

The Growing Importance of Development Diplomacy

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Abstract

In recent times, development diplomacy has received the highest priority in international relations. It is mostly conducted through multilateral activities on a global, regional, and bilateral level, including cooperation from the United Nations and its specialized agencies. There are both opportunities and risks in development diplomacy. Therefore, it should be conducted very cautiously and efficiently. Even despite collective efforts internally and externally, Nepal is still lagging to make notable progress in the development arena with an adverse effect on the living standard and welfare of the people. There is a common understanding and consensus among the experts that Nepal should act simultaneously to receive foreign assistance in national priority areas through proper development diplomacy and attract foreign direct investment to increase national production by focusing on export led-economy. For effective conduct of development diplomacy, basic elements such as proven competence, skillful negotiation, good quality of public communications, knowledge about cultural and social aspects, and ample experience to manage public affairs are required. The personnel working in Nepal's diplomatic missions abroad need to be professionally trained and intellectually equipped.

Keywords: *Development Diplomacy, Foreign Direct Investment, Hydropower, Nepal, Neighbors*

Introduction

Globally, each country's motto is to achieve desirable development for the well-being of its people. Each country adopts its policies and strategies to meet the desired development objectives. Internally, the efficient use and management of resources need no overemphasis. At the same time, external economic cooperation and goodwill are equally important and necessary, especially for underdeveloped and developing countries.

Development diplomacy and economic diplomacy are interrelated or interlinked. The conceptual clarity about such terms will help to underscore the importance of development diplomacy.

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Development involves both quantitative and qualitative improvement in the use of available resources. Most development theories do not provide a comprehensive definition of 'development'. The term development is variously interpreted by different people and can be explained in different contexts. Sometimes development has been confused with economic growth as measured solely in terms of annual increases in per capita income or gross national product, regardless of its distribution and degree of people's participation in effective growth. The consensus about development is that it should take into account the question of whether there has been a reduction in poverty, unemployment, and inequality. Therefore, the real meaning of development is the process of improving the quality of all human lives and capabilities by raising people's level of living, self-esteem, and fundamental freedoms.

The term diplomacy is derived from the ancient Greek 'diploma' referring to the use of a folded document that contained privilege, later in the French version it came to be known as 'diplomat' denoting a person authorized to negotiate on behalf of a state. According to Wikipedia, "diplomacy is a major tool of foreign policy and international relations". It is the first line of defense and peaceful means of maintaining the state's sovereignty. Traditional diplomacy focuses on peace where as modern diplomacy emphasizes both peace and prosperity. Modern diplomacy is a combination of political, economic, and cultural diplomacy and priority is given to economic diplomacy. Economic diplomacy is the use of the full spectrum of economic tools of a state to achieve its national interest. The scope of economic diplomacy is broad as it encompasses all the main international activities of the state including but not limited to policy decisions desired to influence areas such as exports, imports, investments, loans, aid, and agreement on a free trade agreement."

Diplomacy today, often called 'public diplomacy', cannot be practiced without accepting the fact that the diplomatic field has changed basically in the twenty-first century by restricting the maneuverability of traditional diplomats on the one hand and the necessity of public engagement with the public on the other hand.

Under economic diplomacy, preference is given to economics over politics in state-to-state relations. The main purpose of economic diplomacy is to mobilize resources for development, to promote trade (basically export base) and attract Foreign Direct Investment (FDI) in national priority sectors and also tourism promotion to facilitate foreign employment and mobilize diaspora resources. Bergeijk (2009) has defined 'economic diplomacy' as "an interdisciplinary subject to the field of international economics, international political economy and international relations are receiving increasing attention in all three disciplines". Specifically, economic diplomacy is said to have several elements. "Bilateral economic activities between

nations, including the organization of the state and trade visits, use of investment and export promotion agencies and the export promotion activities of the diplomatic network" (Moons and Bergeijk, 2016).

