

Economic Diplomacy for Trade Facilitation and Export Promotion

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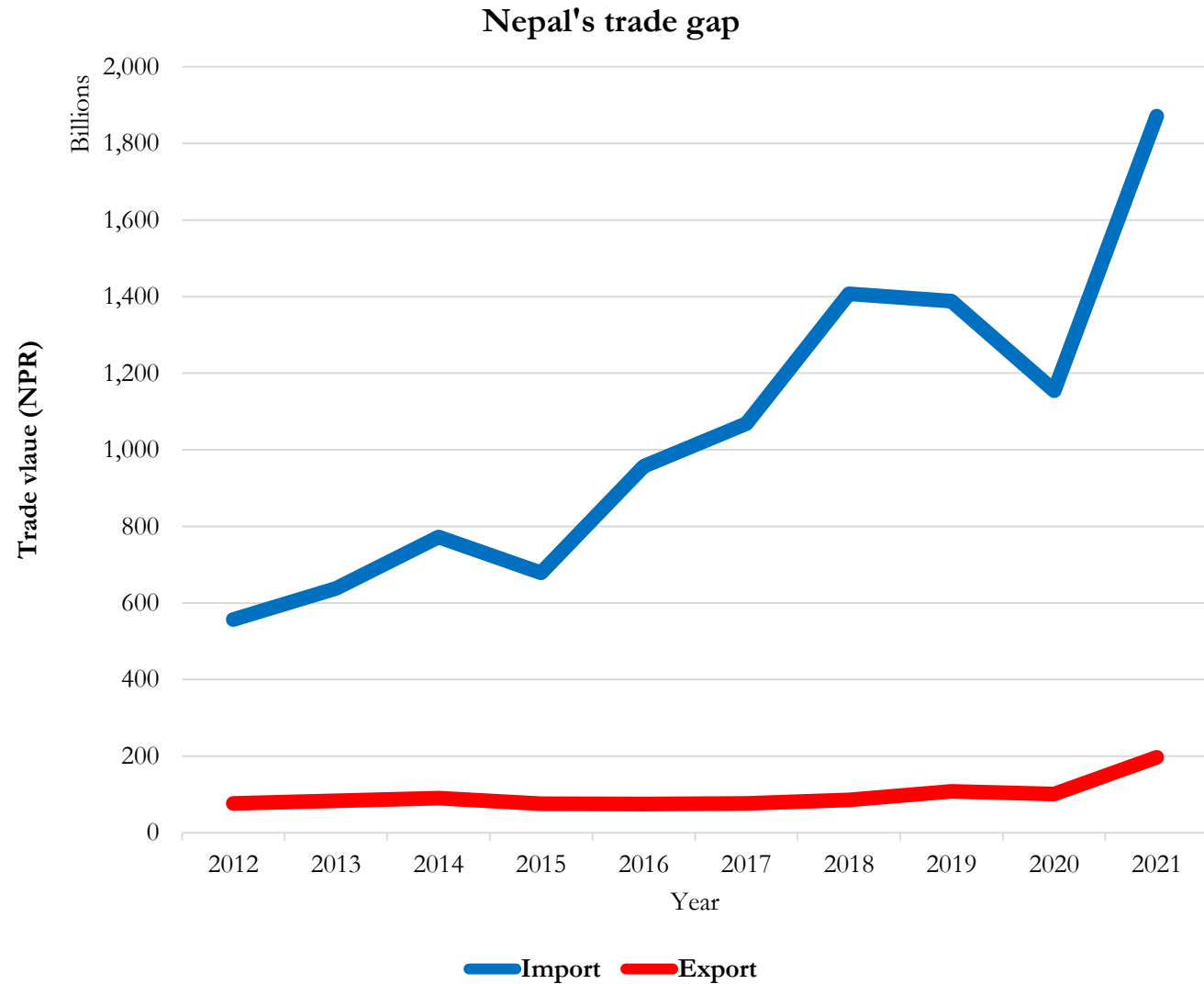
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Introduction

- Economy of Nepal in need of uplifting
- Trade has been identified as an important sector for economic growth
- Despite notable efforts for trade (export) facilitation, trade performance remains unsatisfactory
- Identification of economic diplomacy as a tool with the potential to boost exports
- Vital to study how economic diplomacy can be fully utilized to facilitate trade so that Nepal's export performance is improved

Objective of the study: To identify institutional interventions needed to make economic diplomacy effective, with the result that it contributes towards better export performance of Nepal



