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Nepal's National Interests, Foreign Policy and Strategic Affairs

A Perspective Paper

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ABSTRACT

As an ever-independent and the oldest nation-state in South Asia, Nepal has a long experience in handling its foreign policy, diplomacy and strategic affairs aptly to suit its national interest. With a positive political transformation after the adoption of a new constitution in 2015 and a stable domestic political environment after the elections to the three tiers of government in 2017-18, Nepal is poised to graduating from the group of the Least Developed Countries (LDCs) in the next few years and is expecting to become a Middle-Income Country (MIC) by 2030. With this newfound confidence, Nepal is striving to play its commensurate role in the international and regional arena in order to fulfil its national interests as well as to contribute to the international agenda more effectively. In recent times, Nepal's strategic importance has increased, thanks to its location between India and China, the two fastest growing and rising economies in Asia. This importance comes with a burden and obligations together with the opportunities it may bring if utilized in earnest. The strategic arena is full of competition and big power rivalry. Nepal has been spending considerable time and energy in managing the interests of big powers and their diplomatic overtures. Though geopolitical variables are slow to change for the landlocked Nepal, the big power management, strategic competition, and the changing dynamics in the regional and international arena have warranted a careful and continuous analysis of Nepal's strategic environment. Like other states, Nepal conducts its foreign policy to fulfil national interests. The options and instruments available for Nepal for protecting its national interests, strategic autonomy and foreign policy need to be understood in the dynamic regional and global context. This paper seeks to identify and analyze the perspectives of Nepal's national interests, foreign policy and strategic affairs in changing domestic, regional and international circumstances, including in the post-corona virus pandemic in 2020. It also identifies policy and research gaps in Nepal's national interests, foreign policy and strategic affairs, in which the Policy Research Institute (PRI) can play a lead role in fulfilling such gaps.

1. INTRODUCTION

National interests, foreign policy and strategic affairs constitute an important area of policy research. Though inter-related, each of these areas need careful scrutiny for generating policy recommendations. In Nepal, the trend of policy research in these areas is rather sketchy and a few and far between. In June 2020, the Policy Research Institute (PRI), a government-funded think-tank, identified several clusters on its areas of focus. One of the clusters so identified included “national interest, foreign policy and strategic affairs”. This perspective paper seeks to identify major policy pillars of that cluster, including the gaps and lacunae in the respective policy pillars, focusing on the role of PRI in fulfilling the research and policy gaps in the respective areas.

1.1 Objectives of the study

The main objective of this paper is to chart out Nepal's perspectives on the pursuance of national interests, foreign policy and strategic affairs, one of the research clusters identified by PRI, focusing on the identification of research and policy gaps and recommendations for a future pathway for next five years or so.

1.2 Review of literature

There is a growing body of literature in the field of Nepal's foreign policy and diplomacy. The literature includes several occasional papers and seminar reports published by the Institute of Foreign Affairs (IFA). But most of these write-ups tend to be descriptive and subjective, and not backed by adequate research and evidence-based policy prescriptions.

A few panel reports are available on Nepal's foreign policy and diplomacy. Among them are the report of the High-Level Task Force (HLTF, 1996), the report of the High-Level Policy Task Force (Sharma et. al., 2006) and the report of a parliamentary committee (IRHC, 2011). An unpublished report entitled Investing in Diplomacy offers various insights into the institutional reforms and professionalization of Nepal's diplomatic machinery (Acharya, 2015). The latest panel report, which is the most comprehensive account on the arena of foreign policy and diplomacy, including in economic diplomacy and national security issues, remains unpublished (HLPTF,

2018). The latest addition to this body of literature is Nepal Worldview (Acharya, 2019), which the paper writer came up with recently.

The literature on Nepal's national interests and strategic affairs is sketchy at the best. There is hardly any comparable literature available on the subject of national interests. In 2000, the Commission on America's National Interests published a report on the United States' national interests as the foundation of its foreign policy. The report prioritized the U.S. interests as a global power, which it would achieve through leadership, military capability, alliances, and strengthening of critical international institutions (CANI, 2000). Only available literature in the arena of national interest of Nepal is in the form of a seminar report on defending the national interests in the emerging internal, regional and international challenges (IFA, 2015). In absence of an active strategic community, there is a strategic void in the academic arena.

The body of literature on Nepal's national security is growing. However, most of it lacks academic value and is of judgmental in nature. A good body of literature is emerging in non-traditional security aspects, including on human security (Upreti, et. al. 2013).

1.3 Research methodology

This paper is compiled mainly out of the paper-writer's intuitive judgment and experience in relevant professional and academic work in the field. It uses a descriptive, analytical, and prescriptive review of available literature and draws recommendations thereof. Through a review of various challenges juxtaposed with the changing national, regional and global circumstances suited to Nepal's current needs, challenges and aspirations in the areas covered by the study, the paper seeks to develop policy prescriptions based on the identification of evidence-based policy and research gaps in respective subjects.

2. BACKGROUND ANALYSIS

A background analysis on Nepal's national interests, foreign policy and strategic affairs should include the assessment of geopolitical considerations, the strategic environment, changing regional and global circumstances, including emerging alliances and partnerships, challenges and constraints in these areas as well as important drivers, Nepal's strengths and opportunities in these sectors.

2.1 Geopolitical factors

Perhaps, a few of the constants in Nepal's external environment are the geopolitical, geo-strategic and geo-economic factors around it, which are slow to change. Nepal's size, location, population, asymmetry with big neighbours, juxtaposition with similar cultural and linguistic backgrounds across the borders, flow of its rivers from and to neighbouring countries, the shared fate in environmental and climate considerations and state of economic development compel it to take into account the geopolitical factors as the most important variable in its national interest, national security, strategic affairs, foreign policy, and diplomacy. While geopolitics creates some constraints and challenges, it also offers immense opportunities, in terms of Nepal's location between the world's rising economies, biggest markets in Asia and the fastest-growing region in the world. We must strive to create a favourable policy environment for gaining from this geopolitical advantage, which we will discuss in the subsequent chapters.

2.2 The dynamic strategic environment

Nepal has to operate in a highly complex, competitive and uncertain strategic environment globally as well as regionally. While the strategic importance of Nepal may have grown in recent years due to its location between two big emerging powers and due to its natural-resource potentials, including water and biodiversity, it offers no room for complacency. In fact, it creates a more complicated environment to operate. We need to assess the strategic environment continuously and adjust our policies accordingly. The world and region we have to operate are in a state of 'flux', when it comes to the strategic environment. Dynamism is a constant variable in the strategic environment, which we must keep assessing. The strategic environment is not just

volatile, uncertain, complex and ambiguous (called VUCA in the strategic literature), it has also become dynamic, multi-dimensional and non-linear, thus compelling us to remain on the constant vigil. The assessment of strategic environment must also include the assessment of strategic intention, policies and actions of major powers and neighbours and how they dictate adjustments in our own strategy. It must include the assessment of big power ambitions of neighbouring countries and how to adjust to such ambitions.

2.3 Emerging alliances and partnerships

In recent decades, the rise of China has compelled new alliances in the Asia Pacific Region. With the emergence of the Quadrilateral Security Dialogue (the Quad) consisting of the United States of America, Japan, India and Australia in the Indo-Pacific region and the U.S. formulation of its Indo-Pacific Strategy (IPS) with the objectives of facing off China, there is already a certain alliance in the making. The USA has also engaged with India in what they call as 'strategic partnership', in which there is wide ranging security and defence cooperation, including the supply of nuclear materials and defense purchases (IDSA, n.d.).

As a country located next to China, Nepal cannot escape attention of these coalitions, strategies, partnerships and alliances. There have been efforts to bring Nepal close to these initiatives as far as Nepal's non-aligned foreign policy can permit. In its publication *A Free and Open Indo-Pacific: Advancing A Shared Vision*, the U.S. Department of State has included "ensuring peace and security" among its elements of the U.S. partnership with 35 countries. It has highlighted the "enduring strength of the U.S.-Nepal partnership and the close people-to-people ties that form the foundation of the relationship" (DOS, 2019). *The Indo-Pacific Strategy Report* of the U.S. Department of State explicitly mentions that the People's Republic of China is a "revisionist power" and aims to use its "military modernization and coercive actions" as well as its "economic means" to advance its strategic interests. It clearly mentions that the Indo-Pacific Strategy (IPS) seeks to achieve "strategic objectives in the Indo-Pacific", and to evolve the U.S. "posture and balance key capabilities" including in South Asia (DOD, 2019). Nepal is dragged into this issue during the recent debate over the ratification

of the Millennium Challenge Corporation (MCC) compact between Nepal and USA, as the Nepali intellectual and political discourse is debating whether the MCC has strategic objectives or whether it is part of the IPS. Though denied officially, there have been sporadic inferences and statements, including from the U.S. State Department officials, that the MCC is part of the IPS.

2.4 New world order in the changing context of COVID-19

It has become fashionable to state the post-COVID-19 world order will be different from that before it. There are predictions and scenario forecasts of all kinds. Despite the profound nature of its implications, the pandemic has not yet tectonically shifted the basic parameters of international cooperation and the need for the same. Though it may have exposed the weaknesses in the current system of global governance and multilateral diplomacy, it speaks of the need for more cooperation in future, not less. The foremost area in which the post-COVID-19 world is witnessing lies in the area of intensification of great power rivalry and competition, mainly between the USA and China. The coronavirus pandemic may also bring some shifts in the pace of globalization in the sense that the pandemic has reinforced the concept of nation-state, the boundary controls and inward-looking tendencies in the short run. It has also demonstrated the rising significance of 'digital diplomacy' and showed that many of the business of global governance, including world conferences, can be held digitally reducing cost, time and energy involved in organizing them. Some have predicted that the pandemic has brought an era of digital surveillance, which might complicate governance and undermine people's freedoms (Harari, 2020). The post-COVID-19 world is also likely to bring a movement back to basics in which nation-states may turn inward-looking to seek self-reliance and strengthen border security and tighten the free movement of people across international borders. It may also bring a stronger role of the state and undermine international cooperation, which is required more than ever before. The coronavirus pandemic has also exposed the inadequacies of the national health systems, including of the private health institutions and the existing *modus operandi* of the multilateral cooperation institutions in the health sector. In the short run, the adoption of protectionist policies in trade, which is already taken the

shape of a 'trade war', is likely to accelerate in the post-COVID-19 world. It has already resulted in job losses, sending many migrant workers back home. In its September 2020 *ILO Monitor*, the International Labour Organization (ILO) shows the trends of workplace closures, labour income losses, job losses and the inadequacies of stimuli packages in low-income countries during the coronavirus pandemic (ILO, 2020). The economic downsides of the pandemic will force nation-states to adopt more restrictive trade, travel and immigration policies that are likely to impact the health of global economy and can hit the low- and middle-income countries economically. But in the long run, the forces of globalization, interdependence, cooperation, free movement of goods, services, capital and people, and freer trade and investment are likely to rebound, as many of the advancements made in the era of globalization have become nearly irreversible. While international cooperation and multilateralism have witnessed setbacks during the pandemic, they are likely to remain as the bedrock of international relations in the time to come, though the rules of the game may be written more by new powers than the existing ones. The erosion of global public trust in the existing inter-governmental institutions of global governance is likely to propel new institutional reforms and creations in the long run. The biggest hit of the pandemic is likely to be seen in the resurgence of geopolitics, as weak nations will emerge weaker due to the economic shock of the pandemic, which has reinforced the significance of geopolitics and created an environment for geopolitics to return to the political arena. Bigger powers in every region are likely to come out more aggressively to fulfil their geopolitical ambitions and are also likely to engage in geopolitical confrontations. The age-old tension and conflicts are likely to re-surface, dragging weaker powers into play.

