

Proceedings Report

Nepali Economy – Challenges and Potential

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Speakers: H.E. Scott DeLisi, US Ambassador to Nepal

Video link to coverage of the event: <http://nepaleconomicforum.org/nefcast/>

Since his arrival in July 2010, Ambassador DeLisi has been through one of the most interesting phases of Nepali history, where politics and economy have moved at differentiated paces. With a strong belief in engaging in business and economy, during his tenure, many delegations that visited Nepal focused on the potentials of the above mentioned key areas. His engagements, be it in the social media space or otherwise, have been in examining what will work for Nepal in the future.

Nepal Economic Forum (NEF) organized a neftalk, to dwell upon his experiences in Nepal and the prospects he sees for the country as he completes his tenure and moves to his new assignment in Uganda. The Ambassador's speech as prepared for delivery:

Thank you Sujeev for that wonderful welcome! It is indeed a pleasure to join you today for the latest NefTalk. This series -- and the Nepal Economic Forum generally -- has played a valuable role in facilitating dialogue about the key economic issues facing Nepal. I am pleased to have the opportunity to add my voice to such an important conversation.

I am particularly honored to join my good friend Sujeev Shakya, Chairman of the Nepal Economic Forum. As a former Humphrey Fellow, Sujeev is a long-time friend of the U.S. Embassy's. We often seek his views on economic issues, and he never fails to impress us with his thoughtful insights. His combination of passion and keen intellect is rare, and we greatly value his partnership and feel fortunate for his friendship.

But Sujeev is not only a friend and partner; he is also a leading member of a small club in Nepal – a group I call “Nepali-optimists” – those who see potential and opportunity in this amazing country. Sujeev's book, *Unleashing Nepal*, lays out a compelling, hopeful vision for Nepal's economic future that has been an inspiration to me. I like to think of myself as an honorary member of the “Nepali-optimists” club, and hope today's remarks will help explain why, despite many undeniable challenges, I remain so upbeat about Nepal's economic future.

My optimism comes not just from the heart – although I care deeply about this country – but also from my head, which tells me that this is an economy -- this is a country -- that is poised to take off over the next decade. I believe it is possible to grow this economy at 8-9% in the near future, and perhaps even double-digits. With the right policies and right leadership, the opportunities for growth are great.

Short-Term Uncertainties

Some may think I am naïve or over-simplifying the complexity of the problems facing Nepal. They point to the ongoing federalism protests over the last several weeks. I agree these are concerning, and I expect we will see more in the coming days. These protests reflect the legacy of a past in which many Nepali citizens were excluded from national decision-making. They equally reflect a growing anxiety about the future among Nepal's various ethnic and caste communities who wonder: where do I fit in the new Nepal? These concerns are understandable, even inevitable. Change creates uncertainty. But change also creates opportunities to engage citizens in new ways and build a better future.

Nepal's leaders from all parties tell me they are committed to a new Nepal that recognizes people's identity while respecting individual human rights, property rights, and basic freedoms. In the new constitutional framework, the goal is for everyone to have a voice and place, regardless of the boundaries or names of the new states. As someone who comes from a federated nation, I know that federalism tailored to a country's specific needs can make a nation stronger and more vibrant, without undermining individual rights. In the United States, each of our 50 states is distinct from all others. Minnesota, my home state, is very different from Hawaii, where President Obama is from, or from Delaware, Vice President Biden's home, but each state, while different from the others, is a valuable and irreplaceable part of the whole that is our nation. I am optimistic Nepal too will develop an appropriate governance model for its circumstances and point in history.

Transitions are always tough, but Nepal can get through this. I join with the Prime Minister and other leaders in urging calm and restraint in this critical transition time and endorse the Prime Minister's absolutely on-target statement the other day that compromise is essential. Politics is the art of compromise and yesterday the political leadership struck an important one that moved the process forward.

The national conversation on the federal structure of the new Nepal will continue in the coming months with many more critical steps ahead. I hope that the leaders and the people of Nepal will continue to be guided by the spirit of compromise, balancing legitimate and often competing concerns as they seek to find solutions that recognize not only the interests of Nepal's diverse communities but the equally important needs of the nation as a whole. I remain confident the country's leaders, at the end of the day, will shape a new constitution that provides a sturdy foundation for Nepal's democratic future.

