

Dynamics in International Relations and its Implications for Nepal

Hemanta Kharel*

Abstract

It is a well-known fact that international relations has evolved over the years around the interaction between sovereign states. Because of the interconnectedness and complexity of the globalized world, the non-state actors also significantly influence international affairs at present. International organizations such as the United Nations and the World Trade Organization are playing significant roles in addressing global issues. Similarly, multinational companies have significant economic leverage which allows them to exercise soft power and influence state policies. As diplomacy is a major tool of foreign policy and international relations, its effectiveness is always desirable. Through the conduct of effective diplomacy, Nepal can receive adequate amount of development assistance and foreign direct investment to meet the country's requirements for development. Unfortunately, foreign investors express their concern about the lack of a foreign investment-friendly environment. Nepal is also unable to absorb foreign assistance received from the development partners on stipulated time. Its development expenditure level, on average, is less than sixty percent since the last decade. Therefore, massive improvement is needed both internally and externally, to improve this situation.

Keywords: Sovereign state, international relations, diplomacy, economic assistance.

Concept of International Relations and its Dynamics

International relations is the study of relations among states as well as with international organizations, multinational companies and certain subnational entities (Lake, 2009). It is also related to several other academic disciplines including political science, geography, history, economics, sociology, law, philosophy and psychology. The discipline of international relations came into prominence at the beginning of the 20th century, largely in the West and in particular, in the United States, as the latter increased its power and influence. The new perspective of international relations was articulated by US President Woodrow Wilson (1913-21) in his program for relations between "Great Powers" following a settlement of

* Mr. Kharel is the President of Nepal Council of World Affairs (NCWA).

World War I (Wilson Center, 2003). The trend of international relations, since then, is gradually changing its dimension.

The sovereign state has been the primary actor in international affairs, influencing policies and shaping the global order, whereas international organizations such as the UN and WTO play a critical role in global governance, conflict resolution, and humanitarian efforts. In fact, they facilitate diplomatic dialogue by providing a forum for collaboration and for addressing transnational issues (Barnett and Finnemore, 2004) (Hughes, 2017). The present global complex situation allows international organizations to offer platforms for collaboration in the resolution of global issues. They grapple with an array of challenges that can impact their ability to fulfill their mission effectively. These organizations, in order to address different challenges, need to make continuous efforts to enhance efficiency, transparency, and accountability and represent diverse interests within themselves.

The UN stands out as a prominent example of an international organization that plays a significant role in addressing global issues. Its specialized agencies, such as the World Health Organization (WHO) and the United Nations Children's Fund (UNICEF) have been instrumental in coordinating humanitarian assistance and promoting international development (Weiss and Davis, 2019). However, the UN has also encountered challenges in instances where member state's interests diverge. The UN Security Council's decision-making process, for instance, can be hindered by the Veto power of its permanent members, leading to debate the organization's effectiveness and emphasize the need for reforms (Beasley, 2021). The European Union represents a unique case of regional integration and governance. The EU's evolution from a coal and steel community to a multifaceted organization that pools resources for common goals. The EU's ability to shape policies related to trade, environmental standards and human rights demonstrates the influence of non-state actors in shaping regional agendas (Hill, 2005). Nevertheless, the EU also faces challenges such as the tension between super national authority and national sovereignty, as well as issues relating to democratic accountability in decision-making (Weiss and Davis, 2009).

These facts underline the multifaceted nature of international organizations and their interaction with state actors. They offer insights into the complexities of managing diverse interests, fostering cooperation and addressing global challenges effectively. The UN and the EU serve as valuable benchmarks for understanding how non-state actors navigate to intricate landscape of international relations.