2.5 The regional security environment

The regional security environment in South Asia is not less challenging. The continued existence of old rivalries and unresolved borders between India and its neighbours, mainly with China and Pakistan, continue to affect the regional security environment. The 2017 Doklam standoff between India and China involving Bhutan and the recent border standoff between India and China following the clashes in the Galwan

Valley in the Ladakh sector of their bilateral border highlights the potential risks of unresolved bilateral boundaries in the regional security situation. The regional security environment in South Asia is marred by resource scarcity, especially water and energy, effects of climate change, migration and refugees, radicalization and terrorism; natural calamities (e.g., earthquake, avalanche, flood, etc.) and the like. The security situation in South Asia can be described to be in a state of flux.

2.6 Strategic importance

In recent days, foreign policy and strategic experts claim that Nepal's strategic significance has risen markedly, thanks to its location between two of the world's rising powers: India and China. While there is some element of truth to this statement, our strategic significance does not matter if we cannot leverage how to make the best use of it. Instead, we can run into strategic competition of others and may also be dragged into bigger conflicts that may go beyond our interest and capacity to manage. PRI can institute a study as to how Nepal can leverage its strategic location to its own national benefits without being dragged into bigger regional and global conflicts.

2.7 Big power rivalry and its management

Whether we like it or not, we cannot escape the big power contest and rivalry that is gaining momentum in the world, especially between China and the United States of America. We should not remain in a dilemma as to if we should celebrate the rise of China or fear it. In fact, accommodating the rise of China is an important aspect of the big power rivalry in the region and beyond. In that strategy, we must remain careful not to be dragged in the big power conflict, while retaining engagement with both sides constructively and gaining from them economically and politically in the international arena. Nepal does not have the luxury of entering into any strategic alliance or blocs. Nepal's policy of non-alignment alone may not provide enough space and options in the management of big power rivalry, when it comes to their policies and overtures in Nepal. Our conventional policies of equidistance may not be enough as well. This is a complex task that requires mature thinking and a well-crafted strategy. This is a subject that requires broader thinking, in which PRI can institute some research.

2.8 Growing polarization and border tensions in the region

In 2017, India and China spent over three months in a stand-off near Bhutan-China border at Doklam following China's construction of a border road in the sector and India's mobilization of its army along the border. The tension rose high putting the peace and security of the region at stake. The two countries were able to put together a disengagement in Doklam and the détente continued following the Wuhan meeting between India's Prime Minister Narendra Modi and China's President Xi Jinping later that year, only to be broken during the recent confrontation in the Galwan Valley. Though the two countries have since de-escalated the tension and have disengaged their security forces following the military-to-military and high-level diplomatic talks, tension still persists, as India and China have outstanding border issues in the eastern, middle as well as western sectors. Large swathes of land including Arunachal Pradesh, Aksai Chin and Kashmir remain disputed between India and China, both sides laying claim to them, with India having the *de facto* control in the first and China in the latter two. They show these territories in overlapping maps.

There is international interest in the resolution of Indo-China standoff following the clashes in the Galwan Valley in Ladakh since June 2020. U.S President Donald Trump offered to mediate between India and China if the both sides so desired. Russia even facilitated meetings and dialogue between the foreign and defense ministers of India and China at the sidelines of the Shanghai Cooperation Organization meeting held in Moscow to ease the tense standoff following the Galwan clashes and subsequent build up on both sides. The foreign ministers of India and China signed a deal for de-escalation in their border standoff in meeting in Moscow and appeared together with the foreign minister of Russia after signing the pact in September 2020.

Nepal has several reasons to be concerned in the event of such tensions breaking into a conventional war or even in the event of a low-intensity protracted conflict. First of all, it will affect regional peace and security and undermine the environment of cooperation and economic development in the region. Second, Nepal may be unwittingly dragged into the conflict. As Indian troops are stationed in Nepal's Kalapani area near the strategic Lipulekh Pass, Nepal's interests will be drawn in case

the India-China standoff escalates and the conflict extends to that area as well. There are several thousand Nepali Gurkhas in the Indian army. Their mobilization along the border may be another reason of concern for Nepal. Nepal needs to remain mindful of such regional polarization and conflicts or confrontation between any neighbouring countries. The situation in Kashmir in India has remained under siege following the realignment of the state of Jammu and Kashmir, as the conventional conflict with Pakistan also looms large in the regional security environment. The border tension between India and Nepal following the former's adoption of new political map in November 2019 including Nepal's Kalapani area within it and inauguration in May 2020 of a border road in the area and Nepal's adoption of a map including Limpiyadhura in the sector in its territory following India's refusal to sit for a bilateral dialogue in Nepal's request has undermined the traditionally-friendly relations between the two countries, bringing the relations to an all-time low. Among other things, the regional cooperation organization SAARC remains stalled due to the tension between India and Pakistan following the terrorist attacks near the border town of Uri in India on 18 September 2016 and subsequent cold relations between the two countries. Such polarization may continue to make the regional security environment unstable and may continue to keep the region in a state of flux. The fact that there have been full scale wars between the regional powers in the recent past also gives Nepal enough reason to be worried. Nepal has exercised neutrality in the past wars between its neighbours. That position may not be always easily affordable for Nepal in the event of such escalation of regional conflicts or wars, as there will be efforts to drag us in such conflicts and polarization.

2.9 Fractured global governance and failure of multilateralism

The fissures in global governance and multilateralism that was evident before the coronavirus pandemic has further widened during the pandemic and are likely to impact the international affairs for some time to come. The global governance institutions already weakened by big power rivalry, politicization, inability to solve global problems and to take up the challenges in the changing times, are likely to be further stressed in the post-COVID-19 world order and may also undergo some tectonic shifts in

the time to come. The U.S. withdrawal from the membership of the World Health Organization (WHO) in the middle of the pandemic shows the retractive tendencies of big powers shying away to take the leadership and responsibility commensurate with their capability may undermine the effectiveness of global governance institutions. The moribund state of the WTO and the rise of protectionism and 'trade war' have undermined the rule-based multilateral framework in global trade. The stalled trade negotiations under the WTO, especially because of its inability to do anything in connection with the rising tension between the United States and China and their 'trade war' also undermines the future of rule-based international framework for fairer and freer trade.

The alternative global governance structures of the developing countries led by China, for example the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB), may offer some respite in the economic arena, but they cannot match the need for an overhaul of the existing international system in the political, security, diplomatic and economic arenas. The stalemate and weakening of the global governance institutions may undermine their capacity to support and rescue weaker powers when they are in need, something serious to consider for countries like Nepal in the time to come. The implementation of the Sustainable Development Goals (SDGs) also hangs in balance due to the economic downturn brought about by the corona virus pandemic in 2020.

2.10 The rise of non-traditional security threats

Nepal's national security policy (MoD, 2016), updated in 2019, recognizes the rising importance of non-traditional security threats and contemplates mechanism to deal with those threats. Such threats include the crisis of climate change and environmental security, threats to human security, energy security, resource security, cyber security, and trade and transit security. The non-traditional security threats also pose new challenges for Nepal in terms of handling them through the conventional security institutions, something acknowledged in Nepal's national security policy. These threats exact asymmetrical resources and are beyond the capability of the conventional security institutions to manage. For example, the national security institutions are least equipped

to deal with the non-traditional threats emanating from climate change, migration and displacements, threats to human security, environmental and resource security and trade and transit security. The non-traditional threats also involve non-state actors in the scenario of national security. This calls for a comprehensive national security doctrine that encompasses traditional as well as non-traditional security threats.

2.11 Important drivers

There are many important drivers or strengths that can guide Nepal's foreign policy, national interests and strategic affairs. The identification, acknowledgement and a prudent use of these drivers will be essential for effective execution of Nepal's national interest, foreign policy and strategic affairs.

Nepal has historical advantages in its foreign policy and strategic affairs. Nepal is an ever-independent and the oldest nation-state in South Asia. Nepal has a long history in foreign relations, which have used the combination of strategies including isolation, resistance, appeasement and diversification of relations. Nepal's handling of foreign relations, including that with India and China, have also earned praise internationally. In his book *World Order*, famous American diplomat Henry Kissinger has praised Nepal's role in traditionally balancing its relations with China and India through a variety of instruments (Kissinger, 2014). Nepal is an anchor and champion of regional cooperation and houses the Secretariat of the SAARC.

Nepal's strategic location between India and China puts it in a distinct advantage. That also means it is in the middle of the two of the world's fastest growing, Asia's large economies and the largest markets in the region. That offers huge advantages for Nepal for attracting investment and benefitting from their growth through economic integration and backward and forward linkages. The proposal for enhancing connectivity through various initiatives such as the BRI and Trans-Himalayan Multi-Dimensional Connectivity with China and trans-border connectivity with India are likely to bring more opportunities for Nepal, including better economic integration and rise in the prospects for Nepal becoming a land-linking economy between them. Nepal has already become a "lower middle-income country" (The World Bank, 2020) and is poised to graduating from the LDCs (CDP, 2018). This newfound confidence

is likely to come with more opportunities for attracting FDI, unleashing economic potentials and export and innovation-led economic growth.

2.12 Problems and challenges

It must be acknowledged that there are quite a few gaps, lacunae, missing links, vagueness and inconsistencies about Nepal's strategic affairs, national interests and foreign policy. There are structural challenges in Nepal's economy. Nepal has just entered the Lower Middle-Income of economic development rung as per the World Bank. Two-thirds of Nepal's trade is with India. The dependence upon India on trade and transit has been entrenched owing to weak connectivity with the other neighbour – China – and remoteness of Nepal's border from the Chinese side. There is a huge trade deficit, sometimes running 1:10 ratio, which is somewhat counterbalanced by the remittances that constitute above a quarter of the country's GDP (MoF, 2020). The export base is weak and the cost of doing business is higher due to the remoteness from the sea and associated transport hurdles and costs. Nepal is a net importer of food grains and food security is an issue. Nepal continues to receive foreign assistance to supplement its national revenue to meet its development needs.

The main problems in relation to foreign policy, including the lack of integration between national security, foreign policies and an absence of a comprehensive document in foreign policy have been identified in the latest panel report submitted to the government (HLPTF, 2018). One of the challenges in the strategic affairs and national security is that the domain is considered secret, hence very little is publicly available for academic and other level discussion. In the security and strategic affairs, there is a kind of void in thinking, as there is no active strategic community dwelling on the subjects with academic interest. Nepal has to make do with whatever wisdom is available at the official national security institutions and a few retired professionals who write here and there. In this regard, the decision to establish a National Defense University (NDU) offers to fill in the gap to a certain extent. PRI can also help bridge this gap in partnership with the NDU.

3. NATIONAL INTERESTS

Nepal's constitution has clearly defined what constitutes national interests. Article 5 of the constitution has included “independence, sovereignty, territorial integrity, national unity, protection of rights and dignity of Nepalis, border security, and economic prosperity” under the purview of national interests.

Nepal's *National Security Policy* (MoD, 2016), updated in 2019, has further explained matters of national interests include national security as well. Apart from safeguarding national interests, the national security policy identifies broad parameters, including social cohesion and religious tolerance, protection of fundamental human rights of people, political stability, protection of environment, climate, natural resources, heritages and their utilization in national interest, and promotion of world peace and regional security, as being under its purview.

