CHAPTER VIII
EXECUTIVE SUMMARY AND CONCLUSIONS

8.1 EXECUTIVE SUMMARY

8.1.1 Introduction

Nepal is a small land locked country surrounded by two large nations, India and China. Its population is 23.15 million. Agriculture is the major sector employing more than three fourth of the total work force and accounts about 39% of GDP. The manufacturing sector is still small but it is contributing 10% to GDP.

The development of infrastructure in the urban areas of Nepal has helped to promote industries, trade, and transportation. The economy of this area is monetised and somewhat modern. In the vast rural areas, where 85.8% population are living, infrastructure facilities are lacking. Most of the people of this area are poor, illiterate and mainly dependent on agriculture. The economy, therefore, is non-monetised and traditional. As a result, there is a socio-economic difference between the rural and urban areas.

During the last one and half decades, the economic activities in Nepal were influenced not only by the changes in the international and regional grounds but also by the changes in the domestic, and socio-political set-up. The liberal economic ideas in the form of globalization have influenced the Nepalese Policy makers. In Nepal, the policy makers, academia and the people from different walks of life have understood the globalization as a means of bringing changes in the national economic activities through the adoption of liberal economic policy—though the arguments are continuously made about and against for liberalization. The policy makers in Nepal have regarded that the globalization is the panacea to solve all the problems. It is conceived that the privatization will solve the problem of existing inefficiency as it is expected that the private sector will handle the resources more efficiently.

Under the financial policy reforms, the government has emerged as a focal point on restricting financial institutions. To meet the objective of globalization in Nepal, various initiatives have taken place. The role of the government has been minimized in the financial sector with a view to maximize financial facilities to the private sectors. Tax system is drastically reformed. Domestic borrowing is supposed to be kept below 1% of the GDP. The size of the bureaucracy has been reduced to balance administrative expenses.

In the foreign trade sector also, almost all import restrictions are withdrawn, and exchange rate system is made flexible and determined by the free market forces, except Indian currency. The export sector is supported to maintain foreign currency account and use foreign currency loan facilities. Market rate determination of the exchange rate of national currency has helped the exporters to be more competitive in the international market. But the restriction on credit shipment is creating hurdles for the expansion of export trade.

One window policy, enactment of various acts related to the industrial development and open, liberal and market oriented policy are the steps taken by the government for the attraction of the foreign investment in the industrial sector. Technology transfer has been allowed even in the
cottage and small industries. Shift to indirect instrument like open market operations, auction sale of the government treasury bills and the Central Bank bonds, abolition of statutory liquidity ratio and reduction of cash reserve ratio are brought under the monetary policy reforms.

### 8.1.2. Overview of Macroeconomic Situation

In 1990, Nepal entered into a new political system with the adoption of multi-party democracy. A new Constitution was promulgated in November 1990. A new elected government came in power after the general election in May 1991. The Government abandoned the former inward looking and state interventionist approach and adopted market-oriented, open, outward looking and liberalization policies with an aim of achieving higher sustainable growth and poverty reduction. In late 1992, the Government negotiated a new Enhanced Structural Adjustment Facility (ESAF) arrangement with the IMF. Though the economic liberalisation has been initiated since 1985 after the initiation of structural adjustment program, Nepal initiated sweeping economic reform programs in almost all the sectors of the economy including fiscal and monetary policies, trade and investment, financial and capital markets, and other social and economic sectors after 1992.

There were some changes in the macro economic indicators due to the change in macro policies. After the liberalization, the GDP growth rate had averaged around 4.4% per annum as compared to 4.2% per annum before liberalization. Average savings rate increased from 10.64% in 1980s to 13.8% in 90s. Liberalization policies, especially financial and capital market liberalization acted as an impetus for the growth of savings. Moreover, the higher growth rates in the non-agriculture sector contributed to improve the saving rate.

