

# Artificial Intelligence and Diplomacy: A Case for Nepal's AI Diplomacy

Policy Brief

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## Introduction

Artificial Intelligence (AI) presents both opportunities and challenges for developing countries like Nepal. Situated between India and China, Nepal must balance innovation with regulation to maximize benefits and mitigate disruptive impacts. This requires collaboration and cooperation with regional and global actors through bilateral and multilateral mechanisms. This policy brief, drawing from a comprehensive research report, outlines actionable policy recommendations for Nepal's AI diplomacy.

## Key Findings

- **AI's Transformative Impact:** AI's rapid evolution significantly impacts society, economy, and politics, with crucial implications for national security and geopolitics.
- **Geopolitical Competition:** The US and China are striving for AI supremacy, making it difficult for countries to choose between their systems. Nepal must navigate this competition strategically.
- **Global AI Policy Landscape:** The global AI policy landscape is evolving through ethical guidelines, regulatory frameworks, and national AI strategies. Nepal needs a regulatory framework that aligns with international best practices and adapts to local needs.
- **Cybersecurity Threats:** AI-driven cyberattacks pose an unprecedented security challenge for Nepal, given its maturing digital landscape. Inconsistent data protection standards and foreign AI dependence increase vulnerability.
- **Nepal's AI Landscape:** Nepal's AI development faces challenges, including a lack of skilled human capital, data availability, and digital infrastructure. At the same time, Nepal's hydro-powered clean energy potential, strategic location, and a growing understanding and willingness to adopt ICT/AI offer opportunities for AI's development. The government is in the nascent stage of AI policy formulation, but the efforts lack clarity on implementation plans and international cooperation. MoFA's role in bridging Nepal's AI landscape with the rest of the world remains extremely limited.
- **AI Diplomacy:** AI diplomacy involves addressing AI's impact on geopolitics, making AI a prominent topic on diplomatic agendas, and using AI as a practical tool in diplomatic activities. Nepal's effort to improve its AI capabilities rests heavily on robust AI diplomacy.

## Policy Recommendations

1. **Develop a National AI Strategy with Clear Priorities:**
  - a. Formulate a well-defined national AI strategy aligned with Nepal's development goals.
  - b. Identify key sectors where AI can have the greatest positive impact, such as education, health, agriculture, climate change, disaster risk reduction, and cultural heritage preservation.
  - c. Outline clear goals and objectives for AI adoption and development, address ethical considerations, data governance, and potential societal impacts.
  - d. Promote public-private partnerships to leverage expertise and resources.
  - e. Focus on fostering growth rather than imposing restrictive control mechanisms, especially in the early stages.
2. **Invest in Digital Literacy and AI Talent Development:**
  - a. Prioritize education and training in STEM fields, data science, and AI-related skills to build a domestic talent pool.
  - b. Strengthen university programs in AI and related disciplines.
  - c. Support vocational training programs to equip workers with practical AI skills.
  - d. Promote digital literacy and awareness among the general population.
  - e. Address the brain drain issue by creating opportunities and incentives for AI experts to stay and contribute to Nepal's AI ecosystem.
3. **Promote International Cooperation and Knowledge Sharing:**
  - a. Actively engage in bilateral and multilateral partnerships for knowledge sharing and technology transfer.
  - b. Participate in international research collaborations, data-sharing initiatives, and capacity-building programs to access expertise and resources that would be difficult to develop independently.
  - c. Engage with like-minded countries to learn from their AI adoption experiences.
  - d. Prioritize expanding foreign scholarships, fellowships, and exchange opportunities for Nepali students and practitioners in AI and critical technology.
4. **Establish a Robust AI Governance Framework:**
  - a. Develop an autonomous and contextualized approach to AI governance that reflects Nepal's unique history, politics, society, economy, and developmental challenges.
  - b. Synthesize various international approaches, incorporating elements from China's centralized oversight, the US's innovation focus, and the EU's risk-based regulations, while adapting to Nepal's institutional capacities and socio-economic context.
  - c. Prioritize a balanced approach that fosters technological innovation while implementing robust regulatory frameworks to mitigate associated challenges such as economic disruption, cybersecurity risks, and ethical concerns.
5. **Strengthen Cybersecurity and Data Protection Measures:**
  - a. Invest in domestic capabilities and foster international partnerships to establish robust cybersecurity frameworks.
  - b. Develop AI-powered security systems and early-warning mechanisms.
  - c. Implement automated threat detection systems.

- d. Establish secure data centers.
  - e. Develop clear protocols for cross-border data protection.
  - f. Prioritize data protection and potentially create its own communication tools.
6. **Attract Foreign Investment and Position Nepal as an AI Hub:**
- a. Intensify efforts to attract foreign investment in the ICT and AI sectors by organizing initiatives such as periodic FDI summits.
  - b. Position Nepal as a hub for outsourcing AI projects, leveraging its low-cost labor economy, clean energy potential, and minimum capital requirements.
  - c. Offer tax breaks, subsidies, and grants to companies in Nepal, including international or foreign companies, to encourage investment and growth in the AI sector.
7. **Enhance Diplomatic Capacity for AI Governance:**
- a. Integrate AI and technology components into diplomacy courses and training programs for diplomats.
  - b. Provide diplomats to strategic locations such as India, China, Europe, and the United States with more detailed training, orientation, and mandate to enhance technological and economic ties.
  - c. Actively participate in global AI governance discussions and multilateral treaties, advocating for ethical AI governance that protects smaller nations' interests and advocate for AI as a public good. Multilateral platforms such as LDC and G77 as well as regional frameworks like BIMSTEC, SAARC, and BBIN can be useful vehicles for Nepal's AI diplomacy.
  - d. Ensure the Ministry of Foreign Affairs (MoFA) is the point of contact (PoC) between its diplomats in other countries and the government's AI efforts.
  - e. Acknowledge MoFA's crucial role and make necessary institutional arrangements to ensure it plays the required role in bridging Nepal's AI ecosystem with the world via effective diplomatic efforts.

### Strategic Considerations

- **Tech Neutrality:** Adopt a policy of active neutrality, advocating for international agreements that regulate AI use in military contexts.
- **Regional Collaboration:** Work with neighboring countries to establish cross-border data governance rules and exert influence in global AI discussions.
- **Strategic Hedging:** Adopt a strategic hedging approach to build ties with all global tech powers, balancing relationships to preserve national independence.
- **Talent Cultivation:** Establish a consortium of AI professionals to train Nepal's next generation of developers and data scientists.

### Conclusion

Nepal's AI diplomacy is crucial for harnessing AI's potential while minimizing risks. By implementing these policy recommendations, Nepal can strategically navigate the global AI landscape, promote its national interests, and foster sustainable growth in the digital age.