Historically, Nepal has defended its core national interests, including the preservation of independence and sovereignty, through a variety of instruments, including defensive posture (*jai katak nagarnu*), isolation, resistance, wars, appeasement, opening up, diversification of relations and balancing relations with immediate neighbours (Acharya, 2019). While most of these instruments may not be as relevant now, the conventional wisdom in defending national interests remain important for Nepal. Nepal has at its disposal various instruments including “a dignified and principled foreign policy, power of persuasive diplomacy, pursuance of economic diplomacy, the instrument of military power (defensive and deterrence), international treaties and intuitions, regional instruments and cooperative security partnerships” (Acharya, 2015).

3.1 The *raison d'être* for foreign and security policies

National interests are *raison d'être* for the country's foreign and national security policies. They must be defended at all costs utilizing all instruments of power at the disposal of the state, including political, economic, military, diplomatic and other powers. Conventional hard power may be supplemented with soft power and in fact these two types of power should be used in a smart combination, sometimes referred

to as 'smart power' (Nye, 2008). A report published by the Institute of Foreign Affairs has identified that in order to fulfil the national interests Nepal needs clear and well-thought-out policies and strategy, consensus on foreign policy, robust institutions, and skillful professionals, collaboration and partnerships (IFA, 2015).

'There are only permanent interests, no permanent friends' is an old foreign policy axiom. Though the parameters of national interest are slow to change, priorities may evolve from time to time according to the changing regional and global circumstances. Therefore, it is prudent to keep assessing strategies to achieve national interests periodically. Most of the national interests are often articulated in any country's foreign policy and national security policies.

3.2 The hierarchy of national interests

It should be assumed that there can be certain hierarchy or prioritization in national interests. Social scientists define national interests to be of three categories: core, vital and peripheral interests (Acharya, 2019.). There may be national and subnational interests, and interests of the nation and that of the political actors, groups and individuals. While all of these interests will assume certain importance, there has to be a certain hierarchy in the preferences of national interests. For example, the core and vital national interests must be maintained at all costs, sometimes even at the cost of compromising peripheral interests. Similarly, national interests should get priority over sub-national and partisan interests. Likewise, sectoral interests may be compromised in the interest of national security, if the vital national security interests are at stake.

Though the matters related to international affairs, foreign policy and national security are kept in the exclusive jurisdiction of the federal government, provinces are expected to have significant interests in these issues. In this regard, it would be important to set red-lines and parameters for the engagement of provinces on matters related to foreign policy. This framework needs to be adopted while making policies and taking important decisions. PRI can help develop such recommendations based on available policies, practices and trends.

3.3 Creating a conducive environment for the fulfillment of national interests

Nepal must use all instruments of national power available at its disposal, including its hard and soft power, to make the international and regional environment conducive to the fulfillment of its national interests. That includes creating a favourable environment for global and regional peace and security, enhancement of its trade and transit, energy security, and so on. One of the essential elements for creating a conducive environment for national interests is to arrive at national consensus on major national interests. A divided society or nation cannot pursue its national interests strongly. Neither can it exercise its diplomacy effectively. Thus, creating national consensus on priorities and strategies to fulfil national interests should be broadly shared and agreed by major political actors, civil society, academia and the people in general. PRI can play an important role in developing a national discourse of public opinion on vital, core and peripheral national interests and in prioritizing them from time to time.

3.4 Applying all instruments at disposal to fulfil vital national interests

One of the premises of pronouncing a country's national interests lies in the affirmation that it would apply all instruments of national power for the attainment of the national interests, including the political, economic, diplomatic and military means. In other words, the country's foreign policy and security institutions are supposed to pursue those national interests by all means. It also dictates that all major foreign policy and strategic decisions should be taken after careful scrutiny of national interests. In Nepal, this will also be a restraining factor for political leaders to do away with their narrow partisan and political interests so that they will be forced to take decisions based on national interests. PRI can help develop informed choices for policy decisions on specific matters of foreign policy and strategic affairs towards the fulfilment of national interests.

3.5 Dealing with competing security interests of neighbours and big powers

It is common knowledge that states conduct their international relations to fulfil their national interests. Nepal is no exception. When they pursue their interests, the states are likely to enter into one of three modes- namely cooperation, competition and confrontation. Nepal's aim should be to achieve national interests through cooperation and sometimes competition, but avoiding confrontation, especially with big powers. It must be noted that there are three types of interests between countries: converging interests, overlapping interests and competing interests. We should seek to enlarge complementarities and mutual gain in converging interests, broaden our choices and options in overlapping interests and seek to assert in competing interests avoiding confrontation, but not ruling out deterrence and resistance when needed.

Professor Yadu Nath Khanal is often quoted to have said that Nepal's foreign policy would breakdown if we could not protect vital security interests of its immediate big neighbours, for they would come to protect those interests on their own (cited in Simkhada, 2011). It will be important for Nepal to understand the vital security interests of its immediate neighbours and big powers and to make sure that they are not compromised to the extent of their coming to fulfil those interests on their own. Nepal should protect such interests as long as that is not against its own national interests. When vital security interests of two or more powers compete, our aim should be to avoid and remain away from competition and not to be dragged in either of their sides. That will require a careful analysis of their strategic intentions and their security interests in Nepal. Conventionally, China's security interest has been focused on keeping a close watch on Nepal regarding any threats from elements inimical to its security interests in the restive western provinces, including in the activities of the Tibetan refugees in Nepal. India's security interests in Nepal have been focused on maintaining security cushion from Nepal and not letting Nepal to be used by elements inimical to its national security because of the open border. Nepal's stated policy of not allowing its soil against any of its neighbour should be reiterated on every opportunity and executed in earnest to earn their trust and confidence in our national security system.

4. FOREIGN POLICY

Conventionally, Nepal has espoused its foreign policy based on limited engagement, non-alignment, resistance to threats to its independence, diversification of bilateral relations and an active engagement with the United Nations and international organizations (Acharya, 2019). The principal goal of Nepal's foreign policy is to leverage its external relations so as to promote its national interests. In the Directive Principles of the State, Article 50 (4) of the Constitution of Nepal states:

The State shall direct its international relations towards enhancing the dignity of the nation in the world community by maintaining international relations on the basis of sovereign equality, while safeguarding the freedom, sovereignty, territorial integrity and independence and national interest of Nepal.

In Article 51, Nepal's constitution has explicitly outlined the principles and objectives of Nepal's international relations policy and the protection of national interests, including through an independent foreign policy based on certain principles, such as those that underlie the UN Charter as well as those that define non-alignment, Panchsheel, international law and world peace. While most of the principles of foreign policy enshrined in the constitution of Nepal are important bedrocks of Nepal's foreign policy, they alone cannot meet the increasing needs of Nepal's foreign policy, national security and strategic needs. Nepal must observe a few important departures in asserting its foreign policy goals and objectives. For safeguarding those interests, Nepal should leverage its foreign policy in many ways, including through creation of its own narrative in foreign policy, a consensus-backed foreign policy agenda, defining the layers of engagement and priorities accordingly, developing its own neighbourhood policy, responding aptly to diplomatic overtures of big powers and neighbours, streamlining multilateral diplomacy, a renewed thrust on regional economic integration, and leveraging its soft and smart power to achieve these interests.

4.1 Creating our own narrative

Nepal has started to be heard around the world, thanks to its rising strategic importance and a stable political and economic discourse in the recent years. For example, Nepal's

Prime Minister K. P. Sharma Oli was invited in 2019 to speak at the World Economic Forum where he was asked to speak at the forum of G20 leaders, earning the distinction of only leader from the LDC to do so. But we need to create and articulate our narratives well. What needs to be told to the world should be clear, consistent, supported by national consensus and backed by broader academic discourse. It is important to develop a non-partisan narrative especially in relation to external policies so that the core elements of external engagement do not change upon the change of government, while priorities may change. PRI can help develop such narratives and messages – through a broader consultation with national stakeholders – that Nepal can share with the rest of the world.

4.2 A consensus-backed foreign policy agenda

An unpublished high-level panel report submitted to the government consists of several valuable recommendations in the arena of foreign policy, national interest and strategic affairs (HLTF, 2018). Among other things, the report contains “an agenda for national consensus” and defines concentric layers of Nepal’s relations including with big powers, immediate neighbours, development partners, remittance-generating countries, and international organizations and fora. It also contains broad policy recommendations on economic and security issues, apart from core political and diplomatic functions under foreign policy. The government can make this report public and engage in a policy debate through PRI, which may approach the paper through small working groups to arrive at a separate set of recommendations.

4.3 Layers of engagement

Nepal should develop layers of its engagement in the neighbourhood and beyond through prioritized preferences and investment in diplomacy accordingly. The significance and priority of Nepal’s external engagement should follow the order presented below:

a) Immediate neighbours (India and China)

Nepal’s relations with India and China have their own significance, owing to the historical and geographical proximity. The importance of these relations is

further enhanced due to the economic rise of both as major global and regional players. Nepal must retain the best of relations with both countries focusing on how to gain from their economic prowess, as well as remaining away from their strategic competition and rivalry in the region. With India, our focus should be on resolving outstanding issues, such as the resolution of the Kalapani-Lipulekh-Limpiyadhura boundary issue, implementation of the recommendations of the Eminent Persons' Group (RPG) report that is yet to be submitted to both the governments, including the review of the 1950 Treaty of Peace and Friendship to bring it to the realities of the changing time and new developments in bilateral realities. With China, the thrust of our relations should be focused on the agreed format of the "Trans-Himalayan Multidimensional Connectivity", including road and rail links, transmission and connectivity through engagement in various funding frameworks such as the BRI, AIIB and the like.

b) Big powers (United States, UK, France and Russia)

Nepal has long-standing relations with major powers of the world, including the Permanent Five (P5) members of the UN Security Council. Nepal and the United Kingdom have historical relations, which completed 200 years a few years ago. With the United States, Nepal's relations are embedded in development cooperation, trade and investment, together with cooperation in the international arena. Nepal also has strong relations with France, though the full potential remains underutilized. Given the importance of Russia in global politics and diplomacy, these relations need to be further nurtured. The relations with big powers should continue to get priority in view of their importance and significance in global affairs.

c) Major partner countries

The third layer consists of Nepal's donor countries that have remained valuable partners in Nepal's economic development and are sources of trade, investment and tourists to Nepal. That includes the countries of the EU, Japan and the Republic of Korea, and other countries in G20.

d) Remittance generating countries

Because of the employment of a large number of Nepali workers, the remittance-generating countries, including Malaysia, and the countries in the Gulf Region also occupy important place in Nepal's foreign policy. Many of these countries are also sources of tourists and investment coming to Nepal. Hence, Nepal should continue to give due importance to its relations with these countries.

e) The extended neighbourhood

Nepal's immediate neighbourhood focus has often left the relations with the countries in its 'extended neighbourhood' including the countries in South Asia and Southeast Asia often neglected and the potentials of enriching the relations under-utilized. Nepal should explore economic relations in the extended neighbourhood, including in Bangladesh, Bhutan, Sri Lanka, Myanmar and Thailand.

f) UN and other international and regional organizations

Nepal's engagement with the United Nations and other international and regional institutions constitutes an important aspect of its foreign policy and diplomacy. While there is strong emphasis on partnership with the UN in the field of international peace and security, development, human rights and humanitarian assistance, Nepal should focus on the promotion of 'global public goods' and 'global commons' through the UN. The focus of regional economic integration in the SAARC and BIMSTEC has not generated enough momentum, for which Nepal should continue to strive. Though BIMSTEC and otherwise, Nepal should strive to extend its economic outreach to Southeast Asian nations, including in ASEAN

g) Other countries of the world

Nepal has so far established diplomatic relations with 168 countries of the world. But Nepal's diplomatic outreach to most of them is limited to contacts at the sidelines of the UN and international conferences and meetings. Nepal is under-represented diplomatically in the sense that it has only 30 embassies, three

permanent missions and six consulates spread in 32 countries only. Expanding the diplomatic network and exploring potential benefits from the relations with these countries should continue to remain in the radar of Nepal's international engagement. In this regard, it would be worthwhile to assess the effectiveness of Nepal's policies with regard to these layers of countries and organizations with a view to developing better strategies for mobilizing its diplomacy towards strengthening Nepal's relations with them and towards securing better economic benefits thereof. Perhaps, PRI can endeavor to review such effectiveness through an independent assessment.

