the government in Nepal then was able to procrastinate on the proposal, and after the reintroduction of democracy in the country in 1990 the document never surfaced again. And in 2006, India facilitated the 12-Point Agreement between the political parties to unseat the monarchy and reintroduce democracy in the country.

India's influence in Nepal's foreign and domestic policy continues to be pervasive, but within the last decade we have also witnessed the growing influence of other external powers, which has not been matched by our own capacity to deal with them accordingly. During King Gyanendra's absolute rule, Western powers, including the United States, were openly involved in bringing about political changes to Nepal, to the point where the then ambassadors from the United Kingdom, United States and India were accused by the royal government then of engaging in undiplomatic activities. As the peace-building process got underway in Nepal after 2006, the level of Western

⁹ For a discussion of the 1950 Treaty, see: Sridhar K. Khatri, "Nepal in the International System: The Limits of Power of a Small State," in Anand Aditya, ed., *The Political Economy of Small States* (Kathmandu: Nepal Foundation for Advanced Studies, 1998), pp. 5-24.

¹⁰ See, the "Draft Agreement Between the Government of India and His Majesty's Government of Nepal on Mutual Cooperation" in Avtar Singh Bhasin, ed., *Nepal's Relations With India and China: Documents 1947-1992* (New Delhi: SIBA EXIM Pvt. Ltd., 1994), pp. 545-549.

support for moving Nepal into a post-conflict society increased substantially. The UN had a greater presence in supporting its human rights missions, in monitoring elections to the Constituent Assembly, and in the management of arms and ammunitions of the Maoist combatants and the Nepal Army. Although all the political forces in Nepal insist that the peace-building process is a Nepali effort, Western powers have continued to be involved by facilitating dialogue between the Maoists and the other major political parties, including in helping to find ways and means to deal with the integration and rehabilitation of the Maoist combatants. Sometimes the international community has been less than tactful in handling a difficult situation, leading to *démarche* by governments, and criticism by the media and public of gross interference in Nepal's internal affairs. There were two such instances already in the first half of 2010 when, first, the UN Under-Secretary General, B. Lynn Pascoe, came to Nepal to 'lecture the natives' on the flaws of the peace-building process, and then in May when one ambassador from the European Union asked the then Prime Minister Madhav Kumar Nepal to resign within 48 hours in order to make way for a national unity government.¹¹

Sadly, during this period our capacity to reassess the international developments around us was severely limited, though not non-existent. One such effort was made by the Deuba led Nepali Congress government in 1998 in establishing a High Level Task Force to Reorganize and Strengthen the Capacity of the Foreign Ministry, which was followed in 2006 by another High Level Foreign Policy Task Force to examine in "Renewing Nepal's Foreign Policy in the Changed Context". Whereas the former report was meant to strengthen the capacity of the Foreign Ministry, the later report included a series of recommendations on foreign policy issues that needed to be implemented after the 2nd jana-andolan. Similarly, the Institute for Foreign Affairs had also prepared in 2002 a comprehensive report on Nepal's Economic Diplomacy, which was followed in 2008 by a study that provided specific guidelines how it could be achieved.¹² Another seminal publication in

¹¹ See, Sridhar K. Khatri, "Missed opportunity-I & II", *The Kathmandu Post*, March 16 & 17, 2010; and Yubaraj Ghimire, "Challenges of Citizenship Building in Nepal", paper presented at a seminar organized by CCD in cooperation with FES, June 19, 2010, Kathmandu, Nepal, p. 4.

¹² *Nepal: A Generic Guideline for Development through Economic Diplomacy* (Kathmandu: Institute of Foreign Affairs, 2008).

2009 by the Association of Former Career Ambassadors of Nepal (AFCAN), entitled *Pursuit of Economic Diplomacy: Prospects and Problems*,¹³ included perspectives from the broad stakeholders in Nepal that focused on trade, investments, tourism and foreign employment, which it considered the core focus of economic diplomacy.

