
Globalisation and Pace of Economic Growth in Nepal

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Abstract

Nepal faced serious economic crisis during mid 1980s. Overall balance of payment of the country turned negative in 1982/83 and it remained in the same pattern for three consecutive years. Nepal approached the IMF and the World Bank for their support in solving the economic crises that were being experienced at that time. In response to Nepal's approach these institutions helped Nepal with financial assistance with conditions in order to tide over the external imbalance. These institutions made reformation policies and Nepal had to implement these policies. Nepal entered into the new era of international economic order termed as 'Globalisation'. Nepal formulated and implemented many economic reformation policies compatible with the process of globalisation, liberalisation and privatisation in order to accelerate the process of economic globalisation. This paper aims at studying and analyzing effects of globalisation of Nepalese economy on GDP growth rate and its composition during last three decades starting from 1991/92. The study finds that the globalisation of Nepalese economy has not been able to accelerate the pace of economic growth at desired level.

Keywords: Economic globalisation, Economic growth, GDP, GDP per-capita

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Introduction

Economic growth among various macroeconomic policy goals has long been considered as a primary macroeconomic goal of economic policy. There are several growth theories and lots of researches have been done over the years to illustrate how desired economic growth is successfully achieved. The socioeconomic indicators of Nepal show that the performance of Nepalese economy remained less impressive than it was desired as per its resource potential. The average real GDP growth during 1977-87 was found 3.2% per annum which reached 4.6% in 1991 (IMF, 1995). Nepal still remains behind of the world's socioeconomic indicators even after it adopted massive economic reformation policies during 1990s. Nepal's economic growth rate in terms of real GDP has been estimated to be 0.8% in 2023 which is far below the world's economic growth rate 3.0% although real GDP growth rate of Nepal and the world have been predicted to be 5.0% and 2.9 respectively in 2024(IMF, 2023).

There are various determinants of economic growth of a country; however, this study considers globalisation as a determining factor of economic growth. Therefore, this study focuses on economic growth achieved by Nepalese economy after globalisation. The term globalisation was introduced in early 1980s although its historical roots run deeper. It has been frequently used in the economics and development over the past few decades but, so far, there is no consensus on a single definition of it. Globalisation is an old phenomenon with a new appearance and usually defined as an expansion of global linkages among nations (Hasan, 2019). The globalisation process is dominantly a historical transformation in the economy, of livelihood and modes of lives (Mittleman, 2000). Globalisation refers to the process of the getting the country globally integrated where as economic globalisation interlinks the interaction of economic processes across political borders in such a way that the behavior of economic agents is reflected at globe scale rather than at local economy level. The economic globalisation is the inevitable integration of markets, nation-states, and technologies to a degree never witnessed before in such a way that enables individuals, corporations and nation states to reach around the world farther, faster, deeper and cheaper than ever before. It is spreading of free-market capitalism to virtually every country in the world (Friedman, 1999). United Nations Development Programme (UNDP) defines globalisation as a most influential power in last decade of 20th century in shaping a new order of interaction among the nations, economies and people which is integrating people across national boundaries in economy, technology, cultural and governance (UNDP, 1999). At present, globalisation covers social, economic and political areas due to which it has become a multidimensional concept (Hasan, 2019). The results of globalisation is still not benefiting all people of the world. A large population and countries of the world are still out of the reach of benefits of globalisation due to asymmetrical nature of process of globalisation even though it produces a lot of benefits such as greater freedom of choice, lower prices of goods, and higher income for individuals (Bhattacharya, 2004). There

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is uneven distribution of benefits of globalisation between developed and developing countries. There is often unequal distribution of benefits of globalisation even within the countries (UN, 2004). The critics of globalisation consider it as a new form of capitalism that cannot bring social equity and justice to poor people of the world. Globalisation has the paradigm with little realities and more myths such as: (a) growth in GNP is a valid measure of human well being and progress, (b) free unregulated markets efficiently allocate markets and society's resources, (c) growth in free trade benefits ordinary people, (d) economic globalisation is inevitable, and (e) global corporations are benevolent institutions that, if freed from government interference, will provide a clean environment for all and good jobs for the poor (Korten, 1996). Although the process provides better opportunities for some countries by positively accelerating their economic growth, it is also the cause of poverty, inequality, and negative economic growth for others (Kilic, 2015). The global top 10% owns 76% of total Household wealth and captures 52% of total income in 2021 (The World Bank Event, 2022). According to critics, globalisation cannot alleviate world poverty and inequality and bring about positively accelerating economic growth symmetrically to all countries of the world although the world bank report argues that the prospects of globalisation for the South Asian region seems better as it has been crucial to poverty reduction (World Bank, 2017). On the aforementioned ground, this study attempted to examine effects of globalisation on economic growth of Nepal. The study aims at finding answer to the following research questions.