International terrorist organizations differ from traditional state actors and pose unique security challenges to state and international communities requiring

adaptive responses (Jackson, 1990). To counter such challenges, joint efforts, intelligence sharing and counterterrorism measures are needed through agreement among different states. Multinational companies are exploring their role as major economic powers and players in international relations. Multinational companies possess significant economic leverage, which allows them to exercise soft power and influence state policies. (Nye, 2004, Strange, 2018). If we study the role played by multinational companies such as Apple Inc., Shell and Unilever in international relations, their role is significantly visible. Apple inc. stands out as a global technological giant that has transcended national borders to shape international markets and consumer behavior. Apple's role in promoting digital connectivity and its engagement with labour in its supply chain, exemplify the multifaceted influence of non-state actors in international relations. In the same way, Shell's initiative provides an opportunity to understand how corporate decisions can impact both international relations and global environment concerns. Unilever's approach to incorporate social responsibility (CSR) demonstrates how non state actors can actively contribute to social and economic development beyond their core business activities. Recognizing non-state actors as integral players in international relations demands a recalibration of existing paradigms. Encouraging dialogues that bridge the interests of states, non-state actors and civil society is essential for effective global governance.

The specific dimension of international relations in recent years has demonstrated the instability of the world system. There is a lack of trust and a trend towards increasing confrontation between international actors. Undermining the internal political situation in some states of the world influences the regional and global level of security and stability. The vulnerability of international relations in 2020 has also shown the beginning of new geopolitical shifts. The Covid-19 pandemic has altered the behavior of the international order such as reducing the space for building international cooperation and increasing conflict in the sphere of international relations. To improve such a situation, regular interactions at the regional and international levels are required among the concerned actors.

Emerging International Economic Relations and Development Assistance

Dismay over the current state of international economic relations has led some policy makers to return to some imaginary notion of the good old days. But this is a time and situation to look forward and not look back. The old rules failed us in many ways; they fostered domestic inequality in some countries, limited development option in many and did not deal with climate change.

To achieve inclusive development and address the emerging agenda of climate protection, there is a need to transcend the new liberal version of economic efficiency

that animates current trade and investment law. Legal and policy experimentation made by many emerging countries has offered ways forward (Bhalla, 2024). Middle-income countries in the Global South including India, Brazil, South Africa and Indonesia are changing their existing rules (World Population Review, 2024). They want to halt the erosion of state capacity to govern economic flows, act as a buffer against frequent crises and protect consumer and worker interests. Some countries are working toward a better investment landscape and offer forums for consultation with private sectors. Some are reforming current rules. India is redrafting its model treaty to define investor and investment more narrowly and limit protections afforded to foreign investors. Indonesia is engaged in a similar redrafting exercise (Sonia, 2021). The Global North also shares these concerns and it paying close attention.

On the trade front, emerging countries have made enormous strides using WTO flexibilities (including opportunistic and efficient breaches), reorienting the negotiation agenda in favor of their interest and seeking trade partnerships outside of the system (WTO, 2022). The promising trade facilitation agreement, which links obligations to capacity and offers funding, is a model of new approaches. Meanwhile, China is making its own rules and moving to export them globally. Neither China nor other middle-income countries will be boxed into the liberal trade and investment consensus designed by Western powers in the 1990s.

The world economy has changed profoundly over the past three decades. It is now broadly accepted that organizationally fragmented and geographically dispersed production systems constitute the dominant architecture of the contemporary global economy. These systems, which have risen to prominence since the 1990s, are tightly controlled and coordinated by powerful large firms that derive their influence from occupying a dominant position in either intermediate or final consumer markets. It is estimated, for instance, that some 80 percent of international trade is now organized in this way. Against this backdrop, over the past 25 years, significant progress has been made in developing global chain/network approaches for theorizing the organizational complexities of the global economy (WTO, 2022).