4.4 A neighbourhood policy of our own

In recent times, much of our energy and time in diplomatic dealings have been spent in responding to diplomatic covertures that others have brought and the neighbourhood policy of our big neighbours. While we cannot avoid them, we should develop a policy framework of our own to engage ourselves in the neighbourhood. Though our past policies of 'equidistance' has paid off to some extent, our neighbourhood policy is not just about India and China. We have to understand the importance of the 'extended neighbourhood' and engage with that constructively and more proactively. We need a neighbourhood policy of our own, which should come as a part and parcel of our overall foreign policy and diplomatic strategy.

4.5 Responding to diplomatic overtures of major powers

In recent years, Nepal's neighbours and big powers are coming with several diplomatic and economic overtures, some of which have strategic elements embedded to them and others have invited hidden competition between various powers. Thus, Nepal spends substantive energy and time in handling these overtures, as they also contain elements that can contribute to Nepal's economic gains significantly. Managing the response to these overtures is a significant new dimension in Nepal's foreign policy and engagement with big neighbours and major powers.

a. India's 'Neighbourhood First' and 'Act East' policies

Under Prime Minister Narendra Modi, India has been reiterating its 'Neighbourhood First' and "Act East" policies and has thrown its weight behind BIMSTEC and BBIN initiatives. The 'Neighbourhood First' policy includes three goals, according to Swanti (2017):

- (i) *connectivity*, including cooperation in areas of trade, infrastructure, commercial linkages and transit facilities, and free flow of resources, energy, goods, labour and information across borders
- (ii) *resource support*, including financial aid, technology, human resources and humanitarian support, and
- (iii) *investment in regional institutions* such as SAARC, BBIN and BIMSTEC as vehicle of regional cooperation.

Similarly, the 'Act East' policy includes following three pillars (Swanti, 2017):

- (i) *connectivity*, including infrastructure investments, improved access to gateways and technology transfer
- (ii) *culture*, including tourism and cultural heritage, and
- (iii) *commerce*, including production networks, regional value chains and bilateral agreements.

Nepal should aim to benefit from these initiatives in developing connectivity and achieving regional economic integration, while safeguarding its national interests.

b. China's Belt and Road Initiative (BRI) and other overtures

China's flagship Belt and Road Initiative (BRI) has come up with several ideas, which include connecting the countries in the region in the ancient grid of the Silk Road through road, rail and maritime networks to enhance trans-border connectivity and infrastructure development, foreign direct investment, trade, tourism and people-to-people contacts (BRI, n.d.). Nepal has joined the BRI signing an agreement with China in the hope of developing missing links for

connectivity with China and attracting Chinese investment in the development of road and rail infrastructure in Nepal. The framework of funding available through the BRI, AIIB, New Development Bank and China's Exim banks and several other funding mechanisms will be of crucial importance for Nepal to fund the connectivity projects and to establish the missing links in the economic integration and supply and value chain. Nepal should strive to access these funds in projects that are of strategic and economic significance to Nepal based on their economic viability and doing away with their negative consequences such as the possibility of debt entrenchment and burdensome investment in projects that are beyond our capacity to operate. Nepal should learn from the lessons that other countries have gained in this regard.

c. The US Indo-Pacific Strategy and the MCC

The United States of America has flagged its Indo-Pacific Strategy (IPS) and has sought to engage with Nepal through the MCC through an agreement signed in 2017, which remains to be ratified by Nepal's parliament (MCC, 2017). Though there are conflicting claims as to whether the MCC is part of the IPS, it cannot be denied that such big proposals can have strategic objectives embedded in them. But the engagement with the United States in the biggest-ever (500 million US dollar) aid package will be in Nepal's interest, politically, diplomatically and economically (MCC, 2017). The ratification of the MCC compact with the USA will be a test case for Nepal's diplomacy, as it has entered the political debate, pending the final decision by Nepal's parliament. It will be in Nepal's interest to make decisions with regard to MCC, and any other proposals coming from neighbouring countries and big powers for that matter, based on certain criteria and principles. Such decisions should be based on Nepal's national interests including the interest to maintain best of relations with neighbouring countries and big powers, Nepal's policy of nonalignment that does not allow it to enter into any strategic blocs, and the principle of non-comparison or not using one country against the other.

d. Principles and criteria for engaging diplomatic overtures of major powers

Nepal has found itself at odds in accepting and engaging with diplomatic and economic overtures of big powers, including the two immediate neighbours. These overtures are not mutually exclusive, and are actually complementary to each other in the sense that they seek to increase connectivity, economic integration and infrastructure development, which are beneficial to Nepal. While Nepal's neighbours and big powers may have reservations in each other's proposals, Nepal should engage in these proposals based on its national interests. In the past, Nepal retained independence in decision-making in foreign policy and national security, including through the policy of non-alignment and through a balanced relation with immediate neighbouring countries. Nepal has managed to sign the BRI pact with China in 2017, despite India's reservation in the BRI over its involvement in the 'Pakistan-Occupied Kashmir'. Similarly, Nepal should be able to steer through the MCC pact, despite China's reservations about it and the IPS, which it has interpreted as a strategy aimed at checking the expansion of the Chinese influence in the region. In order to avoid being dragged into controversy on these proposals, Nepal needs to adopt a few principles, including those listed below, while accepting and implementing these proposals:

- a) National interest
- b) Economic viability
- c) Comparative advantage
- d) Capacity to contribute
- e) Avoid being used against the interest of others
- f) Non- alignment with any military/ security/political blocs
- g) Seeking complementarities
- h) Avoiding comparison
- i) Retaining strategic autonomy in decision-making

A criteria-based decision-making will make Nepal's involvement in these proposals transparent and objective. It should also help reduce the trend of polarization and politicization of such proposals before and after any decision is made in Nepal.

4.6 Streamlining multilateral diplomacy

Nepal's national interests will be best served in its active engagement in multilateral diplomacy through the United Nations and other multilateral mechanisms. Nepal has been benefitting from its multilateral diplomacy in many ways, including in the consolidation of sovereignty and international dignity and partnership in its socioeconomic development agenda. Multilateral diplomacy and multilateralism should remain an important pillar in Nepal's engagement with the international community. How we can best effectively leverage our engagement in multilateral diplomacy should be an important area of work. First, Nepal should focus on supporting the international framework that creates 'global public goods' and protects the 'global public commons.' Nepal must strategize its engagement in multilateral diplomacy in the issues that matter to its national interest most. That includes the issues such as climate change, transit diplomacy, trade negotiations, accessing funds for programs etc. attracting the attention of the agencies, funds and programs to bring their projects to Nepal. As regards multilateral diplomacy, Nepal should focus on issues which are in Nepal's national interest and on which Nepal has comparative advantage and can also contribute to, instead of being left out in the receiving end. In that regard, Nepal's participation in the UN peacekeeping missions provides immense benefits and should be one of the major pillars of Nepal's multilateral engagement in the arena of peace and security through the United Nations.

Nepal must stress on rule-based multilateralism. It should continue to push for reforms in multilateral institutions based on the principles of transparency, equitable geographical representation and accountability. The reforms in global governance institutions must be inclusive, commensurate with the principles of subsidiarity and common but differentiated responsibilities. Nepal should revamp its multilateral diplomacy, including through separate cadres of professional diplomats in bilateral and multilateral careers. Nepal should better strategize elections to major international bodies and institutions, fielding Nepali staff in these institutions and making better use of the elected positions.

4.7 A renewed thrust on regional cooperation

Regional cooperation, especially regional economic integration through enhanced connectivity, free trade and flow of investments and harmonization of policies and infrastructure, serve as win-win for Nepal's economic interests in the region. Hence, it must continue to receive the importance it deserves in Nepal's foreign policy and economic diplomacy. But, somehow, Nepal has not been able to leverage its unique position of an anchor and champion of regional cooperation to its advantage, owing to the polarization and political difference among the major players in the SAARC. Even in the BIMSTEC, where political differences are minimum, the different stages of economic development and divergence of economic interests have undermined the potential of regional economic integration. Hence, it has largely remained a non-starter. Nepal has served as chair of both SAARC and BIMSTEC, but without much contribution and gains from thereof. On account of its position as an anchor of regional cooperation and its housing of the SAARC Secretariat and its goodwill, Nepal should aim to better leverage its diplomacy in the regional cooperation organization which remains stalled at the moment. Nepal should make earnest efforts to revive the SAARC process and help it gain momentum for its progression towards tangible regional economic integration. That includes mobilizing its role as chair of the regional association and utilizing the good offices of the Secretary General and the Secretariat which is based in Kathmandu. Perhaps, Nepal's Prime Minister, in his capacity as the SAARC Chairperson, can start a round of informal visit to the SAARC capitals or he may send his foreign minister to do the same. Alternately, Nepal can offer to host a special meeting of foreign ministers and foreign secretaries to review the situation. Similarly, bigger push will be required in the arena of regional economic integration through BIMSTEC.

Nepal must reorient its regional policy with a renewed thrust on regional cooperation, focusing on pushing agreements in trade, investment, transit, transport, energy and connectivity issues. It should focus on implementing what has been agreed already and pushing for agreements that are in the pipeline, allowing regional cooperation to morph into a better integration trajectory through a phased progression into an

economic union. As its chair, Nepal should endeavor to revive the stalled SAARC summit, including through the use of the good office of the chair, mobilization of the Secretariat, informal goodwill visits to member countries or hosting of special meetings of foreign ministers or foreign secretaries. PRI can engage Track Two in the SAARC region for finding a better way out for the stalled economic cooperation process in the region.

4.8 Identifying elements of 'soft power' that Nepal can leverage in its diplomacy

As a relatively smaller power, Nepal must understand the limits of 'hard power' (political, military and economic) because of the higher capacity of the asymmetrical powers on its either side. Nepal must apply its conventional and new 'soft power' (power of attraction and persuasion), including diplomacy as an instrument of national power. In fact, the evolving wisdom on the application of instruments of power for fulfilment of national interests of any country requires the use of 'smart power,' which includes a smart combination of conventional hard power and new soft power. As a country of the land of Lord Buddha and home to Hindu civilization, Nepal has a lot to offer to the rest of the world in the arena of soft power. Nepal's long experience in UN peacekeeping operations also provide Nepal a good global visibility and platform to contribute to the agenda of international peace and security through the United Nations. The ancient philosophy on global worldview (e.g. *basudhaiva kutumbakam*) and peaceful co-existence (*panchsheel*) emanates from the teachings of Hindu and Buddhist scriptures which Nepal has aplenty. Similarly, the concept of climate change, environment and bio-diversity has deeply engraved in the conventual Nepali wisdom, something we can offer to the rest of the world. Lately, Nepal has been trying to use some of these concepts through the proposal of 'Sagarmatha Dialogue', choosing to offer its experiences and lesson and highlight its plights on 'climate change.' Nepal should institutionalize the Sagarmatha Dialogue engaging its neighbours, partner countries and friends in issues that are of its pressing concerns and in which Nepal has comparative advantage and can contribute to regionally and globally. One of such issues is which regional and global debate can be organized is climate change. Perhaps, PRI should commission a study to find principal elements

of Nepali soft power and ways and means to effectively utilize them for enhancing Nepal's international dignity, role and national interests.