Research Questions

1. What were the causes of globalisation of Nepalese Economy?
2. What are the effects of globalisation on economic growth of Nepal?
3. What is the effect of globalisation on composition of GDP of Nepal?

Methods and Procedures

This study has adopted the analytical method to carry out the study. This method helps to examine causes of globalisation of Nepalese economy and compare GDP growth in post globalisation era along with changes in composition of the GDP in the same time period using tables and figures. The study is based on secondary sources of data such as books, research papers, research journals, official documents national and international government and non-government agencies.

Results and Discussion

Globalisation of Nepalese Economy

Less developed countries began to introduce structural adjustment programmes under the initiatives of the IMF and the World Bank during the period of 1980s as the Soviet Union collapsed in the late 1980s, there was a somber realization that without a decentralized economic structure development cannot be sustainable. So the economic liberalisation

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programmes started in 1980s in less developed countries acquired momentum in decade of 1990s (Banskota, 1996). Nepal was also not achieving favorable economic growth till seventh plan. The Nepalese economy had encountered serious economic problems during mid 1980s. For the first time, Nepal's over all balance of payment turned negative in 1982/83 and continued to remain negative for three consecutive years. Nepal approached the IMF and the World Bank for support after it experienced economic problems during mid 1980s. Consequently, a series of reform measures were undertaken. Nepali currency was devalued by about 14.7 percent in November 1985. The institutions helped Nepal with financial assistance to tide over the external imbalances. Multilateral financial assistance that Nepal obtained was not free from the strings of the conditionality. The conditions were that the Nepalese government had to implement the reformation policies designed by the institutions. The stand by and structural adjustment programme (SAP) arrangement with IMF and SAL with the World Bank put pressure on Nepal for speedy economic reforms. This was the background of economic reform process that was set in motion in Nepal since the mid 1980's (Acharya, 2000).

Political system of the country changed and multiparty democracy was restored after the people's movement of 1990 AD when seventh Plan was in operation. This plan was discontinued and there was no plan during the period 1990-1992. Eighth plan (1992-1997 AD) was the first plan of the elected democratic government after restoration of multiparty democracy in the country. It also realized the importance of market oriented liberal economy arguing that the evident from the changes occurring in the socialist countries which revealed the fact that the traditional state directed socialism were not suited to the existing global economic scenario. Therefore, the state directed and controlled economic systems pursued for the last thirty years would be gradually phased out and policies would be adopted to carry out the development through free market-oriented liberal economic systems (NPC, 1992). Thus, after the restoration of the multiparty democracy in the country, Nepalese government had accelerated the economic reform process adopting several policies. Conditions for the entry of the private sector were eased. Some public enterprises were put on sale. New industrial policy, commercial policy and foreign investment policy were introduced. Customs tariff rates were brought down. Except a few contraband items, quantitative restrictions on imports were completely withdrawn. Instead, the open general license (OGL) system was introduced. Reforms in the financial sector were accelerated. The new economic policy reforms consist of: (i) Globalisation (ii) Liberalization (iii) Privatization (Acharya, 2000). Nepal entered into the era of new economic order known as 'Globalisation' implementing the new economic policies introduced in the decade of 1990s in order to accelerate the process of economic growth through this.

Nepalese Economy and after Globalisation

Nepalese government initiated extensive economic reform agendas in the early nineties in order to reduce poverty by accelerating economic growth and expanding employment