For the conduct of efficient economic international relations, economic diplomacy plays a very important role. Economic diplomacy, in this century within its framework, should seek to balance commercial openness with strategic foreign policy aims. It should situate a country within the 21st century global economy with its new drivers, promote a rule-based system to mitigate great power tensions and recognize that all foreign economic policy is ultimately driven by domestic considerations. There should be no distinction between foreign and domestic economic policies in terms of assessing the distributional impact on society. free trade agreements, investment

agreements and all foreign economic policies should take into account the wage and employment effects on domestic society. Countries will need to craft a set of foreign and economic policies that are consistent and enhance domestic economic policies and vice-versa. Domestic buy-in and the distributional impact of foreign economic policies are as important as securing support for new domestic taxes or spending decisions.

Dynamics of International Development Assistance

The dynamics of international development assistance can be observed as follows:

Country Space

The country space is the network of country appearances on the websites of aid organizations. The space is connected and the paths linking two or more countries generally imply that the aid community has maintained the same overall unity. There is a strong geographic effect, as countries are more likely to be connected with other countries in their same geographic region (Oniosun, 2022). This is particularly true in Eastern Europe, Central Asia, Sub-Saharan Africa, Middle East and North Africa, Latin America. There is also a cluster of large countries such as China, Brazil, India and Mexico.

Organization Space

The international community has organized itself around issues such as refugees, natural disasters, humanitarian assistance, human rights, corruption and democracy. They form a cycle that is weakly connected to the rest of space-based issues. Large organizations such as the World Bank, the Asian Development Bank, the United Nations Development Program and civil society organizations also act together and help each other. Great powers and a few other developed countries orient their development assistance to increase their influence regionally and globally (Savoy, 2022). Some of the initiatives taken by great powers and other developed countries in this respect are discussed below.

Belt and Road Initiative (BRI)

Nearly a decade after its launch, BRI is slowly downsizing its investment. But the Chinese narrative about developing the world has not disappeared; it has just mutated towards a new initiative, the Global Development Initiative (IISS, 2023). The BRI has been China's main branding strategy for its foreign policy. While China talks about "advancing high-quality "Belt and Road Co-operation", the BRI is, however, fading away from top Chinese leaders' speeches such as those given at the BOAO Forum, BRICS and the UN. The GDI was launched during Xi Jinping's speech at

the UN General Assembly in September 2021 (China, 2021). The experts' view on GDI is "as vague as the BRI used to be". It talks about promoting development in parallel with the UN 2030 Agenda for Sustainable Development by improving people's lives, helping developing countries, adopting innovation and becoming a link between people and nature (Brinza, 2022). Instead of proposing a new brand or initiative, China would do well not to give up on the BRI brand. It should better articulate its goal and future actions in a way that would not be perceived harmful by other countries and entities such as the US, the EU, Japan, India, etc.

There is growing criticism that the BRI has not been successful in meeting its commitments over the years, but there is still sufficient room for improving its implementation modality and mode of financing. Roughly USD 4 trillion has been invested since 2013 in a wide range of projects under BRI and its associated funding mechanism (including the Asian Infrastructure Investment Bank and Silk Road fund) (James McBride, 2023). Some of the investments were made in grants by Chinese institutions but major portion were to the debt incurred by the projects at rates that are competitive in the global market. In May 2017, Nepal's government signed a BRI framework agreement which included an ambitious plan to build a railway link between China and Nepal through the Himalayas (Giri, 2024). Various other projects were proposed by Nepal to China for discussion but no agreement has been signed, let alone implementation, up to date.

Millennium Challenge Corporation (MCC)

MCC is a bilateral US foreign aid agency established in 2004. It is an independent agency separate from the US State Department and USAID (Brown, 2022). It provides grants to countries that are determined to have good economic policies and have the potential for economic growth. The country classification process is objective, involving scores provided by third partners in 20 different areas. An eligible country must apply for grants with a specific project in mind.

The MCC has approved a USD 13.3 billion compact and USD 631 million in threshold program worldwide (MCC, 2014). These grants have supported multiple sector projects including agriculture, irrigation, finance and enterprise development, transportation, infrastructure, anticorruption initiatives, access to power, education and health care services. The government of Nepal signed the MCC agreement worth USD 500 million for building an electricity transmission project and a road maintenance project for which preliminary work has already started.