"Development diplomacy is a specific form of public diplomacy that builds bilateral relations based on activities that are presented as promoting the development and well-being of developing countries" (Pamment, Zielinska, 2016). In today's world development diplomacy is the highest priority in international relations. Development diplomacy is conducted mostly through multilateral activities on a global, regional, and bilateral level and also with the cooperation of the United Nations and its specialized agencies. It also refers to the repurposing of aid in such a way that it claims to serve public diplomacy ambitions and aspirations while simultaneously achieving development goals. "Public diplomacy is the use of instruments by a sending country to influence perceptions, preferences, and actions of foreign citizens in a 'receiving country in favor of sending countries interests' (Custer et al., 2018). All countries, larger or small, possess the capacity for knowledge sharing. This gives all states the possibility of engagement in development diplomacy. Knowledge is the newly formed primary currency of all development cooperation providers, raising questions about donor capacity, skills acquired, and organizational configurations to best meet recipient demands and needs.

There are both opportunities and risks in development diplomacy. The main opportunity of development diplomacy is to cultivate goodwill and political capital between receiving and providing countries. It also allows donors to showcase their unique brand and reputation. The international community extends attractive economic cooperation to those countries having political values such as democracy, respect for rule of law, and good governance in good condition. The risk which has been observed is that sometimes donors are guided by their own deeply entrenched instincts to transmit their ideas, values, vision, and approaches through their development partnership which is against the idea of shared benefit, knowledge, values, and respect for territorial autonomy.

Nepal's Priority Areas of Development Diplomacy

Nepal undertook initial efforts towards development diplomacy from the beginning of the first five-year plan but it received priority attention following the restoration of parliamentary democracy in 1990. Nepal is receiving economic cooperation and assistance from both immediate neighbors India and China, as well as friendly countries like the United States, United Kingdom, Japan, South Korea, and European Union. These countries have provided hardware and software for the development of basic infrastructure (physical, health, education, water and sanitation, women's

development, etc.) for some years in the past but Nepal is still lagging to make notable progress in the development arena directly affecting the living standard and well being of the people.

Nepal's present situation of non-satisfactory performance on the economic front, rule of law, investment-friendly environment, and good governance needs to improve credibly. There is a common understanding and consensus among the experts that Nepal should act simultaneously to receive foreign assistance and to increase national production by focusing on an export-led economy. The main components of priority areas of development diplomacy should be discreetly identified so that efficient mechanisms, sound policy, and strategy and its effective implementation could be effectively and efficiently managed. Development diplomacy is easier said than done.

For effective conduct of development diplomacy, there are basic elements such as well-tested ability, good negotiating skills, quality of public communications, knowledge about culture and social aspects, and long experience to manage both internal and external affairs. The personnel functioning in Nepal's diplomatic missions abroad should be trained and equipped accordingly. Nepal's focused areas of development diplomacy include the mobilization of resources for development, promotion of trade and business, exploring the market for national products, attracting FDI in national priority areas, promotion of culture and tourism, facilitating foreign employment, and, last but not least, mobilization of diaspora resources.

Promote Trade and Business

Traditionally Nepal's foreign trade was limited only to Tibet and India. After 1950, Nepal gradually expanded its trade and business with other countries, besides India and China. At present Nepal's ever-widening trade deficit is going to pose a big challenge to the national economy. The slow export growth compared to robust growth in imports remains a major concern for Nepal to benefit from trade. The average growth of export was less than 5% in the last decade whereas growth in imports during the same period was more than 20%. The high cost of production and poor access to international markets are some major constraints to expanding Nepal's export base. Promoting export-oriented industries has long been a top priority of successive governments and over the period governments have adopted many policies aimed at enhancing exports. However, most of such policies have failed to achieve set targets due to a lack of basic industrial infrastructure and a business-friendly climate and environment.

Inward Investment promotion

An investment inside the country involves external or foreign entities either

investing in or purchasing the goods of the local economy. "A common type of inward investment is FDI. This occurs when one company purchases another business or establishes new operation for an existing business in a country different than of its origin" (Chen, 2018).

FDI plays a catalytic role in economic growth as it is a source of capital formation, enhances international trade integration, creates a competitive environment, and strengthens enterprises development "The common motives of FDI are: resource seeking, market seeking and efficiency seeking" (Dunning, 1993). FDI also seeks strategic assets in the local economy, brands new technology, or distribution channels.