Source: NTIP, TEPC

Trade Scenario

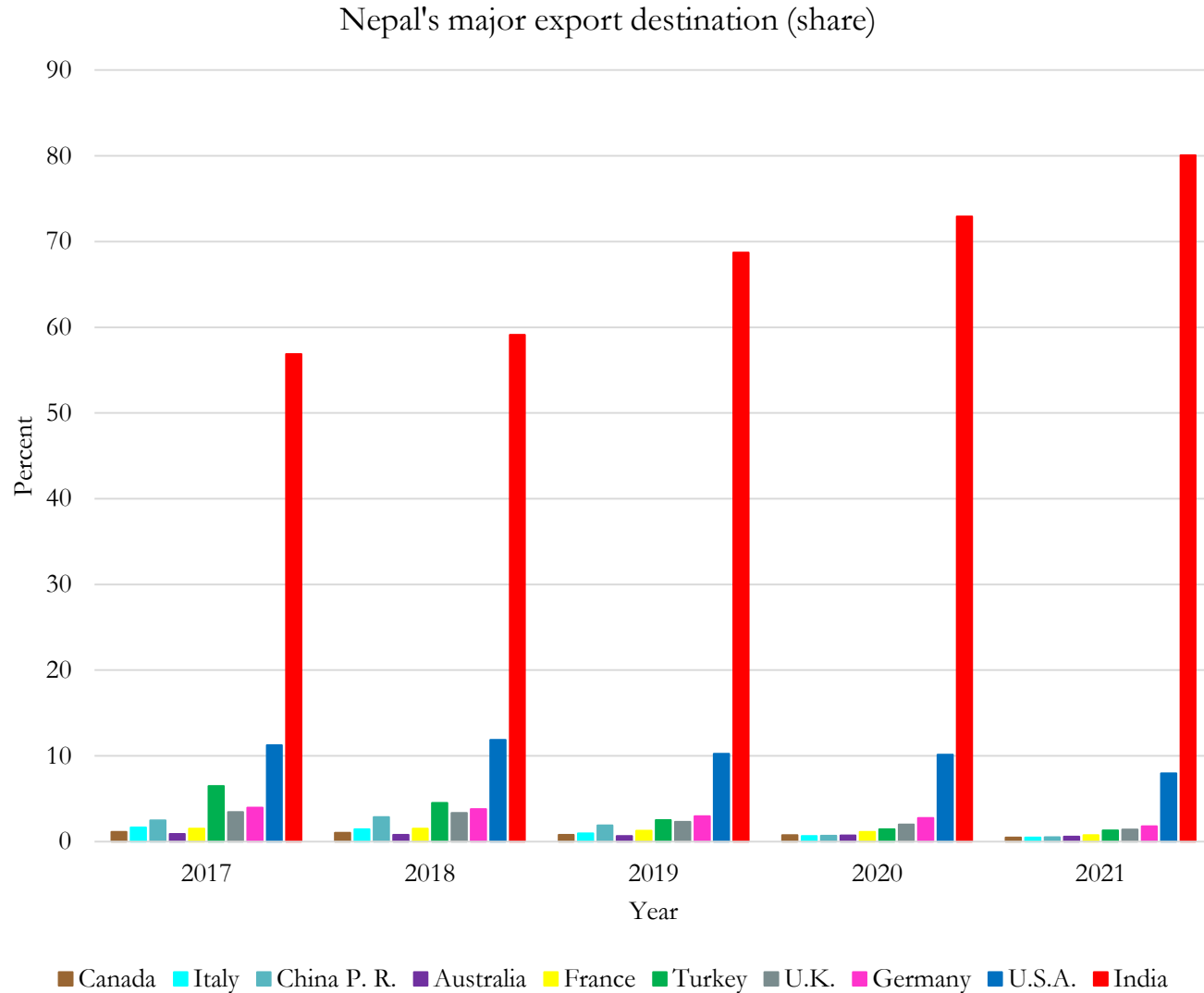
Slight drop in imports in 2019 due to lockdown led by COVID pandemic

Slight rise in exports from 2019 to 2021 due to introduction of two new goods (refined palm and soybean oil)

The sharp increase in the export of refined palm and soybean oil is due to high import duty of crude oil

Import of crude oil also high

Indigenous goods in need of facilitation and promotion through economic diplomacy?