4.9 Fixing red-lines for provinces on foreign policy-related issues

The constitution clearly mentions that the federal government has the exclusive jurisdiction over issues related to foreign policy and international affairs. It also gives exclusive right to the federal government in signing treaties and entering into loan or grant agreements with foreign countries and institutions. Despite such provisions, it cannot be ruled out that the interests of the provinces will not be attracted to foreign policy-related issues. Because all the provinces have borders with neighbouring countries, most of them with both India and China. Issues related to foreign policy may attract the interests of these provinces in one way or another. In neighbouring India, there have been instances in which the states have heavily influenced the central government's foreign policy decisions. Nepal cannot allow that to happen and should start fixing the rules of the game from the very beginning. Drawing lessons from India, some discussion was made in Nepal's foreign policy and national security before the federal constitution was adopted in 2015 (Acharya, 2013). There is not enough discussion as to how the norms and red-lines can be adopted and implemented with regard to the involvement of provinces with foreign governments and institutions. This is an area in which PRI can develop certain guidelines in consultation with relevant agencies, and drawing lessons and practices from other federal countries.

5. NATIONAL SECURITY AND STRATEGIC AFFAIRS

National security and strategic affairs constitute important pillars of Nepal's external engagement. This is the pillar that is fraught with most uncertainties and challenges. Nepal's mechanisms for handling these challenges, including the policy framework and institutional capacity, are under continuous stress.

5.1 Updating the assessment of national security challenges

Security is a dynamic concept. It keeps changing according to the shifts and dynamism in the internal and external environment. PRI should adopt a flexible method to approaching national security based on a conceptual framework and research and evidence-based policy recommendations. Acknowledging the comprehensive nature of national security, threats to national security, both internal and external, traditional and non-traditional, including the threats to environmental and resource security, economic and trade security, human security and so on, must be assessed constantly. While the national security policy (unpublished) covers most of these threats and challenges, we must admit that the threat and challenges are of dynamic nature and need to be assessed constantly. The national security policy should be regularly adjusted accordingly.

5.2 The case for a National Security Act

As envisaged in the *National Security Policy* (2018), the government should prioritize legislation for a new National Security Act (NSA) incorporating institutional responsibilities, mandates, operational issues and management of threats and challenges to national security, and providing for other measures necessary to implement the national security policy. PRI can make a comparative study of national security acts of neighbouring countries and other powers to ensure that Nepal's national security act is on a par with them, but does not inherit their weaknesses. For example, in India, the National Security Act of 1980 empowers the central and state governments to detain persons, including nationals and foreigners in pre-emptive detentions, acting in any manner prejudicial to the security of India, the relations of India with foreign countries, the maintenance of public order, and maintenance of supplies and essential

services. But the provisions of the NSA have also been invoked to deal with cases that have invited domestic controversy, including the agitation following the adoption of the *Citizenship Amendment Act* (CAA) in 2019. Nepal's existing public security laws empower the district administration and police to arrest and detain persons under similar grounds. But it will be necessary to update them in accordance with new constitutional mandates, including in the federal system. It should be made objective, clear and fair so that its misuse can be prevented.

5.3 Action plan for implementing the National Security Policy

The Government of Nepal first adopted its national security policy and made it public in March 2016 (MOD, 2016). The policy has been reviewed and amended in February 2018, especially with a view to aligning it with the new constitution and legal requirements. Though the policy has not been made public, it is believed to contain major elements required to handling traditional as well as non-traditional security threats and external as well as internal threats to national security. Implementing this policy should be an important priority in strengthening the national security mechanism. The government should adopt an action plan, including the matrix of activities to be carried out by different actors and institutions in this regard and monitor the implementation of the action plan through a high-level steering committee. PRI can help develop such action plan and matrix in consultation with relevant government institutions that are required to act in accordance with the revised national security policy.

5.4 Border security and management

Border security and management is one of the core areas of national security interests. Because of unresolved boundary issues and an open border system with India, the issue of boundary and border management has often invited political differences and controversy in bilateral relations. While an utmost priority should be given in resolving outstanding boundary issues with India, the resolution of the Kalapani-Lipulekh-Limpiyadhura section, which the Government of Nepal has included in the new map based on historical evidences and treaties, should get special priority. At present, the primary mandate for border security rests with the Armed Police Force (APF) Nepal, while Nepali Police is responsible for issues related to cross-border crime and the

Nepali Army is responsible for safeguarding the territorial integrity of the country. In the case of the APF, 'border security' is not the sole mandate, as it has other mandates, including control of armed rebellion, riot control, mob control, industrial security, VIP security and security of important installations, in accordance with the *Armed Police Force Act, 2058* (2001). It will be important to create a specific security force with a sole mandate on border security, similar to the Border Security Force in India. This will make them responsible for this important mandate on border security. The ambiguities and duplication in the role of national security institutions, including in border security, should be resolved in earnest, specifying the roles of the respective security institutions clearly.

At some stage, Nepal will have to invent a better mutually-agreed mechanism to manage its open border with India, that offers numerous benefits as well as several challenges in the national security. The two countries should weigh-in options such, as semi-regulated border management, in which people can freely cross the border at designated points using the ID systems they have been using nationally and registering the movement at border crossings.

5.5 Mechanisms to deal with non-traditional security threats

There are numerous threats and challenges in the non-traditional domain of national security, including climate change and environmental security, human security, energy security, cyber security, disasters, pandemics, resource security, and trade and transit security. While the National Security Policy acknowledges these threats and challenges, the mechanism for handling these non-traditional threats and challenges are many. They cannot be handled through traditional security institutions and practices alone. It requires a comprehensive and a whole-of-government approach to handle these issues. This is an area in which more evidence-based policy recommendations are needed, something to which PRI can contribute a lot.

5.6 Diversifying security cooperation to retain choice in defense purchases

Our national security strategy must identify elements of bilateral, regional and international cooperation as a major deterrence to our national security threats. Hence this should be built upon building relations through an active engagement with neighbouring countries and regional as well as international organizations. Nepal has been sourcing most of its security cooperation with India, China, USA and UK. Nepal should strive to diversify its security cooperation, without compromising its policy of non-alignment and remaining away from military and security blocs. Though that process remains stalled, Nepal's past security agreements with India are under review through the process of Eminent Persons Group (EPG) constituted between the two countries. Nepal should also retain its freedom of choice to import or purchase defense and security equipment from the sources that are cheapest and of best quality. This will help decrease dependence on security cooperation from just a few countries, mainly India, and create a better deterrence capability for our security institutions to handle national security challenges.

5.7 Retaining strategic autonomy in a competitive environment

Nepal's strategic autonomy warrants the capability to take independent decisions in our foreign policy, national security, transit, trade and water and energy security. Nepal's strategic autonomy can be better achieved through continuation of independent foreign policy, non-alignment with major powers or blocs, balanced relations with immediate neighbours, and a robust domestic political system that operates without foreign influence. Though Nepal's strategic autonomy can be advanced through non-alignment, it does not require shunning strong bilateral relationships and partnerships with major powers, developed countries and major neighbours. Nepal must strive to retain its strategic autonomy in making important foreign policy, national security and political as well as economic decisions. This requires a careful orchestration of strategic policies and harmonization of relations with major powers, sometimes creating a balance against one power becoming an overbearing presence in the national decision-making process.

5.8 Striking balance between open security discourse and keeping secrets

While some strategic options and policies may be kept secret, security policy cannot be kept in secret domain. Some countries like the United States regularly update its National Security Strategy through a consultative process and makes it public when adopted. In Nepal, the government must strike a balance in keeping the secrets and keeping the public informed and assured of national security and keep the actors informed on the need-to-know basis. PRI can play an important role in moderating informed-discussions on the security front bringing on board various interlocuters and researchers.

5.9 Identifying elements and strategies for defense and deterrence capacity

Though Nepal's defense doctrine is yet to fully evolve and has not come out in public discourse, it is well understood that it seeks to retain the minimum defense and deterrence capacity to protect its vital national interests, including national independence, territorial integrity, sovereignty, border security, national unity and national security. But it is not clearly outlined, except in the premise of national security policy, as to what the elements of that minimum defense and deterrence are. The Government has updated its national security policy in 2019 and now is in the process of adopting it. Thus, it may be worthwhile for PRI to identify basic elements and the necessary institutional and professional capability required in order to retain such a minimum defense and deterrence capacity.

5.10 Focusing on comparative advantages of security institutions

While developing the institutional capability of national security institutions, it must be kept in mind that they cannot do everything on their own. Rather, they should focus on their area of specialization concentrating on certain key comparative advantages they have with regard to national security in relation to other security institutions and similar institutions of neighbouring countries. For example, the Nepali Army can develop specialized forces on high altitude warfare, mountain warfare, peacekeeping capabilities and other comparative advantages it can develop. The capacity of security institutions should also be built taking into account the demand of specialized units of engineering and medical team in the UN peace operations.

5.11 Strengthening the National Security Council

A key national institution with regard to national security is the National Security Council (NSC). The constitution has clearly laid out the mandate, responsibilities and role of the NSC with regard to national security and mobilization of the army. Article 266 of the constitution clearly mandates the NSC for “making recommendations to the Government of Nepal on overall national interest, security and defence of Nepal and for the mobilization and control of the Nepali Army”. While NSC members also include the ministers for foreign affairs and finance, apart from the Prime Minister, Minister of Defense, Minister of Home and Commander-in-Chief of the Nepali Army, there is very little institutional integration in the NSC from economic and foreign policy fields. The NSC is operating far from the required institutional capability, let alone become institutionalized in contributing towards its role in decision-making in national security agenda. Strengthening the institutional capability of the NSC should be an important priority in the national security and strategic discourse. Perhaps, PRI can put together the elements of such institutional capability through a comparative study of similar institutions in other countries, including in the neighborhood.

5.12 Strengthening the capacity of the Ministry of Defence

The Ministry of Defence is the main civilian agency responsible for managing the Nepali Army and serving as the link institution to the NSC. Its institutional structure is rather weak and it is reduced to performing a formal coordinating role between the army and the political authority of the government. The Ministry should be provided with professional and competent staff. It should involve a thorough Organization and Management (O&M) Survey. Comparable structures of the Ministries of Defense of other countries should also be taken into account in this regard.

5.13 Showcasing inclusion in Nepali Army and security institutions

In recent years, Nepali Army and other security institutions have increased inclusive recruitments to their cadre, including women and people from various strata of the society, in accordance with constitutional provisions. This provides unique opportunity for Nepal to showcase the inclusive nature of its security institutions especially in the UN peacekeeping operations. There will be more demand for female peacekeepers

and female-only Formed Police Units (FPUs) in the UN peace operations. The UN has the target to increase the female participation in military observers and staff officers to 15 per cent and in female police deployments to 25 percent by 2028, from current 4.7 per cent and 10.8 per cent respectively (UN, 2019). Nepal should strive to prepare its cadres accordingly.