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opportunities. Reforms to liberalize trade, investment and foreign exchange regimes, unify the exchange rate, rationalize the tariff structure and the tax system, promote exports, and strengthen public expenditure management were found yielding impressive results later on. These reformations helped to transform Nepalese economy from a highly regulated to a more open, market-oriented economy; create an energetic private sector and expand its role in such areas as manufacturing, industry exports, education, health, air transport, finance, and power and to improve the country's macro-economic fundamentals (NPC, 2002). But there are other various assessments of effects of globalisation on Nepalese economy. All most all the assessments conclude that policies adopted by the government to accelerate the process of globalisation did not show any significant result as it was expected. The reform programs initialed since 1991 failed to accelerate growth, diversify the economy, stimulate saving and create a basis for sustained growth leading to greater self-reliance and reduction of the poverty of mass (Paudel, 1999). The process of accelerating planned economic development in Nepal through development assistance provided by donor is strangulated by a low performance in key economic sectors. It is also said that strengthening of democracy and accountability are antidote to corruption. However, commission-fed polities, corrupt bureaucracy and smuggling have jeopardized the economic progress of Nepal (Dahal, 1999). Whatever is the assessment of impact of globalisation on Nepalese economy in the last three decades, the government of Nepal is still firmly determined to go head with the economic policies compatible with further accelerating the process of globalisation.

Gross Domestic Product (GDP) Growth Rate

Real GDP of Nepal increased by 3.4 percent on average during the period 1964/65 to 1989/90 by recording the growth rate of 3 percent in agricultural sector and 3.8 percent non agricultural sector (NPC, 1992). This growth was recorded as 4.6 in 1991 (IMF, 2005). The growth of real GDP does not show any particular trend though GDP per-capita has been found increasing slowly in last three decades. The following table shows GDP growth rate during from 1991 to 2022.

The table 1 reveals the fact that real GDP increases approximately 2.6 times during 3 decades from 1961 to 1991 and 3.62 times during 3 decades from 1992 to 2022 after globalisation. This fact is the evidence which indicates that the effect of globalisation is not significant with reference to increase in GDP value. The GDP growth rate does not show any trend as it almost fluctuating with out any trend during 3 decades before globalisation 3 decades after globalisation of Nepalese economy. The lower growth rate of Nepalese GDP is due to lower and unstable growth rate of agriculture which is the manor contributor among the different sources of GDP. Besides the lower and unstable growth rate of agricultural sector poor contribution of non agricultural sector including industrial sector is another vital factor for lower GDP growth rate in Nepal. Political instability and long political transition process has remained a major obstacle

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in rapid industrial development in Nepal. This sector is the most victimized sector of political transition in Nepal which still seems everlasting. The global slowdown due to COVID-19 pandemic, prolonging political instability even after promulgation of new constitution in 2072 and poor performance of government in spending its capital expenditure even after adopting federal structure by the state have adversely affected all the sectors-exports, manufacturing, as well as tourism, commerce, industry, service, construction etc. The inflation rate is more than single digit in early 1990s but it is found in single digit after 1993 which reveals the fact that inflation is relatively under control during last 3 decades of globalisation of Nepalese economy. The table 1 further reveals the fact that increase in per-capita is almost same during period 1991 to average 2005-2015 but there is relatively significant increase after 2015.

Table 1

Real GDP Growth and Per-capita Income of Nepal (1991-2000)

Fiscal Year	Real GDP (at 2015 Constant US\$) Rs. Billion	Real GDP Growth Rate (%)	Inflation (%)	Per-capita Income US\$
1961	3.38	1.9	2.7	51.3
1991	8.78	4.6	12.5	184.5
1992	9.14	2.1	18.5	194.8
1993	9.49	4.8	10.8	164.3
1994	10.27	5.1	4.8	172.1
2005-14 Average	19.3	4.3	8.53	186.6
2015	24.36	4.0	4.4	578.44
2016	24.47	0.4	7.2	882.3
2017	26.66	9.0	8.3	880.2
2018	28.7	7.6	4.4	1028
2019	30.61	6.7	4.7	1161.5
2020	29.88	-2.4	3.2	1185.7
2021	31.33	4.8	6.8	1139.2
2022	33.08	5.6	7.3	1229.4
2023*	NA	0.8	NA	1336.5
2024*	NA	5.0	NA	NA
2028*	NA	5.1	NA	NA

* Projected

Source: IMF, World Economic Outlook 1995, 2005 & 2023 and World Bank 2023

The growth rate attained by Nepalese economy after 2005 is also not convincing as compared to GDP growth rates of China and other SAARC nations although growth rate of Nepal is 9.0% in 2017 in relation to growth previous year's growth rate, which is highest in last six decades but it was due 0.4% economic growth in 2016 due to earthquake and economic blockade made by India after promulgation of new constitution 2072 BS in Nepal even after India's attempt to postpone this event.