Trade Scenario

Major export destination:
India (80 percent of total
exports)

Export to USA, the second
largest export destination
on a decreasing trend

Low market diversification

Export to China decreased
after the COVID pandemic

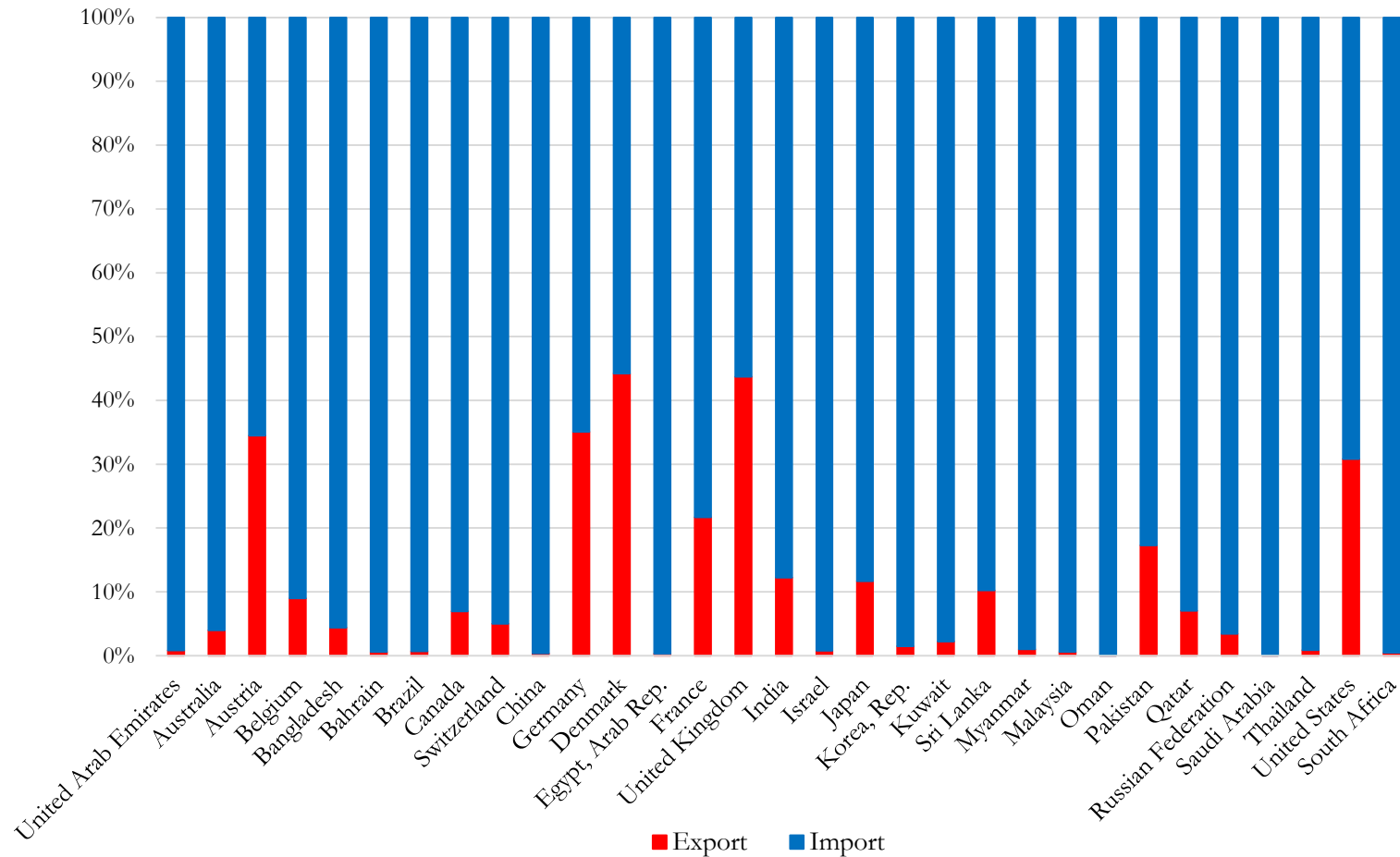
Source: NTIP, TEPC

Trade Scenario

Trade deficit with all countries

Economic diplomacy and diplomatic missions underutilized for trade facilitation

Nepal's Trade with Countries with Nepali Diplomatic Missions



Source: WITS

Trade Facilitation

- Introduction of UNCTAD's Automated System for Customs Data (ASYCUDA)
- Infrastructure development: Integrated Check Posts (ICPs) and Inland Container Depots (ICDs)
- Policy and strategy formulation: Commerce Policy, Nepal Trade Integrated Strategy
- Economic diplomacy for trade facilitation covered in both commerce policy and NTIS 2016
- Development of Nepal Trade Information Portal
- Identification of gaps of diplomatic missions in NTIS 2016
- Coordination of line ministries (MoICS and MoFA)