Partnership for Global Infrastructure Investment (PGII)

At the 48th G7 Summit in Germany in June 2022, the PGII project was announced by seven nations as a new G7 project for the development of infrastructures and Investment. The PGII is a collaborative effort by a "group of seven" to fund

infrastructure projects in developing nations based on the principles of the Blue Dot Network (BDN) (Singh, 2022). It is considered to be the bloc's move to counter China's BRI and a key component of the "Biden Doctrine". The BDN is a multi-stakeholder initiative formed by the US, Japan and Australia to provide assessment and certification of infrastructure projects worldwide on measures of financial transparency, environmental sustainability and impact on economic development to mobilize private capital to invest abroad.

The G7 announced the adoption of the Build Back Better World (B3W) initiative built on the progress and principles of the BDN to address the USD 40 trillion worth of infrastructure needed by developing countries by 2035 (The White House, 2021). The initiative aims to catalyze funding for quality infrastructure for low and middle-income countries from the private sectors and will encourage private sector investment that supports "climate, health and health security, digital technology and gender equity and equality". By the end of the same month, the initiative was relaunched and renamed as PGII. Over the next five years, the G7 governments and their private business sector will invest USD 600 billion. Some experts have shown their concern that with the advent of the G7-led PGII, notions such as economic development and foreign direct investment could be merged with geopolitical and military objectives.

The India-Middle East-Europe Economic Corridors (IMEC)

IMEC is a planned economic corridor that aims to bolster economic development by fostering connectivity and economic integration between Asia, the Persian Gulf and Europe. It was formed in September 2023 and is viewed as a counter to China's BRI. The corridor is envisaged to traverse from India to Europe via the Middle East. Its founding members are India, US, EU, Saudi Arabia, United Arab Emirates, France, Germany and Italy. The project is getting delayed due to the Israel-Hamas war (The White House, 2021).

Global Gate Way (GGW)

The GGW is a worldwide strategy of the EU formed in 2021 to invest in infrastructure projects and establish economic partnerships. It is part of the current plans for European strategic autonomy and aims at establishing bigger, more democratic and more sustainable trade networks for Europe and its partners (Hughes, 2017). The prospective budget is EUR 300 billion. The main funding will be contributed mostly by the EU member states and its institutions including the European Investment Bank, European Investment for Reconstruction and Development and other private investments.

Nepal's International Relations and Implications on Investment and Development Assistance

Constitutionally, Nepal's foreign policy is guided by the principles of the United Nations Charter, non-alignment, *Panchsheel*, international law and the values of world peace (MoFA, 2021). Nepal pursues its international relations at multilateral and bilateral levels. Nepal pursues its most substantive international relations, perhaps with intergovernmental institutions and international economic institutions such as the Asian Development Bank, the International Monetary Fund (IMF), the WB and the South Asian Association for Regional Cooperation (SAARC). Nepal has also strong bilateral relations with major providers of economic assistance and support including United States, India, China, United Kingdom, France, Germany, Japan, South Korea and Switzerland among others.

Diplomacy is a major tool of foreign policy and international relations. Traditional diplomacy focuses on peace whereas modern diplomacy is a combination of political, economic and cultural diplomacy with a particular focus on economic diplomacy. Under economic diplomacy, preference is given to economic over politics in state-to-state relations. Therefore, the main purpose of economic diplomacy is mobilizing resources for development, promoting export base trade, exploring market for national products, and attracting Foreign Direct Investment (FDI) in national priority sectors, promoting cultural tourism, facilitating foreign employment and also mobilizing diaspora resources (Kharel, 2019).