5.14 Streamlining the engagement of Nepali Army in regular non-military works

The core mandate of the Nepali Army, in accordance with the Constitution of Nepal, is to safeguard the independence, sovereignty, territorial integrity and national unity of Nepal. The constitution of Nepal provides that the Government of Nepal may also mobilize the Nepali Army in other works including development, construction and disaster management. The Nepali Army has also been doing an excellent work on nature conservation. While such mobilization in development, construction and disaster management may be required from time to time, frequent involvement of the army in its non-regular work may undermine its core mandate and institutional capability. Such involvement may also invite political controversy and debate about the army's involvement in such works. Thus, it may be worthwhile to develop certain criteria and guidelines for the involvement of army in construction, development and disaster management as per federal laws. Similar guidelines should also be drawn in the involvement of the Army in non-traditional commercial activities such as in construction of hydropower projects, banks, hospitals and commercial shopping centers.

5.15 Developing the case for appointing a 'National Security Advisor'

There is a strong imperative for appointing a National Security Advisor (NSA), who can serve as a linchpin to advise the Prime Minister on key security issues, including on external security matters. Many countries appoint such national security advisors from among senior and retired professionals from security institutions of senior diplomatic cadres. In India, the NSA is a key interlocutor of the government on national and external security matters. There is also a mechanism for dialogue and cooperation among the NSAs of various countries, including BIMSTEC. Nepal has not weighed in the advantage of this key appointment that can enrich informed decision-making on national security issues.

Perhaps, PRI can develop a paper on the modality and mandate of the NSA drawing references from other countries and recommend to the government on its significance and role in the execution of national security policies and national interests.

5.16 Changing the image of a 'soft state' on security

Nepal's national security system and its national security institutions are often shown in country reports as having weak spots and gaps in their capabilities, mainly with regard to the capacity to manage the flow of elements inimical to security interests through the open border with India and security checks at the only international airport in Kathmandu. The U.S. government report on checking terrorism, drug trafficking and human trafficking have often cited such weaknesses in Nepal's national security system.

For example, the U.S. Department State's *2019 Trafficking in Persons Report -Nepal* lists "official complicity in trafficking offenses" as a "serious problem" (DOS, 2019a). Similarly, the U.S. Department of State's *Country Reports on Terrorism 2019: Nepal* mentions that there is a significant threat of "non-Nepali international terrorist groups using Nepal as a transit or staging point or soft target" (DOS, 2019b). Though not ill-intended, such reports tend to portray Nepal as a 'soft state' with regard to its national security capability to check the spread of international terrorism, transnational organized crime, drug trafficking and human trafficking. Nepal should seek to change that image introducing more stringent security controls at the international airport and border checkpoints with India. PRI can help identify measures in which the national security system with regard to these weaknesses can be ameliorated in the given conditions of open border regime without restricting free travel.

5.17 Streamlining defense diplomacy

A significant new addition in the arena of strategic affairs, foreign policy and national security is the pre-eminence of defense and military diplomacy. This is about the peaceful use of the military power to advance national interests. Many countries around the world have significantly advanced their national interests through defense and military diplomacy, which includes defense and security cooperation, exchange of high-level military visits, training and academic exchanges, and fielding of military

attaches in the embassies. Nepal has been engaged in each of these activities related to military diplomacy in one way or another in select countries of importance to it. There have been instances of contribution of Nepal's military diplomacy in its overall political diplomacy, including during the blockade at Indo-Nepal border in 2015-16. Nepal has gained significant experience and exposure through the participation of its armed forces in the UN peacekeeping operations. To advance its national interest, Nepal should make more prudent use of its military diplomacy, something that needs to be done without compromising political diplomacy and without creating apprehension of an increased military role in conventional diplomacy. In fact, military diplomacy must be employed as a supplement to conventional political diplomacy, not to replace or overtake it.

PRI can develop a set of policy guidelines, instruments and situations in which Nepal can leverage its military diplomacy to promote national interests. It should include more exchanges and diversification of military-to-military cooperation and reducing dependence upon a few countries on military modernization and purchases.

5.18 Strengthening crisis management capability

At present, the responsibility with regard to crisis management is dispersed among different government institutions, including the ministry of home affairs, the army and security institutions. In accordance with the *Disaster Risk and Management Act, 2017*, the Government is supposed to channel its disaster-related activities through a National Disaster Risk Reduction and Management Authority (NDRDMA). The Act stipulates that all crisis-management activities of the government are coordinated through the NDRDMA. During the COVID-19 crisis, the Government, however created a separate agency called the COVID-19 Crisis Management Center (CCMC), bypassing existing government institutions. The government should consider developing separate crisis management capability within national security institutions, including the army and police, strengthening their existing capabilities and experience in disaster amendment. The experience of the involvement of the military in the COVID-19 crisis, including in the purchase of medical equipment, during the pandemic must be taken into account in future crisis management exercise.

6. STRATEGIC ISSUES IN ECONOMIC DIPLOMACY AND DEVELOPMENT COOPERATION

There are transformative opportunities in Nepal's economy including through connectivity and integration with neighbouring countries. For that, Nepal needs to take certain strategic decisions in its economic policies, economic diplomacy and development cooperation. Such decisions are important with regard to gaining from the economic rise of India and China, connectivity with the neighbouring countries, transformation of Nepal's landlocked economy to a 'land-linked' one, development of north-south economic corridors, sustainability of external sources of income such as remittances, Nepal's transformation to a Middle-Income Country and setting red-lines in development cooperation as well as gradually reducing dependence upon foreign aid and focusing on more sustainable sources of financing development. Nepal needs re-orient its economic diplomacy towards that transformation.

6.1 Gaining from the economic rise of India and China

Much has been said and written about how Nepal can leverage its location between India and China, especially towards gaining economic benefits from their economic rise. A few occasional papers have also been put forward towards this, identifying the need to enhancing the productive and supply capacity through attracting FDI from both countries, better leveraging incoming aid from them, revamping trade relations, developing more linkages and attractiveness and campaign for attracting tourists from both countries and enhancing economic diplomacy focused on these ends (IFA, 2014). More needs to be done in this regard.

a. Clarifying the concept of 'transit state' and 'land-linked' economy

Nepal should make the concept of 'transit state' or 'land-linked state' or that of a serving as 'dynamic bridge' between India and China as to what that actually means in terms of economic activities. Primarily, that should about reviving Nepal's historical significance as entrepot economy through providing transit connectivity between India and China. That should also include the efforts to establish Nepal's linkages to the supply and value chain of Indian and Chinese economies through backward

and forward linkages and through industry-wide integration of products and services. In a report entitled *From a Buffer to a Bridge* (IFA, 2013), it was identified that Nepal would need to clarify political understanding with both India and China, focus on development of infrastructure and upgradation of border facilities, enhancement of road and rail networks, engaging Track Two, and adopting necessary trade, investment and industrial policies. The concept of transit state should be backed up with more evidence-based studies that help identify the sectors and value addition through which the concept of transit state can be beneficial for Nepal as well as its neighbours. It needs better diplomacy, action plan, Track Two engagement and favourable public opinion towards this proposition. That must be complemented with necessary agreements, investment in infrastructure and necessary diplomacy required for trilateral cooperation.

b. Developing a connectivity blueprint to link with neighbouring countries

In a paper written for the Asian Development Bank Institute, Rana et. al. (2014) have advocated the case for a “connectivity-driven strategy” for Nepal’s economic development, in which they have identified connectivity as a potential “engine of growth”. Making the case for transforming Nepal from a landlocked to a ‘land-linked’ country, the authors also argue that such approach would be a win-win for all countries in the region. The paper argues that connectivity in transport, energy and telecommunications would reduce trade costs, and increase regional trade and economic integration. The paper identifies a few key projects in transport, energy and trade facilitation to enhance a connectivity-driven approach. The implementation of these and similar projects are of immense importance to Nepal in order to enhance connectivity and regional economic integration with economic growth of Nepal. PRI can institute a study to develop a concept for a blueprint on Nepal’s connectivity with neighbouring countries, including the networks of road, rail, air, inland water, information gateways, transmissions lines and pipelines. That should include establishing missing links in connectivity with the neighbouring countries through available opportunities such as the BRI and MCC. The former offers opportunities for rail, road and transmission line connectivity with China, while the latter offers transmission line connectivity with India.

c. Establishing north-south economic corridors

Nepal should weigh in establishing north-south economic corridors to benefit from the integration with the economy of India and China. Economic corridors offer numerous advantages. Economic corridors are preferable than 'transit corridors' or 'transport corridors' because they bring more value addition to the economy through increased production as a result of the transportation and distribution infrastructure and enhanced backward and forward linkages and subsequent multiplier effects (Rana, 2017). There are good prospects for establishing such corridors that link Nepal with the respective areas of Tibet in the north and Indian provinces in the South:

- i. Dhangadhi-Dadelhura-Baitadi-Tinkar (415 km)
- ii. Nepalgunj-Surkhet-Hilsa-Yari Pulang (581 km)
- iii. Bhairahawa-Pokhara-Jomsom-Korala (467 km)
- iv. Trishuli-Rasuwa-Kerung (265 km)
- v. Janakpur-Bardibas-Manthali-Lamabagar (295 km)
- vi. Biratnagar-Itahari-Dharan- Hile-Kimathanka (419 km)
- vii. Kechana-Taplujugh-Olangchungola (460 km)

These corridors should seek to integrate Nepal's economy with respective sub-regions on the other side of the border and through innovation for entering value and supply chains on both sides. That will require investment in infrastructure development, establishment of Special Economic Zones near the borders and industrial districts in places where the corridor crosses the east-west highway and the proposed mid-hill highway. There are good prospects for attracting Indian and Chinese investment along these corridors in the sector of cement, pulp and paper manufacturing, medicinal herbs and pharmaceuticals iron and steel, fertilizers and tourist resorts (Rana, 2017). This concept will need further broadening and detailed study. The PRI can launch a separate study on north-south economic corridors with a view to recommending measures that the government can take in this regard.

d. Removing hurdles in implementing the transit agreement through China

One of the strategic economic decisions for Nepal is how to make the transit through China work. In 2016, Nepal has signed the *Transit and Transport Agreement*,

and, in 2019, its protocol with China that allows the use of four sea ports (Shenzen, Lianyungang, Zhanjiang and Tianjin), three land ports (Lanzhou, Lhasa and Xigatse) and six border crossings (Olangchung-gola, Kimathanka, Tatopani, Rasuwa, Korala and Hilsa) for the purpose of transit. There are many hurdles in implementing these provisions. Nepal should work towards that, including the investment in border and road infrastructure. For example, four of two land border crossings that Nepal has agreed with China for transit are not permanently accessible by road from the Nepali side. Linking these points by all-weather road should receive priority together with the concept of the north-south economic corridor mentioned above. Nepal should create its presence and arrange facilities at the nearest and most accessible sea port in China. The use of Xigatse land port can be a very important aspect of transit, as it is nearer (540 km) than Kolkata Port (706 km) for vehicular transport of traffic-in-transit. The government should also rent facilities at that port and create its diplomatic presence for facilitating transit coming through railroad that is available up to Xigatse. Nepal should continue to work with the Chinese government in order to assuage the latter's security apprehension in opening up these transit routes. One of the key challenges in making the transit provisions through China is to make it cost effective and economically attractive. For example, the import of Chinese goods currently coming via the sea route can directly come to Nepal through the northern routes. The traffic-in-transit coming from Japan and the Republic of Korea can come to Nepal via transit through China in about four weeks faster, if the routes and facilities are worked out. PRI can initiate a study to develop evidence-based recommendations for making the transit via China work and to make that economically attractive. The recommendations should also identify tasks to be performed by the Nepali side, the Chinese side and jointly.