As newly appointed representatives of the country, you may wish to use these as background materials in your work, even though—while some aspects of these papers have been taken into cognizance by the government—its real input in policy formulation remains largely ignored. I cannot but wonder how much more the country would benefit if any newly appointed Prime Minister and Foreign Minister in the country were to take up these documents as required readings within the first two weeks of taking office and before issuing any foreign policy directives.

Some of the other broader parameters that you may wish to consider in carrying out your assignments include taking into cognizance the new power balance in the world that might have implications for Nepal's foreign policy. Let me list just a few of them for your consideration.

The first issue that I would like to bring to your attention is the end of the American dominated unipolar world, and the emergence of multiple power centres at the global level. There are different interpretations on how this is happening. For British historian Niall Ferguson “the decline and fall of America's undeclared empire might therefore be due not to terrorists at the gates, nor to the rogue regimes that sponsored them, but to a financial crisis at the very heart of the empire itself.”¹⁴ On the other hand, Fareed Zakaria sees the coming of the “post-American world” not due to the decline of America but because of the rise of everyone else.¹⁵ Both schools of thought accept that even though America will continue to remain a preeminent military power—in

¹³ Association of Former Career Ambassadors of Nepal, *Pursuit of Economic Diplomacy: Prospects and Problems* (Kathmandu: AFCAN, 2010).

¹⁴ Niall Ferguson, *Civilization: The West and the Rest* (London: Allen Lane, 2011), p. xvii; and Niall Ferguson, *Colossus: The Rise and Fall of The American Empire* (London: Allen Lane, 2004).

¹⁵ Fareed Zakaria, *The Post-American World* (New Delhi: Penguin Books India Pvt. Ltd, 2008).

sea, air, land and outer space—for years to come,¹⁶ its global role will in some measures be replaced by the growing power of the European Union (despite its current financial predicament) and the competition that countries in a group called BRICS (composed of Brazil, Russia, India, China and South Africa) will pose at the global stage. For Nepal, two countries are of particular importance in this group, China and India.

Among the two, experts generally agree that the rise of China is expected to have the greater impact at the global level. Martin Jacques in his incisive account on the rise of China believes that the arrival of China as a major power will mark the end of Western universalism, where “Western norms, values and institutions will increasingly find themselves competing with those of China.” However, he adds that “the new world, at least for the next century, will not be Chinese in the way that the previous one was Western”, but it will be an “era of competing modernity, albeit one in which China will increasingly be in the ascendant and eventually dominant.”¹⁷

Jacques identifies eight characteristics of Chinese modernity that will determine how the country will impact on the global scene. They include:

1. its vision of its role not as a nation-state, but a civilization-state in which it feels free to be what it thinks it is according to its history and instincts;
2. the probability that it will conceive of its relationship with most of its neighbours, though not India, on a tributary-state relationship;
3. its “hierarchical view of humanity, its superiority resting on a combination of cultural and racial hubris”;
4. the tendency of it to operate on a continental-sized canvas—with its particular combination of population size and surface area—to other nation-states;
5. the state's legitimacy based on the country's millennial foundations where the mandate of Heaven is likely to operate;

¹⁶ Barry Posen, “Command of the Commons: The Military Foundation of US Hegemony,” *International Security*, Vol. 28 (1), pp. 5-46.

¹⁷ Martin Jacques, *When China Rules the World: The Rise of the Middle Kingdom and the End of the Western World* (London: Allen Lane, 2009), p. 433.

6. unlike the East Asian tigers speedy transformation, its protracted and complex version of modernity where development level between the urban and rural centres are likely to remain wide for decades;
7. the ability of the Chinese Communist Party to recreate itself to meet the new challenges and reconnect to its history, to Confucianism and its dynastic heyday; and
8. the likelihood that China will for several decades to come combine the characteristics of both a developed and developing country since its modernization will be a protracted process in making transformation with continental-style disparities.