Table 1***Economic Growth Rates of China and SAAARC Member Countries (Annual Percentage Change)***

Countries/Year	2005-14	2015	2016	2017	2018	2019	2020	2021	2022
China	10.0	7.0	6.9	6.9	6.8	6.0	2.2	8.4	3.0
Afghanistan	NA	1.5	2.3	2.6	1.2	3.9	-2.4	-20.7	NA
Bangladesh	6.2	6.6	7.1	6.6	7.3	7.9	3.4	6.9	7.1
Bhutan	7.6	6.2	7.4	6.3	3.8	4.4	-2.3	-3.3	4.8
India	7.7	8.0	8.3	6.8	6.5	3.9	-5.8	9.1	7.2
Pakistan	NA	4.2	6.6	4.4	6.2	2.5	-1.3	6.5	5.6
Maldives	5.1	2.9	6.3	7.2	8.1	6.9	-33.4	41.1	13.9
Sri Lanka	6.6	4.2	5.1	6.5	2.3	-0.2	-4.6	3.5	-7.8
Nepal	4.3	4.0	0.4	9.0	7.6	6.7	-2.4	4.8	5.6

Source: World Bank 2023

The table 2 reveals the fact that GDP growth of China was average 10.0% during the period from 2005 to 2014 where as growth of Nepal was 4.3 in the same period which is lowest among the SAARC nations. Nepal's economic growth still is in fluctuating having no trend even during the period from 2015 to 2022. All SAARC countries except Bangladesh experienced negative growth due to COVID 19 pandemic in 2020.