6.2 Leveraging Nepal's graduation from the LDCs

In 2021, Nepal is poised to graduate from the group of the LDCs, meeting two the three qualifying criteria in the *Human Assets Index* and the *Economic Vulnerability Index* in the three consecutive reviews, though it may miss the Income Criteria of per capital GNI of \$1,225 (CDP, 2018). Nepal should leverage the graduation from the LDCs

through a strong transition plan and better strategy for attracting investment, tourism and push for export trade. While the graduation from the LDCs will pose certain challenges for Nepal, especially in the realm of incoming aid, concessions it has enjoyed in trade, technology transfer and access to various funds, it will bring more opportunities to Nepal in terms of greater confidence in its economy and an increased external interest in trade and investment on account of its newfound economic status. Nepal should leverage its graduation from the club of the poorest countries in the world through increased economic linkages with neighbouring countries and better integration of Nepal's economy to that of the region and beyond. Nepal should also be prepared to play its role commensurate with its newfound economic status as a developing country, including a greater role in the Group of Seventy-Seven (G77). Nepal should also focus on the importance of South-South Cooperation, for which there is increasing potential on account of the economic rise of neighbouring developing countries. In 2011, the UNCTAD LDC report showed that the flow of trade, aid and remittances from the developing countries to the LDCs was increasing, while that from the developed countries was declining (UNCTAD,2011). Increasingly, the available data shows that there is more flow of trade, remittances, investment and tourists coming to Nepal from developing countries rather than the developed world. This speaks of the increased need to focus on South-South Cooperation. Most importantly, Nepal should adopt a transition strategy upon graduation that will help it as a stepping-stone to drive towards a Middle-Income Country through an aggressive strategy for bringing more FDI and pushing for an export-led and innovation-led growth strategy.

6.3 Strategy for transforming to a middle-income country

Taking the 2019 per capita GNI of \$ 1,090 as of 1 July 2020, the World Bank (2020) upgraded Nepal from the list of 'low-income' countries to put into what it calls the 'lower middle-income countries' (with per capita GDP between \$ 1,035 and \$ 4,045). But Nepal is still away from reaching the status of a Middle-Income Country (MIC). The Government of Nepal has adopted the goal of transforming the country into an MIC by 2030 (NPC,2020). The goal of achieving the MIC by 2030 is achievable,

provided we adopt a good strategy and create favourable domestic and international environment. A strategy would be required to achieve that. PRI can institute a study as to how to achieve the goal of becoming an MIC by 2030, including the strategy and action towards that transformation.

6.4 Clarifying the mechanism for foreign aid to provincial and local levels

The constitution of Nepal has kept matters related to development cooperation and foreign aid under the exclusive jurisdiction of the federal government. In accordance with the constitution, provinces can enter into contractual and industrial agreements with the approval of the GoN. The *Inter-Governmental Fiscal Arrangement Act, 2074 (2017)* has clearly mentioned that provinces and local governments can take foreign aid with approval of the GoN. Clause 12 (4) of the Act bars provincial and local governments from obtaining any form of foreign grant or assistance or implementing any plan or program with foreign grants or assistance without the prior consent of the GoN. It is conceivable that substantive share of aid that Nepal receives as development cooperation needs to flow to provinces and local levels in view of their development needs including capacity development, implementation of their share of the Sustainable Development Goals (SDGs), and execution of development programs, projects and activities. The International Development Cooperation Policy (IDCP) that the GoN has adopted after introduction of the federal system of government seeks to define and ensure the flow of aid to provinces and local levels with the approval of the government (MoF, 2019). But there are several issues that need to be resolved with regard to the flow of aid to sub-national levels. In the first place, the aid flow to provinces is not balanced. For example, the *Development Cooperation Report, 2017* published by the Ministry of Finance showed that the per capita flow of aid among provinces is skewed, with Province 3 (now Bagmati Province) getting the lion's share, while Province No.2, Province No. 5 and Sudurpaschim Provinces getting the least share of aid coming to Nepal (MoF, 2017). The report showed that the provinces with lowest per capita disbursement of aid were also the provinces with the lowest Human Development Index (HDI), demonstrating that the foreign aid is not directed to the provinces which have the lowest human and social indicators.

While this may also have to do with the practice of showing accounts of foreign aid executed in other provinces in Kathmandu, it is no secret that the foreign aid coming to Nepal is not directed to provinces where the indicators for human and social development are the lowest, one of the ostensible objectives of aid in the country. One of the ways of addressing this imbalance is to pool the aid coming from different partners and sharing the same in a formulae-based transfer system, as has been done with taxes, revenues and other fiscal transfers. Nepal has already exercised pooling of partner resources together with the government contribution in executing peace and development activities, including the Nepal Peace Trust Fund and the execution of the Local Governance and Community Development Programme (LGCDP) in the then local bodies. There is also the question as to what stage provinces and local governments are to be involved in aid projects. It is expected that the representatives of provinces and local governments would be involved in the negotiations of aid programs they are supposed to execute. But whether the negotiation is to be initiated by them and sent to the federal government for approval or vice versa is not so clear. This needs to be fixed.

6.5 Define red lines in development cooperation

As a country poised to graduating from the group of the LDCs, Nepal should aim to gradually reduce its dependence upon foreign aid in execution of its development activities and instead focus on other sources of financing including flow of trade, investment and productive use of remittances. In the short run, it is conceivable that Nepal would continue to need foreign aid to supplement its gap in national savings. In dollar terms the aid coming to Nepal is increasing (\$ 1.793 billion in 2018/19) coming as aid every year in the last few years (MoF, 2019). But in view of Nepal's growing budget size, the relative share of foreign aid has been declining. As the sources of aid are dwindling due to certain "aid fatigue" and is likely to further decrease in the aftermath of the COVID-19 pandemic, Nepal should aim to prioritize aid in the key sectors including in sector that increase productivity, create income and employment, supplement infrastructure development and build national capacity. In view of the sensitivity involved in executing aid, Nepal should discourage aid-funded programs in

the sector of national security, defense and foreign affairs. For that matter, the Office of the President, The Prime Minister, the Supreme Court, the houses of parliament and security institutions should be kept free from aid projects and programs. Similarly, some red lines should be drawn in the execution of aid programs in the provincial and local levels. Perhaps, the PRI can help develop broader guidelines with regard to the mobilization of foreign aid in sensitive sectors including in vital national institutions and national security institution

The policy documents adopted by the government, including the International Development Cooperation Policy, 2019 and the Fifteenth Plan acknowledge the importance of reducing long-term dependence upon foreign aid, while counting foreign aid as an important source of financing development. Because of the already visible sign of “aid fatigue” as well as Nepal’s eminent graduation from the LDCs, we must start to assume that the inflow of development cooperation can catch a declining trend. Nepal should instead focus its shift towards FDI, exports, earning from tourism as well as effective use of remittances in productive investment as sources for financing its development, gradually decreasing its dependence upon foreign aid. The PRI can help identify the strategy and policy shift required for reducing dependence upon aid, including the use of available aid in developing local capacity, building infrastructure, productive capacity and income and employment generating activities and reducing aid in the area of policy and soft issues.

6.6 Contingency planning to do away with the dependence upon remittances

Remittances earned by Nepalis working abroad in foreign employment constitute above a quarter of Nepal’s GDP (MoF, 2020). While it has been a good impetus to Nepal’s economy and has contributed to poverty reduction and improvement in human and social development indicators, much of the remittances have been used in consumption and in fueling imports that help further widen Nepal’s trade deficit. Nepal’s conventional approach to foreign employment is focused on outgoing workers, finding jobs for them, regulating their outflow, protecting their safety and rights and providing them with necessary assistance while in distress. While that remains an

important dimension in the discourse on migration and foreign employment, we must also shift our attention to the incoming workers or the returning migrant workers, who come with significant resources, experience and skills they have earned while working abroad. Particularly, there is a research and policy gap in the area of converting remittances to investment in the productive sector.

PRI can initiate a study as to how the government can convert incoming remittances from its current consumption to investment so that the resources could be diverted for economic development as well as for the economic betterment of respective families.

The International Labour Organization has predicted that there will be 1.25 billion job losses (38% of the global workforce) due to the COVID-19 pandemic worldwide. This is going to certainly affect the Nepali migrant workers employed especially in Malaysia and the Gulf countries. The recent phenomenon of the return of migrant workers in the aftermath of the COVID-19 pandemic calls for an introspection in Nepal's strategy for foreign employment and migration. In addition, about 500,000 working age persons are added to the labour force in Nepal Each year (MoF, 2020). In the short run, the focus should be on managing the return of workers left jobless or stranded abroad and rehabilitating them back into the national job market. In the long run, Nepal must start contemplating its heavy dependence upon remittances. In view of the susceptibility of the remittance to international shocks such as terrorism, economic and financial crises and the pandemics, remittances should not be considered as a safe source of external earning. Excessive dependence upon remittances can also typically lead to what has been described as the 'Dutch Disease' syndrome, in which the complacency can lead to crisis in the absence of an alliterative scenario when it falls. Therefore, it will be necessary for Nepal to start developing its contingency policies, plans and action to reduce its excessive dependence upon remittance and make use of the productive labour force at home, especially in the sector that can generate value addition and boost exports. That includes service sectors and sectors that can produce exportable goods and services, such as IT and other services. PRI can initiate policy studies aimed at making productive use of remittances, such as their investment in productive sectors in order to gradually reduce dependence upon remittances.

6.7 Engaging the Nepali diaspora in mutually beneficial economic gains

One of the lesser exploited niches in Nepal's economic diplomacy is the engagement with the Nepali diaspora abroad. Though the government has occasionally engaged the Non-Resident Nepalis (NRN) and their leaders and has adopted a separate law in this regard, the contribution of Nepali diaspora in the advancement of the country's economic interest remains underachieved. Some efforts have been made towards identifying the gaps and challenges and drawing recommendations regarding the mobilization of the Nepali diaspora has been identified in a seminar report instituted by the Institute of Foreign Affairs (IFA, 2014). Among other things the report identifies, potential areas of contribution of the Nepali diaspora include the capital investment in the productive sector, transfer of technology, expertise and entrepreneurship, access to international linkages, promoting economic diplomacy, attracting foreign direct investment, human resources development, creation of jobs, and assistance to Nepalis abroad. It also suggests better connection between the NRN and the private sector in Nepal, use of remittances for investment, and creation of a government-NRN interface platform, and a fast-track mechanism for clearing investment proposals of the NRNs.

7. INTER-RELATIONSHIPS AMONG THREE SUB-CLUSTERS

In policy research as well as in the execution level, issues related to the three sub-clusters, including national interests, national security and strategic affairs and foreign policy, should be taken up together, mainly because they are inter-related and inter-dependent upon each other. It has already been mentioned in concerned sections of this report that the country's foreign and national security policies have similar objectives and serve as the two sides of the same coin, as both policies have the primary objective of fulfilling national interests, hence they must be integrated in policy as well as in execution.

7.1 The convergence of national interests, strategic affairs and foreign policy

There is a convergence in the objectives of three subjects covered by this paper: national interests, foreign policy and strategic affairs. The objectives of Nepal's foreign policy and national security policy have same elements embedded into them: protection of national independence, sovereignty, territorial integrity, national unity and the well-being of Nepali people. Thus, the country's foreign and national security policies are two sides of the same coin and must work hand-in-hand in an integrated manner, together with the country's economic policies. Thus, the country's national security and foreign policy should be integrated enhancing complementarities and establishing organic links in their decision-making and in execution.