He concludes his analysis with two significant observations: unlike the twentieth-century that was dominated by the developed countries, the twenty-first century is likely to be moulded by the developing countries, especially the largest ones; and China as global power will require and expect a major reordering of global relationship.¹⁸ In the Fourth New Delhi BRICS Summit held in March this year, the leaders went as far as to explore the possibility of establishing a new international bank as a counter weight to the World Bank.¹⁹ What this means for Nepal is that it will have to reorient its foreign policy to see what benefits the country can accrue in its dealings with member states of this group.

As in the case of China, political analysts are also trying to grapple with the implications of India as rising power. Writing a decade ago, an old India hand at Brookings Institution in Washington, D.C, Stephen P. Cohen, argued that as India has begun to "overcome its many deficiencies and discover new strength" and as "the gaps between Indian ambitions and capabilities, and between Indian rhetoric and Indian intentions, are slowing closing", there is a possibility that India will shun its insecure feelings about "various plots to encircle or weaken it, without losing the expectation that India has a special role to play in the world." He points out that the change is already happening in India as the country is attempting to "bridge the gap between the idealistic inclinations and realistic compulsions" that guides its foreign policy. An

¹⁸ *Ibid.*, pp. 417-431.

¹⁹ *Fourth BRICS Summit: Delhi Declaration*, 29th March 2012, www.bricsindia.in/delhi-declaration.html.

important sign he sees in this development is the awareness of Indian strategists, politicians and officials that the famed skills and style of the India's External Affairs Ministry in "getting to no" is now looked upon as being not entirely productive.²⁰

Cohen's prognosis is somewhat vindicated considering that recent attempts to chart for the first time a comprehensive national security strategy is being undertaken at two different levels. One study is currently underway by the Institute for Defence Studies and Analysis (IDSA), which operates under the Ministry of Defence. According to the Executive Summary of the report that is available, it advocates a robust defense policy backed by strengthened diplomatic machinery.²¹ The other study has been prepared by an independent group of analysts, under the umbrella of another Indian Think Tank, the Centre for Policy Research (CPR) in New Delhi, and it advocates a strategy that will enhance India's development model to "secure the maximum space possible for [India's]...economic growth." Termed "Nonalignment 2.0", the report calls for a re-working of the fundamental principles that has defined India's international engagements since its Independence. Unlike the earlier version that avoided taking sides between the two power blocs during the Cold War, Nonalignment 2.0 calls for "skillful management of complicated coalitions and opportunities—in environments that may be inherently unstable and volatile rather than structurally settled".²²

In terms of the implications of the rise of both India and China, David Smith attempts to put into perspective what this might mean at the global level.²³ First, as impressive as the economic growth of these two countries appear in the world today, he considers it important to see it as much smaller part of the global economy competing with the rest of the world. Relying on the World

²⁰ Stephen P. Cohen, *Emerging Power: India* (New Delhi: Oxford University Press, 2001), pp. 301-309.

²¹ *Towards a National Security Strategy for India: Executive Summary*, Institute for Defence Studies and Analysis (IDSA) National Strategy Project, November 2011.

²² *Nonalignment 2.0: A Foreign and Strategic Policy for India in the Twenty First Century*, 2012. The team members include some of the top policy and intellectual luminaries of India: Sunil Khilnani, Rajiv Kumar, Pratap Bhanu Mehta, Lt Gen (ret'd) Prakash Menon, Nandan Nilekani, Srinath Raghavan, Shyam Saran and Siddharth Varadarjan).

²³ The points discussed below are largely based on: David Smith, *The Dragon and the Elephant: China, India and the New World Order* (London: Profile Books, 2007), pp. 209-238.

Bank study, *Dancing with the Giants*, published in 2006, he contends that while 20 percent of the global growth by 2020 is expected to come from these two countries, the other 80 percent will come from developments in North America and Europe that will be quantitatively larger from the broader perspective. Second, the rise of India and China will stretch the world's resources and increase the prices of essential commodities such as metals, food and petroleum products. However, citing the World Watch Institute's *State of the World Report 2006*, he notes that, as growing numbers of opinion leaders in India and China now recognize that resource-intensive model for economic growth used by the developed countries can't work in the 21st century, the pressures on those resources might be less since both countries are taking the lead to develop alternate energy supplies, including solar and wind power and bio fuels, together with water-harvesting technologies.