During the post-liberalization period, the average investment increased by 23.6% per annum as compared to 19.1% in the pre-liberalization period. Investment as a percentage of GDP increased up to 27.3% in 1995/96. Inflation in Nepal is a structural phenomenon rather than a monetary one. The supply side constraints are more pronounced than the demand side variables in affecting the rate of inflation. During 1990/91-2000/01, the inflation rate averaged 9.2% and during 1980s, it was 10%. Since 1999, there has been a declining rate of inflation. The inflation rate was 3.5% in 1999/00 and 2.4% in 2000/01. The declining inflationary trend was basically due to the low international and Indian prices and the economic slowdown in the country. Public expenditure grew at an average rate of 18.2% during the pre-liberalization period, and it grew by 13.3% per-annum on an average during the liberalization period. During the post-liberalization period (1991-95), government revenue grew by an average annual rate of 27.6% and slowed down in late 90s.

Nepal's trade-GDP ratio, which was stagnant at 23% of GDP in late 80s, increased to 41.6% in 2000. During 1990/91-1999/00, the average annual increase in export was about 30%, whereas the average annual increase in import was 21% during the same period. The share of agriculture in GDP had declined from 51% in 1990 to 39% in 2001. The share of manufacturing in GDP increased from 5% on average in the early 1980s to about 10% in 1990s.

Agricultural land is the important natural resource of the people of Nepal. The cultivable land comprises 20% of the total area of the country. Since 85.8% of the people have been living in
the rural areas and 78.1% of the people are involved in agriculture, the structure of the rural economy of Nepal is determined by land.

Land distribution is highly skewed. The bottom 40% of the agriculture HH operate only 9% of the agricultural land area, while the top 6% occupy more than 33%. The concentration index for agricultural land is 0.54%, reflecting a highly uneven distribution of the most dominant productive resource of the country.

In the manufacturing front, there is some rise in the number of establishments. Total number of industrial establishment was 2383 in 1989/90, whereas it increased by about 50% and reached to 3557 in 1996/97.

There is a tremendous increase in the financial sector after the economic liberalization in the country. Until 1984, Nepal's financial sector was closed to the foreign investor. The two state-owned banks - Nepal Bank Limited (NBL) and Rastria Banijya Bank (RBB) were only the commercial banks in the financial sector. The interest rate of these banks had to be fixed by the Central Bank. After the adoption of liberal economic policy, 17 Commercial Banks, 17 Development Banks, 5 Rural (regional level) Development Banks, 57 Finance Companies, 35 Co-operative Banks and 40 Non-Government Micro-credit Institutions have been established.

After the adoption of liberalization policy in 1990s, two development plans were implemented in Eighth and Ninth Plan. These Plans were helpful for maintaining macroeconomic stability as well as for creating positive impacts in non-agricultural sectors. But due to the dependency on monsoon, the agricultural production has not yet been improved properly. So no substantial changes in the living standard of the rural people could be observed due to the low growth in agriculture. The political instability in Nepal negatively affected the operation of economic activities.

Nepal is receiving bilateral as well as multilateral assistance for the overall development of the country. In terms of absolute figure, the committed amount of bilateral assistance was about Rs 9670 million in 1994/95, where as it was about Rs. 17292 million in 2001/02. The commitment of bilateral assistance is increasing. Among the bilateral donors, the share of assistance committed by Japan is highest, thereafter comes UK, USA, Germany and Denmark during last eight years. Different donor agencies have suggested for the reform in the macro economic policy. These suggestions include the expansion of privatization in all developmental projects, more financial liberalization, maintaining good governance, achieving gender balance and poverty alleviation. Nepal is adopting and implementing such policies through her marco and sectoral policies.

8.1.3. Trade and Foreign Direct Investment

With the adoption of open economic policies in Nepal, the trade sector has responded positively and it has pushed the GDP up. During these years, trade sector has relatively better growth than GDP of Nepal. The ratio of export to GDP was about 11.8% during 1990/91, and it nearly doubled to 23.13% in 2000/01. The share of import to GDP was greater than that of export in 1990/91, and it kept similar trend, the increase being 31.36% in 2000/01. But there was more growth in export than import of Nepal during these years. In 1990/91, there was about half unit of export per unit of import, and in 2000/01, the export per unit increased to about three quarter
per unit of import. Export of Nepal had grown during 1990’s. Its growth rate was higher than that of import, indicating the positive impact of liberal environment in the Nepalese economy.