Table 1: Comparison of expenditure in foreign affairs and defense (Rs. million)

Particulars	Actual expenses 2075/76	Estimates of expenses 2076/77	Appropriation for 2077/78
Ministry of Foreign Affairs	4,186.90	4,309.00	6,299.80
Percentage of total budget	0.04	0.44	0.46
Ministry of Defense	50,285.70	48,243.70	50,258.60
Percentage of total budget	4.86	4.92	3.65
Total Budget	1,035,233.30	979,760.10	1,375,210.40

Source: MoF (2020). The Red Book. The Ministry of Finance, July 2020 https://mof.gov.np/uploads/document/file/Redbook_2077_Website.pdf

7.2 Investment in strategic affairs, national security and foreign policy

The Government of Nepal spends a considerable portion of its national budget (4.92 per cent) in its defense, whereas it comparatively spends very little (0.44 per cent) in foreign policy and diplomacy (Table 1). While the expenditure in defense is important, it should be appraised with regard to the value for money. Because, foreign policy and diplomacy constitute the other side of the same coin with regard to the safeguarding of sovereignty, independence, territorial integrity, and wellbeing of the people, and the interests of the nation, the government should consider investment in diplomacy and foreign policy as an investment in national interests. In a report entitled *Investing in Diplomacy* submitted to the Ministry of Foreign Affairs, it was suggested to earmark its expenditure in foreign policy and diplomacy to a certain percentage, say 0.50% of the annual budget, so that it can get the assured resources for building its capacity to increase the diplomatic outreach and to execute economic diplomacy (Acharya, 2015). This should receive consideration in policy execution in the arena of foreign policy and diplomacy. Similarly, the government should start investing in its strategic affairs, including through the National Security Council (NSC), the newly established National Defense University (NDU) and other available instruments. PRI should also target for advancing policy research in these areas.

7.3 Integration of national security, foreign and economic policies

The U. S. National Security Strategy calls for “orchestration of institutions and instruments of national power” to fulfil national security interests (USG, 2017). That includes military, diplomatic, informational and economic powers. In order to have a holistic approach to national security and strategic affairs, Nepal should seek to integrate its foreign, security, economic and strategic policies and create an organic link between the institutions working in each of these sections. A detailed approach to such integration of foreign, security, economic and strategic policies for Nepal has been suggested in the high-level panel report submitted to the government (HLTF, 2018). That included creating institutional links between the foreign and defense ministries and fielding of more defense attaches in the countries of significance to Nepal. That also called for more direct role of the Ministry of Foreign Affairs in decision-making

and diplomacy related to Nepal's participation in the UN peacekeeping operations. The integration of foreign, economic and security policies into a national security strategy would be an important instrument in this regard.

7.4 Developing a National Security Strategy

In conventional literature, strategy is about aligning resources, powers and priorities according to national interests, objectives and goals. It requires making certain assumptions, calculations and continuous assessment of the regional and international environment, which is in an environment of flux. Many countries around the world develop their own national security strategy and update from time to time. The United States updates its National Security Strategy (NSA) every five years or so, the latest being in 2017. While Nepal has started to adopt its 'national security policy' and is in the process of adopting a national defense policy, it would be worthwhile to consider adopting a national security strategy combining the core elements of national security, defense policy, foreign policy, and economic objectives. This is not altogether a new domain for Nepal. For some time, there used to be *Rashtirya Mul Neeti*, which consisted of main strategic policies of the state together with sectoral policies. Something similar can be re-introduced incorporating changing realities, challenges and strategies.

8. RECOMMENDATIONS TO PRI

PRI can contribute to the policy discourse on national security, foreign policy and strategic affairs in a number of ways. It can initiate evidence-based policy research in each of these areas, engage political actors, professionals, academicians and Track Two, enhance partnership with similar institutions and refine knowledge management in each of these areas.

8.1 Initiating evidence-based policy research

The above sections of this paper have identified research and policy gaps in the cluster of national interests, foreign policy and strategic affairs, including in the field of national security and strategic economic issues. PRI should initiate a series of evidence-based policy research in each of the sub-sectors. A summary of such recommendations is also included in the conclusion section of the report.

8.2 Engaging political actors

At times, Nepal's political actors have acted with great zeal for national interest and arrived at unflinching national consensus. The consensus around the publication the map including Limpiyadhura is a case in point. But there have been instances in which arriving at a national consensus on many foreign policy and external dimensions of security policy has been difficult and sometimes even subject of politicization. While it is primarily the obligation of the ruling party in the government to create favourable consensus on foreign policy matters, other political actors including the opposition parties and those outside the parliament, are also required to be on the same page on foreign policy matters.

In this regard, PRI can play an instrumental role in bringing together all political actors, mainly the representatives of foreign relations departments of the main political parties, to the same forum for discussing the issues of topical national interest. It can be held in the format of informal consultations, as well as in the form of informed-briefings from experts that PRI can convene.

8.3 Knowledge management

PRI can play an important role in knowledge management in the areas of strategic affairs, national security and foreign policy. It should work as the repository of important study and research available on various subjects listed under its mandate, including national security foreign policy and strategic affairs. It should do that in partnership with other institutions, the National Security Council, the National Defense University and the Institute of Foreign Affairs.

8.4 Partnerships and engagement with stakeholders, professionals and Track Two

The cluster subjects require a broad consultation, partnership and engagement that PRI can engage itself with other institutions pursuing similar objectives. The newly created National Defense University, for example, can be a good partner in engaging in strategic and security affairs. There is some disconnect among professionals engaged in foreign policy, diplomacy, national security and strategic affairs. These fields also lack academic discourse. Professionals hardly get the chance to be acquainted with the academic pursuit in these areas, except through training and some academic opportunities offered by security and foreign policy institutions.

PRI can involve the professionals in its policy research discourse inviting them to write papers, make presentation and sharpen their knowledge through small policy research. In others, they may be invited for policy dissemination and topical academic discourses. An important area of engagement for PRI is to establish links with other think tanks, especially those operating in Track Two diplomacy. In partnership with key individuals and institutions in Track Two, PRI can initiate research and study in the areas identified under this section of the report. In other issues, PRI can engage Track Two and other think tanks in disseminating its finding, building public opinion and updating the knowledge pool from their activities in the cluster of national interest, foreign policy and strategic affairs, as well as other clusters it has identified.

9. CONCLUSION

Nepal has long experience in handling its foreign policy, national security and strategic affairs. Yet these sectors are in a constant need of review and adjustment owing to the state of flux in the international and regional environment. While the strategic importance of Nepal may have increased due to big power interests, it has been a challenging task for Nepal to handle competing diplomatic interests and overtures from the big powers and neighbouring countries. Nepal should steer through these proposals based on its national interests and principled foreign policy, without being dragged into their comparisons and competitions. As a country emerging from the group of the poorest countries of the world soon, Nepal should leverage its foreign policy and economic diplomacy to its economic advantage in order to gain from the economic rise of its neighbours and benefit from its comparative advantages to increase gains from external sources such as trade, investment, tourism and remittances. As a government-funded think tank, PRI can initiate many studies and research in the areas of foreign policy, national security and strategic affairs that can generate evidence-based policy recommendations for the government to execute to enhance its national interests.

9.1 National interests

Among other things, PRI can initiate research on leveraging Nepal's strategy for important national interests, approach the 2018 high-level panel report on foreign policy through small working groups to arrive at a separate set of recommendations, devise instruments and parameters as to how to deal with competitive frameworks and diplomatic overtures from major powers. PRI can study how to effectively handle the big power rivalry and its management, and assess how to leverage Nepal's diplomacy in outstanding political issues and border disputes with India. It can identify elements that Nepal can leverage for a renewed thrust on regional cooperation, help develop parameters for the engagement of provinces on matters related to foreign policy and foreign aid and identify the elements of soft power that Nepal can leverage in its diplomacy.

9.2 National security and strategic affairs

In national security and strategic affairs, PRI should assess national security challenges in the changing regional and global circumstance; define how Nepal can leverage its strategic location to its benefits without being dragged into bigger regional and global conflicts; study the elements for Nepal's strategic autonomy in a competitive environment; develop recommendations on effective national mechanism to deal with non-traditional security threats; identify elements for the minimum defense and deterrence capacity; study on the rationale, advantages and limits to the engagement of Nepali Army in regular non-military works develop the case for a 'National Security Advisor' through a comparative study on its mandate, role and effectiveness; identify sectors in strategic affairs in which Nepal has comparative advantages and can leverage its contribution; identify measures in which national security system's weaknesses can be ameliorated in the given conditions of open border regime without restricting free travel.

9.3 Foreign policy and diplomacy

In foreign policy and diplomacy, PRI may approach the 2018 high-level panel report on foreign policy through small working groups to arrive at a separate set of recommendations. It may devise instruments and parameters as to how to deal with competitive frameworks and diplomatic overtures from major powers and study how to handle the big power rivalry and its management. PRI can also help assess how to leverage Nepal's diplomacy in outstanding political issues and border disputes with India and how best Nepal can streamline its multilateral diplomacy and engagement with intentional organizations. PRI can identify elements that Nepal can leverage to renew thrust on regional cooperation; help develop red-lines and parameters for the engagement of provinces on matters related to foreign policy and foreign aid based on available policies, practices and trends; and identify the elements of soft power that Nepal can leverage in its diplomacy.

9.4 Economic diplomacy and development cooperation

In the realm of economic diplomacy and development cooperation, the PRI can help identify ways and means for gaining from the economic rise of India and China: develop a concept paper to clarify the idea of 'transit state', 'land-linking' and 'dynamic bridge' with evidence-backed studies; and develop a national blueprint on Nepal's connectivity with neighbouring countries, including the networks of road, rail, air, inland water, information gateways, transmissions lines and pipelines. It can also identify economic benefits and value addition through the north-south economic corridors and study the elements required for removing hurdles in implementing the transit agreement through China for making transit through China cost effective. It can also institute studies to study of attractiveness of sea ports available for Nepal's transit through China, India and Bangladesh.

PRI can identify elements that help leverage Nepal's graduation from LDCs in economic integration and foreign direct investment, develop strategy for transforming to a Middle-Income Country. It should draw a contingency plan to do away with dependence upon remittances and commission a study on how best to convert remittances from current consumption to a future production and investment-based regime. It can also identify red-lines in the aid flow to provincial and local governments and to key national security and vital political institutions.

PRI should engage the Nepali diaspora, the private sectors, think-tanks and academic institutions and the civil society for partnering these important policy recommendations through dialogue and joint research and studies.

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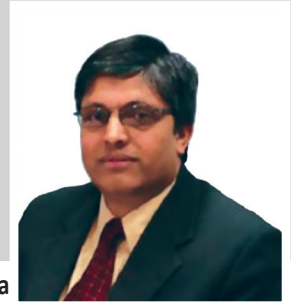
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PRI is a think tank of the government of Nepal established on 14 November 2018 in accordance with the Policy Research Institute Board (Formation) Ordinance with a vision to contribute to effective and responsive public policy for national prosperity. PRI's mission is to establish itself as a credible institution that offers informed public policy and its goal is to generate reliable, evidence-based and transformative knowledge for public policy. Its seven core values – quality, objectivity, integrity, diversity, transparency, accountability and engagement – define its workings.

PRI carries out policy research on all issues and sectors of public policy concerns – through five thematic clusters and 17 subclusters – and recommends to the government of Nepal what reforms it has to undertake in each of these policy areas. All researches are conducted in accordance with PRI's public policy research process and standard, which form part of a broad policy cycle.

Knowledge management is an important component of PRI. It operates a public policy dialogue forum as a regular mechanism for learning, sharing and debating policy issues. In PRI's belief, public policy formation requires the combination of three types of knowledge: (a) scientific knowledge generated through research and analysis, (b) administrative knowledge gathered through bureaucratic experiences and (c) societal knowledge developed through social and political processes, such as political debates, media advocacy as well as people's lived experiences.



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