Third, India and China's emergence has the potential to transform the geopolitical landscape in a manner that the unification of Germany in the 19th century and the advent of the United States as a powerful country in the 20th century did in the past. The shift in the international balance of power might be evident in the greater influence of India in the UN system, with possibility that it will secure a permanent seat in the Security Council; the greater influence of both countries in the G-20 and World Trade Organization; and their desire to convert economic power into military influence to sustain their economic interest. China already has the one of the highest defence expenditures in the world, second only to the United States. Some American observers even believe that the military contest between China and the US in the Pacific region will define the 21st century since the former is likely to be a "formidable adversary than [Soviet Union] was."²⁴ Recent indications are that the US will rely on India as a countervailing force to China's influence. Since the time of the Clinton Administration the US has gone out of its way to court India and the junior Bush Administration in 2006 signed a controversial deal to provide India with technology to develop its nuclear programme, at the same time giving it the green light to expand its nuclear technology, even though India never signed the Nuclear Non-Proliferation Treaty (NPT). Under the Obama Administration there are attempts to forge a strategic partnership

²⁴ Robert D. Kaplan, "How We Would Fight China", *Atlantic Monthly*, June 2005.

between the two countries,²⁵ but indications are that it might be one-sided since India has a different interpretation of the relationship since it is not seen as a priority in either of the India's national security strategy documents prepared by IDSA or CPR recently.

And fourth, Smith contends that the rise of both India and China will provide huge market opportunities due to the phenomenal growth of the super rich and the middle class in these countries, but they are unlikely to have a better standard of living since both these countries will need to cope with a relatively poor population as India's average income is less than two dollar a day and China's comes to less than five dollars a day. Low labour costs in these two countries is already leading to calls for protectionism in the US and Europe, but is unlikely to change the rules of globalization.

The second important development in international relations we're witnessing now is what Kishore Mahbubani calls coming of the Asian Age which he believes ends the era of Western domination of world history (while it will still remain a strong civilization) and the renaissance of Asian societies. He predicts that at the current growth rates in Asia standards of living may rise 100 fold, that is 10,000 percent within a human life span. "The rise of Asia and all that follows it will be the dominant story in history books written 300 years from now with the Cold War and rise of Islam as secondary stories." Goldman Sachs predicts that by 2050, four of the largest economies in the world will be Asian, with China in the lead, followed by the United States, India and Japan.²⁶ According to Mahbubani, what is surprising is not that China and India are rising so fast, but that they have been late in doing so. He attributes miracles that these two countries (and some of the other Asian countries) have achieved within the last two decades to what he calls the "seven pillars of Western wisdom: free-market economy; science and technology; acceptance of meritocracy; pragmatism; culture of peace; rule of law; and emphasis on quality education of its peoples. These are significant pointers which Nepal cannot ignore while forging ahead to establish a "New Nepal" in the future.

²⁵ Stewart M. Patrick, "US-India: Strategic Partners with Limitless Future," Council on Foreign Relations, 15th September 2011, <http://blogs.cfr.org/patrick/2011/09/15/us-india-strategic-partners-with-a-limitless-future/>.

²⁶ Kishore Mahbubani, *The New Asian Hemisphere: The Irresistible Shift of Global Power to the East* (New York: PublicAffairs, 2008), pp. 10, 51-52.