The service sector is positively contributing to reduce the current account deficit. The contribution of service sector had increased by about 10 times at current price during last twelve years. The share of private remittance sometimes reached to about 60% of the total net transfers. These remittances are recorded and still there is large share of unrecorded remittances; so the share of remittance in Nepalese economy is considered much higher.

India is the major trading partner in terms of export as well as import of goods. The share of Indian market for Nepalese export has reached to 42.5%, which was only about 10% in 1992/93. USA and Germany are other major buyers of goods from Nepal, and these three countries together import about 85% of the total export of Nepal. Other importing countries like China, UK and Japan have very limited shares. In the case of import, the trading partners of Nepal are limited. Nepal imports more than one third from India. The second major importer to Nepal is People’s Republic of China, which sells about 12% of the total purchase of Nepal. Singapore occupies another important place, but with less than 10% of the total trade. Other twelve countries are sharing about 2% of the total import.

Carpet, garment, pashmina, vegetable ghee, handicrafts items etc. are mainly produced in Nepal for export market. These products share 90% of the share of export of total output of coverage by export sector. The critical aspect of trade in Nepal appears to be its dependency on limited items of exportable items and limited number of the countries. Similarly the import of Nepal is also found linked up with few countries.

There was a distinct rise in the volume of FDI Nepal with an average of $ 9.5 million per annum during 1991-2001 as compared to the annual average flows of $0.3 million during 1980-1990. The FDI inflow was at a peak of $ 23.1 million in 1997. The increased FDI inflow to Nepal over the last decade can be attributed to the liberalization of trade and exchange rate regimes, existence of bonded warehouse and duty drawback systems favoring export-oriented industries. The 1996 bilateral trade treaty with India, which favored Nepalese manufacturing goods, provided preferential access to Indian market. As a result of this trade treaty, Indian investment in Nepal had increased in 1996 and subsequent years. Despite the policy reforms for FDI promotion, the total volume of FDI inflow in Nepal remained at low level as compared to Asian countries.

The investment of FDI is spread in different sectors. The manufacturing sector has shared 45.8%, tourism 25.7%, services 23.6% and agro-based industries 2.1%. Within manufacturing sector, FDI is investing more in the garment industry projects. India is the major source of FDI, as her share accounts for 35.4%. USA is the second, followed by China.

Most of the FDI projects are located in the Central Development Region which has well-developed infrastructure facilities and access to business facilities.

Nepal had adopted guided exchange rate policy till mid 80’. After adopting “open economic policies” in late 80’, the values of Nepalese rupees in relation to other international currencies has been determined by the market since 1989. The Nepalese rupee is still pegged with Indian rupee.
The market dramatically changed Nepal’s trade policy in 1992. Under the new policy, the imports of raw materials, consumer goods, industrial machinery, and services were made free. Adoption of open current account system helped to facilitate import trade, while the provision of opening convertible currency bank account for the exporter and the availability of the foreign currency loan facilities to the Nepalese traders supported the development of the export trade.

8.1.4. Status of Employment

The annual population growth in Nepal is more than 2% and consequently, about three hundred thousand people enter into the labour market each year. Proportion of the employment in the agriculture sector is declining, while proportion of wage earners is increasing. The employment declined during 1990s with the decline of the real wage in large manufacturing establishments. In the same way, the total employment in small manufacturing establishments also declined but the real wage increased marginally during the same period. In 1999, the manufacturing sector provided employment to 46,052 laborers. It was estimated that by 2023, the sector would absorb 77,715.

Women employment in the Nepalese manufacturing sectors is influenced by the various factors. Females are employed more in the industries located in the hill regions and in those industries where capital-output ratio is low, (carpets and rugs, garments, spinning and weaving textiles and ceramic products), which constitutes about 86% of the total female employment. About 80% of the total workers in manufacturing sectors are blue-collar workers and rest 20% are white-collar workers. The pharmaceutical sector involves lowest proportion (less than 60%), of the blue-collar workers, while the carpet sector involves 93% of the blue-collar workers. Data show that majority of the women workers are involved in producing traditional handicrafts, carpets and garments.