Dialogue about the Future

As the country transforms its political system, so too is Nepal's economy changing and transforming

The questions about Nepal's economic future is as complex and multifaceted as the political debates taking place now: How does Nepal fit into today's global economy? What are its comparative advantages? How does Nepal attract foreign investment? How does Nepal provide an enabling environment for its economy to grow? How does Nepal's business culture change to compete and grow the economy? How does Nepal leverage its development resources for private sector-led growth?

These are difficult questions – without easy answers – but ones with which Nepalis must grapple. This debate is beginning. During my two years in Nepal, I have been heartened by the increasing focus on the economy -- an encouraging trend. After all, it's Nepal's economy that will create the jobs and provide the prosperity that all its people need and want, and that politics can only promise. I credit the Prime Minister for his leadership on these issues, but I also see a new seriousness among the nation's business and union leaders, offering their vision for the future.

But this debate about Nepal's economic future must extend beyond the walls of Singha Durbar or the headquarters of FNCCI or even the experts in this room. This is a debate that affects all Nepalis, from Dhanghadi to Biratnagar, and it is a healthy debate that should be taking place in all corners of the country.

As an interested observer, I'd like to offer a few thoughts today on three of the key economic challenges facing Nepal, explaining along the way why I, as a "Nepali-optimist" am so hopeful about the future.

Integrating into the World Economy

The first challenge – how to better integrate Nepal into the world economy – is perhaps the most important, but also the most complicated. In today's world, no country can grow its economy in isolation. When I talk to Nepalis about their economic future, I sense a growing appreciation of this fact. To build the economy, Nepal must compete in the region and the world, looking for new markets and new opportunities.

Let's start with the neighbors – in my view, the key to Nepal's economic success. I have heard too long about Nepal as the yam between two boulders. The image conveys a sense of helplessness and vulnerability and seems to suggest that Nepal, instead of controlling its own destiny, will forever see its interests shaped by larger neighbors. Personally, I prefer the perspective offered recently by Prime Minister Bhattarai who talks about Nepal as a "bridge" between India and China. I find this a compelling metaphor -- but turning this slogan into reality requires new ways of thinking, new policies, and a new vision.

For example, most trade with China passes through the Tatopani friendship bridge, yet the road to the border is in pathetic condition, and regularly closes during monsoon. With infrastructure like that, it is nearly impossible to boost bilateral trade.

At the Indian border, the government has purchased land for several Special Export Zones, even developed an impressive SEZ site in Bhairawa with paved roads and electricity. We know from other countries that SEZs can create jobs and drive export growth – and businessmen in Nepal tell us they are ready to invest. Yet, like so many needed policies, the legislation to approve SEZs remains stuck in Parliament. This must change if the country is serious about integrating into the global economy.

Possibly Nepal needs to think about its neighbors in new ways. Perhaps the partnerships are not only with Delhi and Beijing, but also with Patna and Lucknow – and even Lhasa. The recent debate in Nepal about Bihar’s economic miracle has been interesting to watch. Bihar is not only a possible model for Nepal, but also one of the country’s natural economic partners. How does Nepal leverage the tremendous growth in the border regions in India and China to drive exports and build deeper ties?

Building economic partnerships with India and China – and other countries around the world – requires Nepalis to think and act logically, not emotionally. I was frankly surprised and disappointed when so many attacked Prime Minister Bhattarai for signing a Bilateral Investment Protection and Promotion Agreement (BIPPA) with India. For me the BIPPA makes perfect sense. Nepal has many such trade and investment agreements, and this is no different. The BIPPA will only help Nepal attract much needed investment and open up opportunities for Nepali businesses in India.

When calls to protect Nepali “nationalism” lead to protectionism, Nepalis lose. This “misplaced nationalism” – as one Nepali banker called it -- has the exact opposite of the intended effect: it undermines Nepal’s economic growth and export potential, making Nepal even more dependent on external remittances and trade with India.