The third element that I would like to bring to your notice is the rise of China and India, not only at the global level, but also as neighbours, which will require a significant reorientation in Nepal's foreign policy. Realistically speaking, China and India have always been a superpower in our midst given the asymmetry in size and capability when compared with Nepal. But what has changed in recent years are a number of issues that we need to factor in our dealings with our two important neighbours. Both China and India today are not insecure regional powers, but confident global actors whose capacity to do good is greater than their willingness to do harm to our country. As economists will tell you, the phenomenal growth of these two countries will automatically have a trickle-down effect on Nepal's growth as well. One area where we have already begun to see the impact is on trade, and the other in investment. Private enterprises from both our neighbours compete with each other for major development projects, and both of them have the capacity to provide development assistance at a scale unlike before. The interest shown by Chinese firms to help develop Lumbini by investing \$1 billion is one example. India, likewise, has similar capacity. Over the past few years, India has provided Afghanistan over \$1 billion as assistance to Afghanistan, which some sources indicate that it would be willing to consider extending to Nepal as well. The main concern that both our neighbours have is over security issues that Nepal will have to factor in our dealings with them. As we have been overwhelmed by internal political developments in the country for many years at the cost of ignoring our foreign policy, it is high time that we develop a strategic perspective by reexamining and redefining our relations with our two immediate neighbours.

The last point I would like to flag is the potential for regional integration in South Asia. I emphasize the word "potential" since SAARC (and to some extent BIMSTEC) has not been able to move forward despite decades of operation because of the rivalry between India and Pakistan. With Pakistan recently agreeing to extend the Most Favored Nation (MFN) treatment to India, there is a possibility that SAFTA will be implemented in the near future. The understanding reached by the Commerce Ministers of the two countries aims to expand bilateral trade between India and Pakistan from the current \$2.7

billion to \$6 billion by 2014.²⁷ This will be a game changer for South Asia that will allow deeper integration in the region. Similarly, another recent development that indicates that SAARC may be moving in a positive direction is the announcement made after the 24th SAARC Finance Governors meeting in Pokhara, Nepal, on 16th May 2012, where the Reserve Bank of India has offered a Swap arrangement of \$2 billion to the member states in both foreign currency and Indian rupees. The arrangement is intended to provide a backstop line for funding for SAARC members countries to meet any balance of payments and liquidity crises, till long-term arrangements are made or if there is a need for short-term liquidity due to market turbulence.²⁸ The significance of the arrangement is that India is beginning to take a proactive role for growth and stability of the region unlike before.

Another issue that has gone largely unnoticed in Nepal is the implication of the bilateral agreement signed by the Prime Ministers of India and Bangladesh in January 2008 that will revolutionize the way trade is connected not just between India and Bangladesh, but also among other countries in the region. Under this agreement, Bangladesh has agreed to allow India access to the Northeast Indian states through its territory, while India has agreed to allow both Nepal and Bhutan access through its territories for trade through Bangladesh with third countries through its Mangla Port. The agreement entails development of road and railway networks, which supplements the programmes approved by SAARC Head of State and Governments for enhancing multimodal connectivity in the region. If South Asia as a region can conclude a comprehensive regional transit agreement to compliment SAFTA, it will go a long way in alleviating the physical constraints imposed by geography on Nepal as a landlocked country.

The benefits of regional integration for Nepal is not just in trade, since over two-thirds of our trade are limited to only India. The possible benefits for Nepal are primarily in two sectors: tourism and infrastructure development. Regional connectivity through air and road and railway networks has the potential for increasing tourism in the country, an important revenue earner

²⁷ Opening statement of Commerce Secretary for 6th Round of Talks on Commercial and Economic Cooperation between India and Pakistan, Department of Commerce, Government of India, Press Release, 14th November 2011.

²⁸ "Reserve Bank of India announces a SAARC Swap arrangement," *Daily News*, 22nd May 2012, <http://www.dailynews.lk/2012/05/22/news53.asp>.

for the country. On the other hand, the implementation of large-scale regional projects by SAARC has the potential for bringing in resources to the LDCs in the region. The SAARC Group of Eminent Persons recommended in 1998 that there should be a large size special fund created for the LDCs. The figure that was then mentioned was \$5-6 billion, which would be close to \$10-15 billion at the present. Work on realizing the Special Fund for specific projects needs to be pursued further since it is not covered in detail under the "Special and Differential Treatment for the Least Developed Contracting States" under the SAFTA agreement.