FDI has played a significant role in the employment generation after the adoption of open economic policies. Out of about 293,000 persons engaged in the manufacturing sectors, 52,969 people are estimated to be in the projects of FDI in 2000. This is about 18% of the total labour force working in the manufacturing sector of Nepal.

Analysis of FDI has shown that it is also attracted to some labour-intensive areas. In the manufacturing sector, the investment is directed to garment industries etc, which accounts for 11%. Garment industry is labour intensive one. FDI is also in tourism and power sector where exists the real comparative advantage due to endowment of other different resources.

The labour-force projections show that the total labour force was about 11 million in 2001. As compared to the labour-force of 9.6 million of 1991, it has been increasing at the rate of 1.33% per annum. In other words, it has been increased by 1.3 million in 10-year period. The labour-force participation rate has been observed gradually decreasing, but at a very slow rate; it has decreased by 0.54%, over the period of 10-year (1991-2001).

It has been found that some 8.4 million persons were employed in 1991, and it reached 9.3 million in 1996 and 10.6 million in 2001. So, over 10 years’ period, 2.2 million people were employed with an average of 0.2 million each year.
The unemployment situation has been found improving gradually. The absolute unemployment rate was observed at 12.67% in 1991, and decreased at 3.46% in 2001. The total unemployment including absolute unemployment and underemployment, was projected to be 18.8% during that time.

In the Nepalese manufacturing sector, only about one fourth of the production workers receive any formal training which is very low to compete with the trained foreign workers. Training facility for the professional work is very limited in Nepal. The NLSS estimates that in totality, 403,000 people have received vocational and professional training. Among them, the share of females is 45%.

The current labour policy of the government has given more emphasis on the skill training, promoting self-employment and facilitation for the foreign employment to the unemployed mass of the Nepalese people.

### 8.1.5. Income Distribution and Poverty

The farm income is the major source of household income in Nepal and it accounted for 64.4% of the total household income in 1984 and 61% of the total household income in 1996. Available information indicates that the share of other income has increased significantly after the economic reform, whereas very slight changes have taken place in non-farm income.

It is found that the share of self employment in total household income in all the regions has decreased unbelievably after the adoption of liberalization policies in the country, whereas the share of wage income and other income has increased significantly during the same period. It is also found that the share of cash income in total wage income is very high as compared to self-employment income.

Wide income disparity was found in the urban areas as the Gini coefficient went up from 0.26 in 1985 to 0.43 in 1996. This figure went up from 0.11 to 0.21 in the mountain, 0.26 to 0.53 in the hills and 0.26 to 0.66 in the Terai. The income distribution seems to be the worst all over the central region and the least disparity in the mid-west. The Gini coefficient for the central region was 0.66, whereas it was only 0.25 in the mid-west.

Available information shows that the disparity of income is increasing over the last 15 years. In 1984, the bottom 40% of population and top 10% population share same percent of total income (23%). The share of the top 10% of population in the rural area ranges from 13% in the Mountains to 23% in the Terai, and the share of the bottom 40% ranges from 23% in the hills to 33% in the mountains. The income share in the urban areas ranges from 24 to 27% for the bottom 40% of population and 20 to 21% for the top 10% of the population. The income distribution is more uneven in 1996 as the share of the bottom 40% people in the total income is just 11% and that of the top 10% is as high as 52%.

The available information shows growing disparities in the household income level after the implementation of the liberalized economic policies in Nepal. This disparity is very high in the rural hills as compared to the rural Terai. There is a strong relationship between the size of landholding and household income. In 1985, the household income of large farm households was nearly 3 times higher than that of the marginal farmers (NRB 1988). Similarly, the household income of the large farm households was more than 50% higher than that of the
medium size households, and nearly double the income of the small size households. The average income of the landless households in the rural areas was just one-third of the large size households.

The 1996 survey indicates that 40.1% of the agriculture households own less than 0.5 hectare of the agricultural land, whereas 12.8% households own more than 2 hectare. Very low per cent of households in the hill area own more than 2 hectare of land (6.6 %). Land distribution is slightly better in the Terai area as compared to the Hill and Mountain.