In addition to thinking about its neighbors differently, Nepal must carefully think about its competitive advantage in today’s globalized economy. It’s obvious to any observer that the export opportunities of yesterday are not those of today. I for one think Nepal is unlikely to be competitive in large-scale garment manufacturing, regardless of the tariff benefits offered. Instead, Nepalis must be creative and identify new markets, new niches, new opportunities.

For example, during my two years in Nepal, I have been intrigued by the growing IT industry here. There are several U.S. IT companies or joint ventures -- companies like Deerwalk or Cloud Factory or Verisk -- employing hundreds of young Nepalis. They believe in Nepal, and believe their companies will grow. IT is but one sector where I think Nepal could compete successfully in the international arena, and I’m sure there are many others.

Attracting Foreign Investment

As Nepal integrates into the global economy, attracting foreign direct investment is also essential. Every economist will tell you that domestic capital alone is not sufficient for a country like Nepal. Loans from the World Bank or ADB are not sufficient. For Nepal's economy to grow like it should, the country must attract private capital.

In recent months, the words coming from Singha Durbar on foreign investment have been the rights ones. The Prime Minister says he wants foreign investment, and he articulately explains why. The creation of the Investment Board sends an important signal to international investors, and I personally have been impressed by Radhesh Pant's vision for the Board. I hope the key government ministries will work closely with the Board to promote large-scale investment projects.

Investors however need more than words. Words are easy. But progress requires action as well as words.

Investors want security, they want attractive returns, and they want to be able to get their money out. Investors look for stability and predictability in economic policy and regulatory decision-making.

When investors go to a ministry for a decision, they expect clear guidance and consistent policies – not shifting rules and constant rotations in civil service personnel. Instead of encouraging investment, businessmen tell me civil servants seemingly do everything in their power to stop it. Investors spend weeks renewing yearly visas, when the law says investors are entitled to five year visas. Registering a new company is a long and tortuous process. And if your business grows and you want to increase your capital or change share prices, the bureaucracy penalizes you. The rules are so complex, outdated, and frankly opaque that one U.S. company active in Nepal has been forced to invest through an offshore Hong Kong company.

Investors don't want to pay bribes. While I appreciate the recent efforts of the CIAA and others, investors tell me the culture of corruption is pervasive. More must be done to punish those who take bribes – and those who offer them. One of the lessons I take from Bihar's economic miracle is the importance the state government places on transparency, a key part of its success in attracting investment.

Investors also want the courts to rule promptly and fairly based on laws and precedent, not personal predilections or kickbacks. The legal system must work better and more efficiently, not only for victims of crime, but also victims of contract fraud and intellectual property theft. These are critical issues when investors look at Nepal.

It is important to understand that in today's world, investors are not looking at investing in Nepal in isolation – they are comparing opportunities in Nepal with those in Bangladesh or Cambodia or

Burma, or Uganda. To attract investors, Nepal needs to offer the right incentives and protections. Other countries do this – and Nepal must do the same to be competitive

Changing the Business Culture

Being competitive also means changing Nepal's business culture to adjust to modern realities and the global environment.

In my time here, I have seen the business culture evolve. Many of Nepal's family-run business houses are modernizing and professionalizing their operations. This is encouraging, but must continue. Businesses need professional managers and transparent accounting systems. They must be responsible partners in Nepal's development, paying their taxes and supporting social projects. And the focus must shift from making a quick buck to investing in the future.

As international companies enter the Nepali market – and they will – Nepali companies will increasingly have to compete. No longer able to rely on who they know in politics or the bureaucracy, Nepali companies will have to rely on their business skills and creativity. For some, this will be a daunting challenge, but one that will ultimately make local companies stronger and more profitable.

Several years ago in India, companies struggled to compete in a newly open, globalized economy, and worried whether or not they had the skills to do so. While it was difficult at first, India's talented businessmen and women stepped up to the plate and helped to create the economic powerhouse that is India today. I'm confident Nepal can do that, too.

Nepal's business organizations – from FNCCI to CNI to the myriad of bilateral and sector-specific chambers (including the Nepal-US Chamber) – have an important role to play. In the past, some of these associations seemed more interested in promoting the narrow interests of individual members than Nepal's overall economic development. Thankfully, there are signs of change in these organizations, for these bodies too must evolve or risk becoming irrelevant.