Nepal's Economic Diplomacy is being pursued at different levels to:

- Attract FDI in the national priority sector
- Increase volume of aid
- Promote export base trade and market for national product
- Promote cultural heritage, tourism, and foreign employment
- Mobilize diaspora resources

The main challenges of Nepal's economic diplomacy are:

- Reconciliation of tension between economic priorities and interests of political parties
- Effective involvement and partnership with the private sector
- Insufficient number of highly professional and knowledgeable negotiators in foreign service having an understanding of national interest, global policy and processes

Foreign aid and foreign investment are major factors in meeting the country's development requirement. Nepal has been receiving foreign assistance, grants and

loan but at a decreasing trend. Development cooperation at the bilateral level is also not satisfactory. Foreign investors complain that the investment environment in Nepal is not friendly. Internationally it is recognized that FDI plays a catalytic role in economic growth as it is a source of capital formation, enhances international trade integration, creates a competitive environment and strengthens enterprise development. It also helps technology transfer and supports human capital formation (Nguyen, 2023). Therefore, FDI can serve as not only a principal component of domestic investment but also supports capacity building for growth and sustainable development. The key factors for attracting FDI are political stability, zero corruption, business-friendly regulatory environment as well as infrastructure development. There should also be a low tax rate and a transparent system for the repatriation of investor's profit. Additionally, policy stability and consistency, legal structure, capacity of banking and financial support, responsiveness of bureaucracy, internal security are other important factors for attracting FDI.

These factors encourage the investors to make sure that foreign affiliates can stay and continue to expand or upgrade their business activities. Unfortunately, Nepal has not been able to create an investment-friendly environment on the one hand, and on the other, it has almost failed to receive economic cooperation from the development partners as per its needs and priorities. Whatever amount the country has received from development partners, its absorptive capacity has been less than sixty percent for over a decade. Instead of facilitating direct investment-related projects as well as projects supported by development partners, local and provincial governments are creating problems in the implementation process.

In November 2023, the government of Nepal and 16 development partners, including civil society and private sectors, agreed to consolidate and scale up financing and technical assistance to support and implement a set of high-priority investments and policies in line with the Government of Nepal's Resilient and Inclusive Development (GRID). The GRID identifies a set of ten priority actions including managing land, water and forests in a more productive, sustainable and integrated way for more resilient infrastructure, ecosystems and scaling up renewable energy enhancing the food system, equipping people with new skills and resilient livelihoods, improving social protection and health system (Danyo, 2023). At the meeting, the development partners were positive for support but no commitment was made. Such a type of gathering was organized by the government in the past also, but even committed amounts have not been received. This is high time the government asks itself why Nepal has not been able to receive foreign assistance and foreign direct investment in satisfactory ways.

Conclusion

International relations is the study of relations of states with each other and with international organizations, multinational companies and certain subnational entities like bureaucracies, political parties, other interest groups and academic disciplines. The specific dimension of international relations in recent years has demonstrated the instability of the world system. There is a lack of trust on one hand, and on the other hand, there is an increasing trend towards confrontation between international actors. To improve such unhealthy situations, besides a change in the entire system of international communications, regular interaction at the regional as well as global level is required among the concerned states and non-state actors. In recent times, great powers and some other developed countries have been keenly interested in providing their development assistance with a view to increasing their influence regionally and globally. These initiatives include BRI, MCC, PGII, IMEC, and GGW. Nepal conducts its international relations through diplomacy to boost the country's image, receive development assistance from development partners and create a conducive environment for attracting FDI, but in reality, the trend is decreasing. Foreign investors complain that there is no investment-friendly environment in Nepal. Despite the development assistance provided by the development partners, Nepal's expenditure capacity has been less than sixty percent for the last few decades. Now it is high time for the government to convince donors and investors not only by words but by action that Nepal enjoys political stability with zero corruption, business-friendly regulatory environment, policy stability and consistency, responsiveness of bureaucracy, internal security and a transparent system for repatriation of investors' profit. Beside this local and provincial governments are required to play a positive and supportive role to create inductive investment environment in their respective areas.