Poverty incidence by Development Regions shows that Western and Far-Western Region of Nepal are significantly worse off than other development regions. But worst poverty incidences are seen in the Far-Western Development Region. The proportion of the ‘ultra poor’ in the mountain region is two times higher than the level in the Terai. Overall, the data indicates that about 42% of the population are living below the poverty line.

The proportion of people below the poverty line is more pronounced among the more disadvantaged and tribal castes/ethnic groups (specially, Damai, Kami, Limbu, Tamang, Magar and Rai). Poverty among these caste/ethnic groups varies greatly - 56% (Rai) to 71% (Limbu). The incidence of poverty is highest in the rural area than in the urban one. The proportion of population below the poverty line in the rural area is 47%, whereas it is 18% in the urban area.

Poverty is not only limited to the landless/marginal and small landholders but it has also spread to size land. 43% of the medium and large holders of the hills, 24% of the mountains and 18% of the Terai are below the poverty line. In addition, 60% of the small holders of the Hills, 58% of the Mountains and 30% of the Terai who are below the poverty line.

The government has given priority for the reduction of poverty since the Sixth Five Year Plan (1980). The two Five-Year Plans implemented in 1990s had given top most priority for poverty alleviation. The present Tenth Plan is called as Poverty Reduction Strategy Paper (PRSP) and has focused more on the reduction of poverty in Nepal.

8.1.6. Openness and its Impact on Employment

When Nepal adopted liberal economic policies in late 80’s, it is expected to address wide range of economic issues, but the major effect of the liberal economic policies is expected from employment sector due to the anticipated growth in trade sectors, foreign investment and financial areas. The trade is found growing during the globalization period. The share of labour in trade sector has also increased with the rise in trade. The employment in trade sector has been found to be growing from 166,400 to 273,931 since the year 1991 to 2001. In this way, during the ten years period (1991-2001), there had been 64.6% increment of employment in the trade sector. It indicates a significant absorption of the labour force in the trade sector.

Adoption of liberal economic policies has opened new areas of employment. There is a rapid growth in the number of banks, finance companies, and insurance. Similarly growing export and imports have definite impacts on employment opportunities, as trade and manufacturing units are found to be growing in numbers. Such employment is expected to enlarge retail operations. Wide activities of the retail operation in the cities and to some extent in the market centers of rural areas clearly indicate that self-employment in the retail operation is growing very rapidly. Based on these activities, CBS has estimated rapid growth of employment in trade sector.
Projected data of CBS has indicated that the population above ten years engaged in the trade sector has reached as high as 906,352. This is 4.3 times increment in the employment in ten-year period, which is about 8.5% of the total labour force of Nepal.

Another important aspects of export growth is related with the type of products. Before the adoption of liberal economic policies in 1980/81, the share of the primary product was 75.1% of the total export. The share of the primary products had declined to about 26.6% in 1999/00. Such a decline is associated with the rising share of the manufacturing sector in export from 24.9% in 1980/81 to 73.4% in 1999/00, though there is a slight fall in the share of the manufacturing sector in export in the decade of 1990-2000. It indicates that the structure of export is changed from the primary goods in favor of the manufacturing goods. Such changes in the structure definitely create new opportunities for employment. On the other hand, the share of manufacturing product in import is declining with the rising share of the primary product in import. It indicates that Nepal has been able to increase its manufacturing activities during the globalization period. Obviously the rise in manufacturing sectors leads to increase the possibilities of the employment opportunities in the country.

After the adoption of open economic policies, FDI had played some role in employment generation. 65% of the total approved FDI projects are in manufacturing sector. It clearly indicates that FDI has been more attracted to the manufacturing sector. So FDI has enlarged employment opportunities in the manufacturing sector. Out of about 293,000 persons engaged in the manufacturing sectors in 1999/2000, 52,969 people were estimated to be involved in FDI projects. This is about 18% of the total labour force working in manufacturing sector of Nepal.