The same is true of labor unions, which should promote the interests of workers, not political causes or individual leaders. Unions too will become increasingly less relevant unless they change with the times. The stability of the domestic labor market is a crucial factor for potential investors deciding whether to come to Nepal. Ask yourself how Nepal's labor market will match up in a comparison of other countries'. Labor unions have an important responsibility to raise issues of legitimate concern to their membership. Promoting the narrow partisan agenda of one or the other political party should not fall within their purview.

In the coming years, I am convinced that the driver of Nepal's growth will not only be the new generation of leadership in the large business houses, but also the young entrepreneurs – men and women with creative ideas and the skills to build businesses and create jobs – who increasingly

are stepping forward. I regularly meet young Nepalis, many of whom have studied or worked abroad, now putting their imagination and skills to work in Nepal, growing this country's economy. They too give me hope for the future.

U.S. Role

The three challenges I've touched on today – integrating into the global economy, attracting foreign investment, and changing the business culture – are critical to Nepal's economic future. Meeting these challenges will require Nepali leadership and determination – there is, in fact, little outsiders can do to shape this change.

But, as friends, we stand ready to support those leaders committed to reform – and the policies they seek to implement.

At the U.S. Embassy, we will do our part to ensure that U.S. businesses are aware of the many opportunities in Nepal. Last year, we brought the first U.S. business delegation to the country in 13 years, and we are planning another. This effort brought new business to Nepal. Every day, our Embassy receives new inquiries – a major improvement from two years ago and a positive sign for Nepal's long-term development.

With the U.S. business delegation that visited Nepal – and our support for Nepali business delegations visiting the United States – we are doing our part to change the narrative about Nepal. We tell people this is no longer a country trapped in a Maoist insurgency, as many in the United States still believe. Instead, Nepal is an increasingly stable, modernizing country, with a youthful population and untapped opportunities for trade and investment. This is a message I repeat to U.S. investors and others, and as Nepal evolves, we will continue to help you spread the word.

As you know, the United States remains one of Nepal's largest foreign donors, and I am proud of the contributions USAID has made to Nepal's human development. Over 60 years, we have touched millions of lives, and helped the Government of Nepal make significant – even dramatic – improvements in health, education and the environment.

I have no doubt that foreign assistance will continue to play an important role in developing Nepal and Nepal's economy for years. But as I have said in past speeches, foreign assistance alone will not bring the sustainable development and inclusive economic growth Nepalis want and deserve. The lesson is clear: no country can move down the path from LDC to middle income country with foreign assistance alone. Sustainable development requires host-country ownership, leadership, commitment to policy reform, and ultimately private sector-led investment.

As the United States develops its next five-year development strategy for Nepal, we seek to shift toward greater emphasis on local ownership and capacity. We want to put more and more resources through the Government of Nepal and local mechanisms. But frankly, when we look at the state of public financing in Nepal, it is difficult for me to justify directing U.S. taxpayer's dollars to the Government of Nepal ministries. I am simply not convinced the funds will reach those Nepalis most in need.

This is disappointing for me – but it should be even more disappointing for the Nepali taxpayers. They should demand accountability and transparent use of their funds. They should demand a government that serves them and their interests.

Conclusion

The ongoing constitutional debate is about exactly that – how to establish new, accountable governance mechanisms for the people of Nepal. As I noted at the outset, I remain convinced that most of the political leaders understand their historic task. And, with a new constitution will come new elections, another important step in Nepal's extraordinary transformation and efforts to establish accountable governance.

I began my first speech in Nepal many months ago talking about the dramatic changes that have occurred in Nepal in a very short time – the royal massacre, civil conflict, end of the monarchy, peace process, and now a new constitution. I would add that the massive migration that has taken place – to urban areas, to Kathmandu, and abroad – also impacted society in fundamental ways we are just beginning to understand.

As Nepalis absorb these changes and look to the future, I am confident the country will emerge stronger, more stable and ultimately more prosperous. There are challenges ahead we cannot even predict today, but Nepalis are resilient – and this country is fundamentally moving in the right direction.