References

- Beasley, A. H. (2021, Mar. 08). Constructing Time in Foreign Policy-Making: Brexit's Timing Entrepreneurs, Malcontemps and Apparatchiks. *International Affairs*, 97(2), 267-285. doi:<https://doi.org/10.1093/ia/iiaa162>
- Bhalla, G. (2024). *Social Protection for Inclusive Climate Action: COP28 and Beyond*. socialprotection.org.
- Brinza, A. (2022, Sep. 6). What Happened to the Belt and Road Initiative?. *The Diplomats*.
- Brown, E. M. (2022, Jan. 10). Foreign Assistance: An Introduction to U.S. Programs and Policy. *Informing the Legislative Debate Since 1914*.
- China, M. O. (2021). *Global Development Initiative-Building on 2030 SDGs for Stronger, Greener and Healthier Global Development*. United Nations.
- Danyo, S. (2023). *Green, Resilient, and Inclusive Development (GRID) in Nepal*. The World Bank.

- Finnemore, M. B. (2005). *Power in Global Governance*. New York: Cambridge University Press.
- Giri, A. (2024). *Six years after BRI agreement, Nepal has Little to Show for it*. Kathmandu: The Kathmandu Post.
- Hill, C. A. (2005). International Relations and the European Union: Themes and Issues. In E. C. Smith, *International Relations and the European Union* (pp. 3-7). Oxford University Press.
- Hughes, W. A. (2017). *European Textbook on Ethnicity in Research*. Luxembourg: Publications Office of the European Union.
- IISS. (2023). *China's Belt and Road Initiative a Decade on*. Asia-Pacific Regional Security Assessment 2023.
- James McBride, N. B. (2023). *China's Massive Belt and Road Initiative*. Beijing: Council on Foreign Relations.
- Kharel, H. (2019). Economic Diplomacy- A Tool for Promoting Development. *Nepal Council of World Affairs Journal*.
- Lake, D. A. (2009). *The State and International Relations*. The Oxford Handbook of International Relations. doi:<https://doi.org/10.1093/oxfordhb/9780199219322.003.0002>
- MCC. (2014, Dec. 11). MCC Board of Directors Selects Nepal for Compact, Cote d'Ivoire for Threshold Program. Washington, D.C.: Millennium Challenge Corporation. Retrieved from <https://www.mcc.gov/news-and-events/release/release-12112014-mcc-board-selection/>
- MoFA. (2021). Nepal's Foreign Policy. Ministry of Foreign Affairs.
- Nguyen, H. V. (2023). Impact of Economic Growth, International Trade, and FDI on Sustainable Development in Developing Countries. *Environ Dev Sustain*. doi:<https://doi.org/10.1007/s10668-023-04060-9>
- Oniosun, T. I. (2022). A Review of Country Classification Frameworks in the Space Sector: Priorities, Limitations, and Global Considerations. *Space Policy*.
- Savoy, C. M. (2022). *Global Development in an Era of Great Power Competition*. Island Avenue, NW: Center for Strategic and International Studies.
- Singh, R. (2022). Explained: The G7's Infrastructure Investment Plan to Counter China's Belt and Road Initiative. (E. b. Desk, Ed.)
- Sonia E. Rolland, D. M. (2021). *International Economic Relations Need New Rules and Emerging Countries Have Some Answers*. UK: Cambridge University Press.
- The White House. (2021, Jun. 12). FACT SHEET: President Biden and G7 Leaders Launch Build Back Better World (B3W) Partnership. Washington, DC: The White House.
- Wilson Center. (2003). *American Power in the World*. NY: Wilson Center.
- World Population Review. (2024). *Middle-Income Countries 2024*. World Population Review.
- WTO. (2022). *New study Explores Role of Trade in Strengthening Developing Countries' Economic Resilience*. World Trade Organization.
- WTO. (2022). *World Trade Statistical Review 2022*. World Trade Organization.