The analysis of labour per million of fixed capital investment by the local investors as well as in FDI projects indicates some positive results with the foreign invested projects. The local investment of a million rupees in the fixed investment has been able to generate employment for 0.89 unit of labour, whereas the case of investment carried out as FDI has about 49% higher absorption of labour with 1.33 unit of labour per million of investment. Among the investors from different major countries, Indian investment is found to be more labour intensive with 4.8 persons’ employment per one million of investment.

In Nepal also, FDI is found to be the most important contributory factor for the technology transfer, though in limited scale. The survey of the World Bank and FNCCI indicates that out of three possible transfer mechanism, namely in-firm training, business support services for training/ technical assistance and FDI, the last one is found to be the most effective one. The survey shows that the firms, which have significantly the higher level of productivity, are associated with the foreign technical assistance.

There is a rising share of employment in the trade sector in the urban area. In 1984/85, 24.1% of the male labour force was found engaged in the trade sector. The share of the male labour rose to 26.9% in 1995/96. Similar positive trend is observed in the female labour employment in the trade sector. In 1984/85, there was 17.3% of the female labour in the trade sector and it increased to 27.5% in 1995/96.

Micro-analyses of the nine industries also verify that labour employment is increasing in the export oriented industries. In some firms, the increment is as high as 1500%. The lowest
increment is 44.4%, which itself is a significant number. Such rapid enlargement of the labour force in a particular firm is hard to find in other industries. It represents the labour-intensive nature of the garment firms in Nepal and also highlights that open economic policies have helped the firms to grow and employ more people. Apart from the direct employment in the different garment firms, many employments are created in other sectors related to the garment industry.

8.1.7. **Openness and its Impact on the Income Distribution and Poverty**

One of the targets of liberalization is the creation of the correct price incentives. Analysis of the price of major agriculture products indicates that there is no substantial increase in the price of these crops. The price response after the implementation of the liberal economic policies is more distinct in the agriculture inputs in more unfavorable way to the farmers. Low food price has created low level of income for the farmers. This, in turn, has reduced the level of investment in agriculture. On the other hand, the price of fertilizer has increased nearly five times in ten years’ period.

The withdrawal of subsidy from fertilizer and other inputs like irrigation (shallow tube-wells) has been causing trouble for the farmers due to the raise in the cost of the agricultural inputs. With the entry of the private sector, in the fertilization trade, there is an increment in price in the supply in the fertilizer. But it could not favour the farmers because the price of output could not grow.

One of the expected changes in the agriculture in the open and competitive economy is related with the diversification of crops, making them profitable. Many agriculture products like fruits, vegetables and cash crops are expected to replace cereals because of high cash return.

The analysis indicates that the outputs of vegetables, meat, eggs have increased. Other important agriculture products with significant growth are fish, pulses and potatoes. The producers generally produce these products for trading purpose rather than for direct consumption. And these products are more to serve urban market. This analysis indicates that there are changes in the agriculture practices with a focus on the products that can be traded.

Import enlargements have urban based character. Major importable items like petroleum products, and various other consumable, durable and non-durable, items are possible to consume at urban settings only. These items are not only consumed at city centers but also traded in urban sector only. The high dependency of the population on the rural based agriculture sector, low level of skill associated with these rural population as indicated by literacy rate, and dominancy of ultra poor, which are mostly from the marginalized population of Nepal involved in the agriculture sector, indicate that poverty is more common among these classes of citizens. Such citizens are not positively affected by the current industrial development under the background of the practice of the liberal economic activities.

With the adoption of the liberal economic policies in late 90’s, the government also simultaneously tried to address the growing incidence of poverty by developing other policies, which could address poverty reduction. In the beginning of the Eighth Plan, about 9 Million people were estimated below poverty line, which would be about 49% of the population. At the end of this Eighth Plan, the population below the poverty line was estimated at 42%. Due to
this limited success of the Eighth Plan, the Ninth Five Year Plan adopted poverty alleviation as its main objective to overcome the growing poverty level. It targeted to reduce the poverty level from 42% to 32% by the end of 2002.