The key factors for attracting FDI are political stability and a business-friendly regulatory environment as well as infrastructure development, access to land, low tax rates, and a transparent system for repatriation of investor profit.

Most investors in the world believe that agriculture and mining will produce the best returns around the world in the next 20-30 years. Nepal should encourage investors to invest in mining and organic farming in anticipation of rapid food increases around the world. Many believe that inward investments facilitate an inflow of wealth into a country and help diversify its base of resources, potentially generating additional tax revenue and offering new jobs and opportunities to build skills for its many residents.

Compared to other underdeveloped countries, FDI in Nepal has remained slow and near stagnant. The primary reasons for this are attributed to continuing unstable government policy, bad governance, high cost of business startup, lack of basic infrastructure, and weak enforcement of rule of law. In addition, insufficient and non-reliable power supply, and transport difficulties, including the bad condition of highways and the small base of the market are least conducive to investment. To overcome these challenges, the country needs to adopt a stable policy and improve infrastructure to support potential investors to do business with ease in Nepal.

Promote Hydropower Development

Globally, hydropower has been recognized as a sustainable source of energy with almost zero input cost. Its benefits are high because it is nonpolluting in the sense that it releases no heat or noxious gases. Additional attractions of hydropower are low operating and maintenance costs, reliable technology and flexible operations, negligible environmental impacts, and long life of the project.

Nepal is endowed with huge hydropower potential. Being a landlocked country it has abundant water resources. It is often quoted that technically feasible hydropower capacity is about 45000 MW in Nepal. To materialize this potentiality, realistic

and mutually beneficial cooperation has to take place with India, as it can become Nepal's important trading partner and largest market for electricity produced in Nepal. At the same time, there is a need to encourage China and Bangladesh to join hands with Nepal for the development of hydropower. We should invite and encourage multilateral agencies such as World Bank, and Asian Development Bank to invest in the development of water resources including hydropower. We should also create a friendly and trustworthy investment environment by engaging efficient technocrats and informed strategists.

Hydropower development in Nepal until 1990 was government-led and mostly internationally donor funded. The electricity act of 1992 and the subsequent change in tariff policy jumpstarted private sector investment in electricity generation. Currently, over a third of the electricity generation is from the private sector, with a huge pipeline of private sector projects in various stages of development. As of mid-April 2022, Nepal's total installed electricity generation capacity was 2191 MW. The consumption pattern of electricity is about 44% consumed by the residential sector, 37% by the industrial, 7% by commercial establishments, and the remaining surplus by agriculture and other sectors. From June 2022, Nepal's electricity export to India has increased sharply and is expected to be a significant percentage of Nepal's hydroelectric generation.

Political instability, with frequent changes in political leadership and mostly coalition form of government, has adversely impacted electricity development in Nepal because of unstable policies, delays in adopting appropriate new policies, and weak implementation of policies and reforms.

Promoting Tourism

In most countries of the world, tourism has become an important economic activity. In the Nepali context, it has been an important source of economy. This sector has significantly contributed to creating direct, indirect, and other explicit and implicit effects on the economy. Tourism is a key industry, given an increase in the number of international visitors. It has enormous potential to generate more income, foreign exchange, employment, and other benefits. The growth of tourism depends on several factors such as the development and improvement of infrastructure, information facilities, easy access, transportation options, safety and security, and branding of new spots and areas.

Nepal is known as an exotic destination in the Himalayan region with fascinating natural and cultural attractions. Nepal has continued to attract tourists from across

the globe. They come here to enjoy its natural beauty as well as centuries-old tangible and intangible cultural heritages. Over the years, it has made its presence felt in the international outbound market attracting several various segments: trekkers, adventure seekers, mountaineers, pilgrims (Hindu and Buddhist), wildlife enthusiasts, and others fond of rafting, bungee-jumping, and bio-diversity.