The United States, like other international partners, stands ready to assist as Nepal steps forward into its new future. In the days ahead, I urge each of you to continue to debate these important economic – and political – issues, engaging your friends, colleagues and political leaders. It's your country, and its future is in your hands.

A member from the audience put forth a question on how Nepal can create the leadership it needs, especially among the young generation. To this Ambassador DeLisi said that for the younger generation to develop the required leadership skills, the older generation has to make way for them. 75% of the population is under 35 and yet the leader of a youth party is 65. There is something fundamentally wrong in such a situation. Furthermore there is a huge gap between parents and the new young generation. The country cannot afford to see another generation of talented people leave Nepal looking for better opportunities. The youth need to be given more opportunities and most essentially, a cultural shift has to

take place. On taking about leadership in Nepal, Ambassador DeLisi maintains that Nepali politicians have never been challenged to lead the nation. They have always been able to blame it on the royal family. Leaders therefore need to respond to the needs of the society. These are huge challenges for the country.

Another member of the audience asked for the Ambassadors view on remittance. The Ambassador expressed hope and excitement about the situation and about how NRNs were eager to invest towards the development of the nation. He believed that with increasing opportunities most citizens are also eager to return to the country.

Another question raised by the audience was about the kind of efforts required to build the tourism sector and what business houses or the USAID can do. According to the Ambassador, USAID opted not to be involved in the tourism sector mainly because there are other institutions which are better equipped and already working on the tourism sector. He suggested better infrastructure such as a fully functioning airport, air safety and political stability to maintain the current influx of tourists. Creating a favorable environment is essential for growth in the tourism sector.

Another member of the audience put forward a question regarding whether the US would be interested in investing in Nepal once the constitution is drafted, and asked which sector are attractive to investors. Because of the insurgency and subsequent transitional phase, Nepal has seen a lack of focus on the economy. According to the Ambassador, IT and telecommunications are two sectors, which have a lot of potential. For the US to invest in the Nepali economy, it is essential first for the government to have a vision for the country, which the foreign investment community can identify with. One of the factors hampering the economic growth of the country is that politicians only know the donor language, and cannot promote investment opportunities in Nepal.

A member of the audience, questioned the Ambassador on whether he was washing his hands off the country to which the Ambassador responded that it was not about washing hands, but that without the commitment of the government, there is not much that the US could do. Any other country cannot shape Nepal's future, be it corruption, development or poverty, Nepal must take ownership of its problems and create a vision for itself. The country needs to stop shifting the blame on others. In the Ambassadors words "We are not washing our hands, but we need a partnership for funds to be delivered effectively"

An audience member put forward a thought regarding the maturity of the population, whether we have been able to communicate the economic situation to young graduates and whether they will be able to grasp these opportunities. The Ambassador responded saying that it not just education that the population demands, but quality education. Despite the view of many that the country is falling apart, Nepal has still come a long way from where it was 10 years ago. When you consider this journey, you understand how much the country has grown and developed. Despite glitches and various issues such as power cuts, business people have developed successful business models that work around these problems.

Another issue raised by the audience was about corruption in the government, what incentives can be given to motivate officials to work ethically, and also what can be done to encourage the youth to get involved. According to the Ambassador this can be achieved only if civil service is meaningful and gives people a reason to take pride in serving the nation. The key is to reward achievement and merit, however the problem within the Nepali organizational structure is that rewards are based more seniority rather than merit. In addition bribery- givers and takers, need to be punished so that a better system can be created.

Sujeev Shakya, wrapped up the discussion, with a brief summary stating that it is for Nepal to set the agenda for its development. He believed that Nepal has been continually dodging the issue and looking towards international support to shape its development agenda. According to him, Pizza Hut and KFC are the trailers for onset of globalization in Nepal. Whatever international players have managed to penetrate the Nepali market, they have able to take over sizeable amounts of the market shares. He reiterated that if Nepal doesn't adapt itself to integrate into the global economy, Nepal will be left behind.

Nepal Economic Forum is a non-profit organization dedicated to being the private sector interface to Nepal's economic development.