The agriculture sector failed to keep the pace of its growth of 1981-1990 after the adoption of liberal economic policies. Its growth was 3.74% in real terms during 1981-1990, but it slowed down to 2.72% during the period of open economic environment. Though the growth of non-agriculture sector also retarded during this period, the degree of retardation is seen much lesser in non-agriculture sector.

The data indicate that the expected growth rate of the Ninth Plan was not achieved. Agriculture sector lagged behind after the adoption of liberal economic policies. As the incidence of poverty is much higher in the rural sector, which is basically agriculture based, the slow growth rate of the agriculture sector indicates that the liberal economic policies are not pro poor in general.

The government identified the role of agriculture in the poverty reduction. As a result, Agriculture Prospective Plan (APP) had been adopted since 1996. Since then, it has become a major tool of national planning. The policy complement with open economic policies also encourages private sector participation and allows the role of market in resource allocation process. But at the same time, APP also maintains the role of the government to develop basic infrastructure necessary for the agriculture development.

The current statistics do not confirm the expectations of APP. Real agriculture GDP has not risen as expected. Many reasons are identified for such failure. Failure of price mechanism is the major cause. The price of basic agriculture products like rice, wheat etc does not rise to the significant level. As a result, farmers involved in the production of these crops could not harness any benefit.

8.2 Conclusion

The overall impact of globalization in the Nepalese economy shows a mixed trend. The growth of national output, albeit slowly, strengthen of non-agriculture sector, growth of international trade with more rise in export, mild inflation and rise in employment opportunities in non-agricultural sectors are some of the positive effects of the globalization. But it has failed to address poverty reduction to any significant extent. By the end of Ninth Five Year Plan (1997-2002), the population below poverty line has been estimated to be around 38%. With-drawl of subsidy from the agriculture sector, changes in the food distribution system, and reduction of the tariff wall are some of the negative consequences, which could not help to reduce the poverty level of the Nepalese people.

In view of the ineffectiveness of the regular process of development in addressing the problems of poverty in Nepal, special problems are regarded as effective tools for promoting economic growth, supporting human development, improving the status of women, and reducing poverty. It is also recognized to provide economic services to uplift the level of income of low-income households by ensuring the availability of such services to the doorsteps of the poor and low-income households. Globalization is thus considered as the useful structural change in the Nepalese economy to increase efficiency, enhance income of the people and promote equitable distribution.
The impact of globalization is less pronounced in the agriculture sector. As the majority of the Nepalese farmers are involved in the cereal, very slow growth of these crops indicate that there is no improvement in their income. It clearly shows that agriculture sector is not playing significant role in the poverty reduction.

The overall impact of globalization on the employment and underemployment in the total economy shows positive trends. A study on the employment trend indicates that there is overall increment in general employment situation. There is the reduction of employment in the civil services, public enterprises and organized industries, but it is increasing in the informal sector.

Growing trade has also accelerated the growth of the informal sector. The addition of new products in the market, and rise in income due to the increase in employment have expanded the informal sector. Small-scale retail operations and manufacturing practices are being developed. Various agricultural activities like livestock, fisheries, and chicken farming, off-season vegetables and fruits have increased during the liberal economic decade.

Based on the current changes in the trade, it is tempting to conclude that trade policies have positive impacts on the poverty reduction as there is a rise in trade after the adoption of such policies. But, due to the wide disparity between the rural and urban sectors in terms of the economic activities, the distribution of benefit is different. Rural sector is agriculture based, whereas urban sector is focused on non-agricultural economic activities. Moreover, the poverty is more acute in the rural sectors nearly with the double amplitude of incidence. Thus it is quite possible that, due to the enlargement of global trade, urban people have benefited more from trade activities as such activities are focused in the urban sector. The important export items like carpet, garment and vegetable ghee, which share about 80% of the total trade, are urban based. Another negative aspect of these major exportable items is that these industries have very limited backward linkage, which could have benefited the rural sector. Due to this nature of current exportable products of Nepal, only urban population seems to be grabbing the opportunities. It might have widened the gap between the poor people of the rural sector and better off people of the urban areas.