Challenges to promoting tourism in Nepal are posed by poor transportation and communication facilities, insufficient recreational facilities, unsatisfactory attention to the development of new tourist spots, and widespread pollution. New branding ideas, community-based tourism, and preservation of heritage and culture are some important factors to attract domestic and foreign tourists. The establishment of a 'spiritual resources center' based on Hinduism and Buddhism may help to attract and increase religious tourists from India, China, and other parts of the world. Effective marketing and management are required to promote and advertise Nepal. It is necessary for the Government and the private sector to work together to allure investors by creating a favorable environment for them. Nepal's diplomatic missions abroad and Nepal Tourism Board should work jointly to promote proper marketing and enhance images of Nepal as a tourist destination in the international arena.

Development Diplomacy of Immediate Neighbors

India

India's development diplomacy can be divided into three categories: global factors, India-specific factors, and donor's specific factors. Under the first factor, changing or shifting global politics is geared toward promoting their traditional donors and reassessing or reasserting their operational approaches. Under the India-specific factors, India's policy of economic liberalization and graduation from low-income country status to lower middle country (2007) helped its rapid economic growth. Under donor specific-factors, cooperation, financial and technical, from the US, UK, Japan, and France have contributed to the Indian economy in a significant way.

India's development diplomacy is focused on development as per the government's "neighborhood first" policy which is based on the philosophy of *Vasudhaiva Kutumbakam* (The world as one family). Indian development diplomacy is seen as the new frontier of India's foreign policy. It involves sustained and long-term cooperation in terms of humanitarian assistance, infrastructural projects, community-based development projects, and capacity-building programs. India is also keen to utilize development-oriented investments as diplomatic leverage to increase India's

influence in its neighborhood. In the 2023-024 union budget, the Indian government has allocated INR 15.2 billion as development assistance to countries like Nepal in India's neighborhood and Africa. Approximately INR 2.2 billion has been earmarked for Bhutan while development assistance for Nepal and Myanmar amounts to INR 5.5 billion and INR 4 million respectively. Development aid for Bangladesh and Sri Lanka amounts to INR 2 billion and 1.5 billion respectively. India's approach to Sri Lanka has been people-centric, unlike China's debt diplomacy. But India's investment in Nepal, Bangladesh, and Bhutan has been noteworthy.

China's Development Diplomacy

China is committed to developing friendly relations and cooperation with other countries based on the five principles of peaceful coexistence (mutual respect for sovereignty and territorial integrity, non-aggression and non-interference in internal affairs, equality, mutual benefit, and peaceful coexistence). With other countries, mostly western, China wants to strengthen strategic dialogue, enhance mutual trust, deepen cooperation, and properly handle differences to promote the long-term, stable and sound development of bilateral relations. China's policy is to maintain relations with developing countries through increased solidarity and cooperation. It is eager to cement traditional friendship, expand pragmatic cooperation, provide assistance to them within its means and resources, and uphold the legitimate demands and common interests of all developing countries. China's development diplomacy with its neighboring countries is focused on continued deep friendship and partnership based on good neighborly relations and pragmatic cooperation. Some critics, however, contend that like other big powers, China is seeking to utilize development-oriented investments as diplomatic leverage to increase its influence in the neighborhood.

China has been providing grant assistance to Nepal under its economic and technical cooperation program, to implement mutually accepted development projects, for several decades in the past. China has already announced a grant of Rs. 15 billion (800 Billion RMB) to be invested in projects selected by Nepal for the year 2022-023. This grant is in addition to the grant announced by Chinese President Xi Jinping during his visit to Nepal in 2019 Rs. 58 billion (3.5 billion RMB) grant to Nepal for two years. Nepal has yet to receive these grants as per the commitment of China and looks forward to the speedy disbursement of grant assistance already pledged.

Conclusion

Since the beginning of the first five-year plan, Nepal has made initial efforts toward development diplomacy. Immediate neighbors, superpowers, and other development partners have contributed in different ways to the development of Nepal. By increasing our ability and with trust and confidence, Nepal can receive further substantial support both from immediate neighbors and other development partners. Nepal should efficiently conduct its development diplomacy leading to tangible improvement on the economic front, and in other areas like rule of law, investment-friendly environment, and good governance. The government, the private sector, and civil society should sincerely and collectively work to promote trade and business by exploring the market for national products, creating a friendly environment to attract FDI, promoting soft power, culture, tourism, and hydropower, facilitating foreign employment and mobilize resources from Nepali diaspora living in different parts of the world.

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