Economic Diplomacy

- Diplomacy and foreign affairs transformation from military power and colonization to trade and economic benefit
- Goal of economic diplomacy is Nepal: to enhance Nepal's comparative advantages in the global economy and maximize the benefits from globalization ensuring rapid economic development in Nepal.
- Economic diplomacy is not a new concept in Nepal
- An important component of Nepal's Foreign Policy
- The agenda of economic diplomacy for economic growth became more vibrant after 1990s in Nepal
- Although the concept and agenda have been around, utilization has been dormant

Economic Diplomacy for Trade Facilitation

- Both trade and economic diplomacy are foreign matters
- Coordination between MoICS and MoFA
- Negotiation tactics and strategies
- Non-Tariff Barriers highly important to understand
- Diplomacy can play a key role in trade negotiations and strengthening co-operative endeavors which would narrow the differences and reach a consensus on key issues in the negotiation agenda
- Product as well as market diversification can be achieved from effective use of economic diplomacy

Institutional Arrangement for Economic Diplomacy

- Elected government in 1990 framed 'a policy of attracting foreign capital and technology, giving priority to national investment,'
- Development diplomacy of different periods in different forms reincarnated as Economic Diplomacy in 1990.
- Necessary coordination between MoFA and all relevant ministries, diplomatic missions abroad
- Establishment of IFA to promote economic diplomacy/act as think tank.
- The 1996 High-Level Task Force (HLTF) recommended the establishment of the Economic Relations and Coordinating Division (ERCD) within the MoFA, now named as Policy Planning, Development Diplomacy and Overseas Nepali Affairs Division. This division focuses on international trade, development cooperation, investment, technology transfer, tourism, foreign employment, and climate change.

Institutional Arrangement for Economic Diplomacy

- In 2002, the Institute of Foreign Affairs created the Policy Study Group (PSG) on Nepal economic diplomacy. PSG was to follow up to the HLTF recommendations and prescribe viable mechanisms to promote Nepal's economic interests.
- PSG underscored the importance of attitudinal changes among Nepali diplomats and recommended a lead role for the IFA in training and intensive orientation programs for serving diplomats and also new appointees for missions abroad.
- Economic diplomacy is included in the agenda of all diplomatic missions abroad. Budget is earmarked for activities related to economic diplomacy and cannot be transferred to any other headings.
- Post 2006, a High-Level Foreign Policy Task Force was constituted with a view to 'recast its foreign policy and make it consistent with the emerging political climate to achieve Nepal's foreign policy objectives. Economic diplomacy continued to remain an important focus of the report.

Institutional Arrangement for Economic Diplomacy

- The part III of the report by the Parliamentary Committee on International Relations and Human Rights Committee of the Legislative Parliament (2020-11) is devoted to economic diplomacy. The report focuses on trade, foreign employment, industry, investment, tourism, water resources, service sector and agricultural and forestry, and recommends for institutional set up.
- The 2017 'High Level Task Force' on 'Reorienting Nepal's foreign Policy in a Rapidly Changing World', focuses on economic diplomacy, recommends to promotion.
- Existing mechanisms need to be strengthened and resources provided adequately and timely.

| Region | Nepali residential missions | Nepali permanent missions | Consulate generals of Nepal | Foreign residential missions | Honorary consulate of Nepal | Honorary consulate for Nepal |
|-------------------------|-----------------------------|---------------------------|-----------------------------|------------------------------|-----------------------------|------------------------------|
| Oceania | 1 | | | 1 | 5 | 2 |
| North and South America | 3 | 1 | 1 | 2 | 12 | 4 |
| Europe | 7 | 2 | | 7 | 17 | 30 |
| South Asia | 4 | | 1 | 4 | 1 | 1 |
| Southeast Asia | 6 | | 4 | 6 | 11 | 3 |
| Middle East | 7 | | 1 | 4 | 4 | 1 |
| Central Asia | | | | | | 2 |
| Africa | 2 | | | 1 | 3 | 8 |
| Total | 30 | 3 | 7 | 25 | 53 | 51 |