IV

Let me now touch on couple of the key issues that some of you, as representatives of Nepal, will have to address during your tenure as Ambassadors. Given the time constraints I will not cover all the issues relevant to your country of posting, but I'll try to flag only two key themes that some of you might want to keep in mind in carrying out your assignments. Both issues deal with economic diplomacy, which I believe will be an important focus of Nepal's foreign policy in the days to come.

The first part where economic diplomacy will be crucial is in terms of bringing in investments required to carry out some of the major projects that Nepal plans to undertake in the near future. The area includes development of basic infrastructures in hydropower, roads and railway networks in the country.

With an installed capacity of approximately 600MW today and economically feasible hydropower potential of around 42,000MW, some of the major political parties have committed themselves to expanding the national energy capacity to over 10,000MW within the next 15 years. The resources required to implement the projects are mind boggling, which will require negotiating skills not only bring in the potential investors to Nepal but also technical and administrative capacity to implement them.

Just to give you some idea, the list of present hydropower projects planned for/under construction include eight projects with a total capacity of 1,305MW, while other major projects identified in the Kharnali/Mahakali Basin have a total capacity of 18,911MW.²⁹ The costs depend on the nature of

²⁹ The former include: Middle Marsyandi (70MW); Kulekhani-III (14MW); Trishuli-3A (61MW); Chamelia (30MW); Raughat (27MW); Trishuli—3B (40MW); Upper

the individual project, and whether they are run of the river or require the construction of high dams. The largest the project, Karnali Multi-Purpose Project with 10,800MW capacity is projected to cost \$3.5 billion *at 1998 price level*, while the 750MW West Seti project is estimated to run \$1.6 billion. What this means for hydropower economic diplomacy is that Nepal will have to attract multi-billion dollars investments over the next couple of decades, without sacrificing the benefits to Nepal. The development of hydropower is especially a touchy subject in Nepal, and the old debate between exploitation of its potential for the country's economic growth and the fear that the country might be short-changed in any agreement made with other countries or multinational corporations will always dominate this subject matter.

The high costs of other major infrastructure projects include the vast networks of roads and railways planned for the future. It is estimated that the cost of Kathmandu-Terai Fast Track will alone come to \$922 million,³⁰ while the development costs for the East-West Railway Line and mass rapid transit system for the Kathmandu Valley will run into additional several billion dollars.³¹ I believe that the development of the infrastructure projects are not just dreams that political parties are creating in the clouds for the people of Nepal, but at this stage is part of a fragmented vision for the future that Nepali diplomacy will have to help materialize in the coming years.

The second area where economic diplomacy will have to put greater emphasis immediately is in not only promoting labour markets overseas, but also in protecting the Nepali workers who at their own personal costs contribute substantially to the growth of our economy. Migration is not only an economic issue, but also a human issue. Nepal needs to provide resources to institutions supporting the migrants to upgrade their skills, give pre-departure orientation to prepare workers for their working environment in the receiving countries, provide training and help develop rehabilitation programmes for returning

Tamakohsi (309MW); and West Seti (750MW). Other projects projects which have been identified for the future include: Karnali Chisapani (10,800MW); Pancheswor (6,480MW); Upper Karnali (300MW); Lakharpata (289MW); Karnali—1,2 (518MW); and Humla Karnali—1,2,3,4,5 (524MW).

³⁰ Nugal Ananda Vaidya, Sukunta Lal Hirachan, and Kush Kumar Joshi, "Kathmandu-Terai Fast Track: Q 3P Ownership Approach." PowerPoint presentation.

³¹ "Government endorses inception report on metro rail: Asks for detailed feasibility study," *Republica*, 30th March 2012.

migrant workers. There is also a need to update the national regulatory and institutional framework to protect the rights of the workers so that they are not exploited by unscrupulous elements in Nepal and abroad. The Labour Ministry is working in some of these areas and Labour Attachés have already been posted in a number of our missions abroad to look after the welfare of the workers. Recognizing the potentials and assigning human resources to deal with them is only part of the solution. The other half is making the needed resources available to our missions abroad and training the right people with adequate skills, including some rudimentary language skills, to deal with the challenges in their assignments.