In Nepal, it was expected that, after the privatization of state owned enterprises, these companies would be operated with more efficiency increasing productivity. Unfortunately, the expectations were not realized. As a result of the privatization, some of the job opportunities are lost. One of the major reasons of the reduction in employment is that the government closed eight public enterprises, while some other public enterprises have adopted “golden handshake” policy to encourage the staff to leave the job with some additional benefits.

To make the development activities effective for raising the production and productive capacity, promoting income, generating employment opportunities and enhancing the earnings levels of the poor, marginalized, disadvantaged, and the weaker sections of the society, the developmental programs need to be made effective, efficient and sustainable through the development of the proper policy, and legal and regulatory frameworks. To achieve this, there is the need for the adoption of the participatory process in development. Without the participation of the poor, the weak and the disadvantaged in the development process, it will not be possible to achieve the opportunities created by the globalization. To achieve this, there is the need for
the development of the capacity of the poor to use the opportunities made available through globalization.

As compared to other countries of South Asia, the process of globalization is less effective in Nepal. Policy reforms are made but the prerequisites for strengthening the activities of liberalization are not effectively implemented. The case of Nepal has shown that there is the need for the stability of the internal macroeconomic environment to use the opportunities of globalization.

8.3 Lessons Learnt

The assessment of the openness created through the adoption of the globalization process in Nepal during last 15 years has provided the following lessons:

8.3.1 Needs for Political Stability for the Benefits of Globalization

Globalization alone could not bring so much changes in the socio-economic life of the Nepalese people because the internal security could not yet be established. To capitalize the prospective benefits of the globalization in a developing country like Nepal, there is a need of political stability in the country. The country has been facing political instability since 1994. The unstable political situation has been caused by the internal conflict between the government and Maoists. Such instability was heightened with Royal Massacre in June 2001. Along with the Government–Maoist problem, the current political clash between the five agitating political parties and government has added fuel to the fire at the question of the national economy. In this way, the process of globalization has moved together with the phases of political instability in Nepal.

8.3.2 Immediate Impact of Globalization on Financial Sector

The impact of globalization is not felt equally effective in every sector of the economy. Another lesson which we have learnt from the adoption of globalization is that it has influenced the financial and modern sector like industry, but it could not improve the real sector, like agriculture, which contributes higher percent of GDP. The agriculture sectoral performance in the country is not satisfactory as it could not perform its activities well. The existing land-holding pattern does not allow the fair distribution of the income in the agriculture sector. In Nepal, agriculture alone is not an economic activity but it is a way of life, which determines the socio-political life of the people. Again, the agriculture is the main occupation of the poorest people of Nepal. It needs some structural reforms to change the man-land relation from a way of life to market oriented agriculture.

8.3.3 More Positive Impacts on Urban Economic Activities

In the Nepalese context, the adoption of the liberal economic policies has further deteriorated the income distribution in the rural and urban areas as most of the economic activities under the liberal environment are urban based. The lack of backward linkages to the rural sector from the urban one becomes prominent in various trade activities, which have flourished in Nepal during the globalization period. It seems that the government has failed to provide necessary infrastructure development efforts in the rural areas after releasing itself from the economic
activities through privatization. The government could not harness resources in the form of tax from the growing trading activities in the open economy in Nepal, which could thereby be transferred to the rural sectors.

8.3.4 Limited Participation of the Private and Community Sector in Globalization

Another lesson we have learned is that globalization has pressurized the government to adopt liberal policy by adopting several deregulation measures. Many policies related with finance, trade, foreign investment, and industry are restructured to adopt liberal economic environment. It has been supported by the privatization of state undertakings. The government of Nepal has tried to do all sorts of reforms, but such reforms have not yet affected other actors/stakeholders. If other sectors like private and community sectors will not participate in such undertakings, the globalization will not succeed to bring desired changes in the economy of the country.

8.3.5 Prescription of Globalization Needs to Consider the Absorptive Capacity of a Country

Another lesson learned is that Nepal has accepted many policy prescriptions based on the neoclassical market-led model prescribed by the World Bank, IMF, ADB/ Manila, without considering the capability of the Nepalese institutions to absorb it. However, these prescriptions have helped in improving the modern financial sector more than the real sector of Nepal.