Diplomatic Missions' Role in Economic Diplomacy and Trade

Trade specifically export for a developing country can be more difficult due to reasons such as:

Limited information of the foreign environment

Limited knowledge of the NTBs

Limited network

Lack of credibility with potential buyers

Diplomatic Missions' Role in Economic Diplomacy and Trade

- Gather first hand information and conduct market research
- Identify the needs, taste and demand of potential markets
- Promote Nepali goods through trade fairs
- Targeted promotion of goods in specific markets
- Connect Nepali exports and foreign buyers
- Act as a bridge between Nepal and foreign countries
- Providing consular services also contribute towards B2B linkage

Sub-National Governments and Economic Diplomacy

- Trade and Economic Diplomacy both under the jurisdiction of the federal government
- However, production and manufacturing are sub-national governments' interests
- Coordination between the three tiers of governments
- Sub-national governments need push for international trade as well as economic diplomacy for the betterment of their region
- Role of sub-national governments can be to provide trade related information to potential exporters and coordinate with mission heads to link exporters and potential buyers
- Create a better business environment

LDC Graduation of Nepal and the Importance of Economic Diplomacy

- Nepal's graduation from the LDC category in 2026 will bring changes in trade preferences after the 3 years transition period
- Benefits such as EBA, DFQF market access will be foregone
- Strong negotiation through economic diplomacy to grab the next best benefits such as GSP+
- Bilateral negotiation with major trading partners: India, USA, China, Germany,...
- Strong coordination as well as strategies between MoFA and MoICS and line ministries should be aligned
- A clear direction for post graduation development needs to be worked out to ensure the graduation is sustainable and irreversible

Way Forward

- Carry out market analysis on trade prospects, consider the size of markets and accordingly develop trade promotion strategy.
- Send trade delegations inclusive of private sector in trade shows and exhibitions and stand ready to provide information of such events to relevant organizations and individuals.
- Delegation visits should be planned in full consultations and coordination with the Ministry of Foreign Affairs. Diplomatic missions should be in full knowledge of the delegation details.

Way Forward

- Strong partnerships is needed with relevant government ministries and departments in the conduct of economic diplomacy to develop a road map about investing in trade diplomacy, building out capacities and skills that survive and thrive for generations.
- Provide adequate resources, technical capacity, and staff to simultaneously invest in the development of multiple complex initiatives. Competent diplomats play a vital role in generating political attention and seizing opportunities to rally political stakeholders to support.
- Develop attractive policy package and encourage the private sector to invest in industrial undertakings that produce exportable items, which remains shy to come forward and looks for much protection from the government.

Way Forward

- Identify sectors that have comparative advantages and edge, production of high value and low volume products that could be exported without much disadvantage in terms of higher transit cost incurred due to landlocked ness of the country.
- Work to secure preferential treatments for national products and encourage private sector to take advantage of these preferences enjoyed by least developed countries such as concessionary market access provisions.
- Local level shall be based on the principle of cooperation, coexistence, and coordination. Presenting different versions serves no national interests and earns no credibility.

Way Forward

- There are a number of bilateral mechanisms with the neighboring countries and beyond. Timely meetings of these bilateral mechanisms should be held at a regular interval to resolve any transit, trade and transport issues.
- Instruct diplomatic missions with all necessary details to encourage the establishment of bilateral chambers of commerce and industries and to make the chambers active wherever they already exist, and where possible cultivate people's representatives in receiving countries dealing with finance, trade, commerce, technology, and industrial matters.
- Instruct diplomatic missions to reach out to trade sector in the countries where they are assigned. Establish formal and informal communication links with private sectors. Such links should include politicians, the private sector and opinion makers both at the center and periphery of the countries assigned.

Way Forward

- Establish and strengthen the post of Economic Counsellor (trade) at important diplomatic missions to be jointly funded by the Government and the private sector where there are prospects for trade, aid and investment also where large number of Nepali nationals are working.
- Commission a detailed study on the prospects of markets for Nepali products that are exportable and tradable. Where bilateral initiatives do not work or get enough attention, use all possible channels including multilateral and regional forums like World Trade Organization (WTO), to advance trade prospects.
- Regional cooperation has been instrumental in integrating and developing member countries, as it helps in the development of collective capacities of several countries to compete with others, expand their markets and reap the benefits of the economies of scales. Work to make the regional organizations like SAARC (currently dormant, hopes for its revival are there), BIMSTEC more businesslike and result oriented. Adopt best practices from other regional cooperation organizations.

Thank you!