Nepal's diplomatic effort needs to ensure that its workers, especially women, are not exploited/taken advantage of in both the transit and receiving countries. It is therefore important to adopt the "rights-based approach" as opposed to the "rules-based approach" in order to ensure the protection of the workers overseas. Some of the areas where Nepal can act individually, or collectively with other SAARC member states, to improve the conditions of the workers in the destination countries include ensuring that:

- the workers, especially women, will not face serious hazards in their employment;
- visa trading does not take place, where workers that are sponsored by individuals or fictitious companies do not have jobs when the migrants arrive in destination countries;
- all migrant workers receive wages on a timely basis and that no less than the minimal wage provided to workers of the receiving state;
- standard employment contracts are in place for migrant workers containing standard provisions on wages, benefits, and hours and conditions of work that conform to all provisions of receiving country's national labour laws;
- rights of workers to hold original travel (passport), work and personal documents and prohibition on seizure of documents; and
- effective legal aid for migrant workers and that specific measures should be taken to assist the migrant workers when they lodge complaints about ill treatment and violations of the law.

Some of these issues were raised in the Abu Dhabi Dialogue that was held in 2008 between the labour supplying countries (Colombo Process countries)

and the labour demanding countries (Gulf Cooperation countries), but little progress was made afterwards. The second Ministerial Consultation that was held in Manila on 21st April 2012 moved a bit further. It discussed measures to improve workers conditions in both the sending and receiving countries, and pledged to enhance opportunities for recruitment of contractual labour by revising current educational and training systems and upgrading processes for qualifications and skills accreditation.³²

In order to strengthen the collective efforts of the sending countries SAARC should consider developing a regional convention along the lines of the ASEAN Declaration on Migrant Workers that has all the ingredients that we seek to achieve in South Asia. The ASEAN document covers such issues as: "promotion of rights of migrant workers", the need "to adopt appropriate and comprehensive migration policies on migrant workers", addressing "cases of abuse and violence", promoting "the full potential and dignity of migrant workers", responsibilities of states to protect the migrant workers in both the sending and receiving countries, and facilitating data sharing to enhance policies and programmes concerning migrant workers in both sending and receiving countries. This is a comprehensive document that could benefit the migrant workers significantly. I have often said that SAARC has a habit of often copying the wrong examples from ASEAN, but this is one example that would truly be worth emulating for South Asia.

V

Let me end my presentation by emphasizing that political development in Nepal and the changing power structure at both the regional and global level warrant a review of our country's foreign policy. I hope that after concluding the peace process and the writing of the new constitution soon, Nepal will make a serious effort to reexamine our foreign policy not on the basis of interest of party politics, but based on a national perspective that has the ownership of the political forces in the country.

The foundation of our foreign policy should be guided by our National Security Strategy, which is currently being debated at the highest political level in the country. A general outline of the national security strategy has been prepared by civil society that puts emphasis on human security needs of its citizens, and

³² Abu Dhabi Dialogue has positive outcome," *Khaleez Times*, 22nd April 2012.

includes comprehensive recommendations for restructuring the National Security Council. The second document prepared by National Interests Committee under the State Affairs Committee of the Parliament/CA has expanded on these points by dealing more extensively on the core values of the country. The CPN-UML led government under Prime Minister Madhav Kumar Nepal went a bit further and approved a national strategy document, which largely synthesizes the two earlier reports. There is no national ownership of this document since the largest party in Parliament/CA, the UCPN-Maoists, have challenged it since they were not consulted in its formulation. In addition, all the documents at the present lack proper analysis of internal and external geo-political realities by taking into account the *challenges, opportunities and threat*, that is necessary for national security strategy to operate within a defined timeframe. However, I am an optimist by nature, and I have no doubt that after going through a cathartic period in restructuring the Nepali state, we will be able to design a foreign policy that will be forward looking and geared for our national benefit.