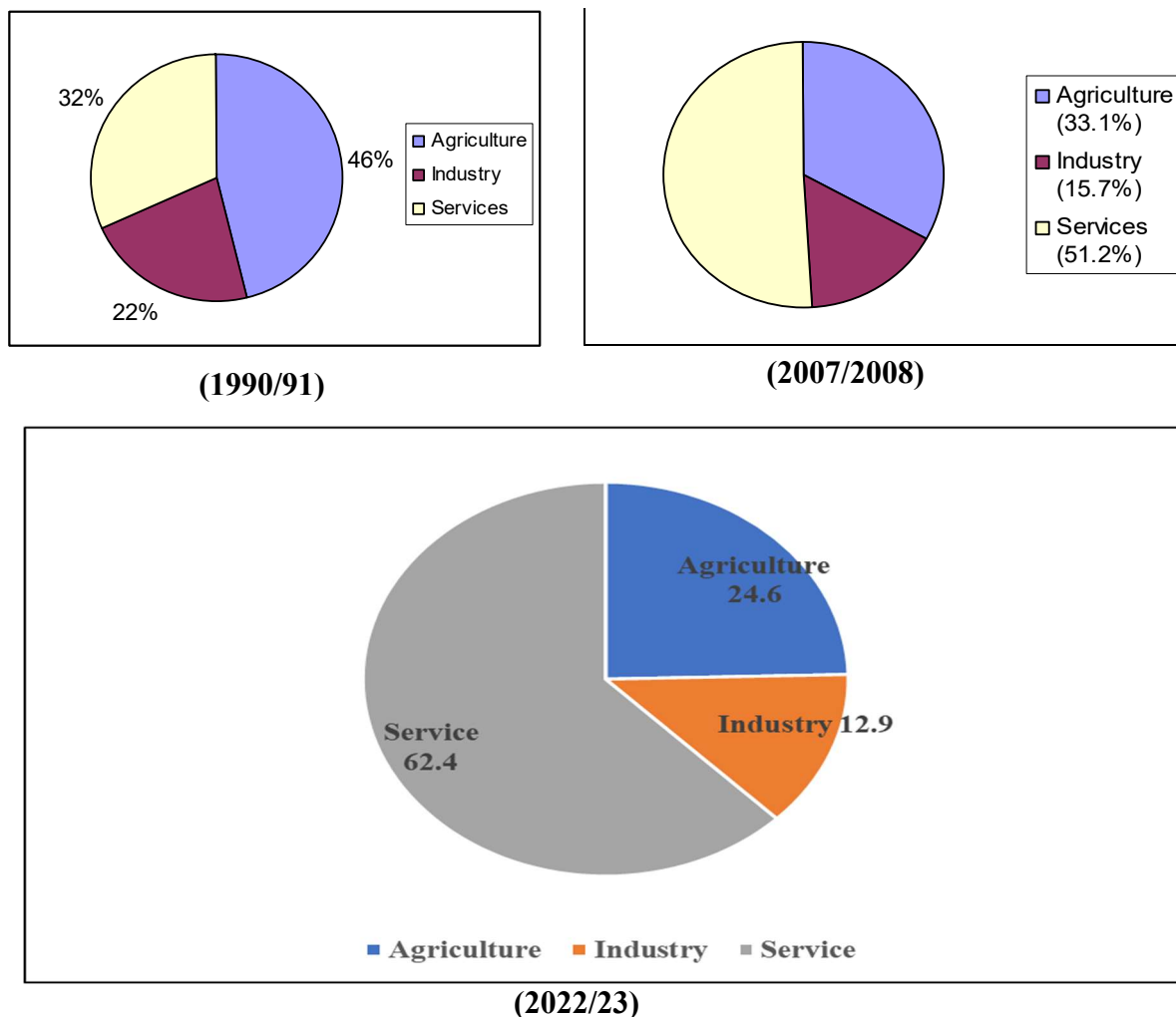
Changes in Composition of GDP

The figure 1 shows that agriculture still occupies major portion in composition of GDP of the country though there has been 21.4% decrease in share of agriculture in 2022/23 as compared to GDP composition of 1990/91. There has been remarkable change in service sector which has recorded an increase of 30.2% in the same period. This increase in share of service sector in the composition of GDP indicates that economic reformation policies have significantly strengthened the service sector such as bank and financial institutions, insurance, tourism, airlines, education, health etc. The share of industrial sector has declined to 12.9% in 2022/23 from 22% in 1990/91. The decline in industrial sector is due to political instability caused due to Maoist insurgency and prolonging political transition after peace agreement between government and Maoist in 2008. The figure further reveals the fact that the share of the agricultural sector has shown a gradual decline where as the non-agriculture sector's share recorded a steady growth. The main contributing factor for this can be attributed to the various efforts of the government for the development of the non-agriculture sector specially service sectors which has significantly increased contribution of non-agricultural In other words, the decline of industrial share and increase in the share of service sector might be due to shift of capital from industrial sector to service sector because of unfavourable situation in the country for supporting industrial growth in three decades.

The figure 1 shows composition GDP of Nepal in 1991/92, 2007/08 and 2022/023.

Figure 1

Change in GDP Composition (1990/91 - 2022/23)



Source: World Development Report- 2001 & Economic Survey-2008/09 &2022/23

The study of composition of GDP reveals the fact that the globalisation of Nepalese economy has drastically increased the share of service sector such as transport, storage and communication, financial intermediate, real estate, renting and business activities, education and health and social work. Thus, analysis of composition of Nepalese GDP clearly indicates that the globalisation of Nepalese economy has brought significantly increased share of service sector industries.

The table 3 reveals the fact that GDP per capita income of China with reference to PPP at current international \$ (US\$) is 21482.6 which is 2.7 times greater than average South Asian GDP per capita (7937.1). Maldives has highest GDP per capita in 2022 among the South Asian nations. GDP per capita of Maldives is even greater than China. Nepal’s GDP per-capita in

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2022 falls in 2nd last rank after Afghanistan among SAARC nations. Thus, it is clear from the comparison of GDP per-capita of SAARC nations and China that globalisation of Nepalese economy has not bring significant change in terms of GDP per-capita though there has been remarkable change in GDP per-capita from 2015 onwards.

Table 3

GDP Per-capita, PPP(Current International \$)

Countries	Year	GDP Per-Capita
China	2022	21482.6
South ASIA	2022	7937.1
Afghanistan	2021	1673.1
Bangladesh	2022	7397.5
Bhutan	2021	12795.5
India	2022	8400.4
Maldives	2022	25124.6
Nepal	2022	4726.6
Pakistan	2022	6357.0
Sri Lanka	2022	14412.5

Source: World Bank, 2023

Conclusion

The analysis of available figures and facts indicate that the policies implemented by Nepalese government to accelerate the process of economic globalisation have not significantly contributed to increase the GDP growth as per the target of government in the 3 decade besides some exceptional cases. GDP growth rate during the period from 1991/92 to 2022/23 has not found following a particular trend as there is trend less fluctuations in GDP growth during last three decades. Globalisation has little impact on agriculture which has long term importance in Nepalese economy (Dahal, 1999). The composition of GDP has changed during the period this period. Share of agriculture sector has fallen by nearly 50% from 46% in 1991/92 to 24.6% in 2022/23 where as share of industrial sector has contracted as it has decreased from 22% in 1991/92 to 12.9% in 20022/23. Share of service sector has remarkably increased to 62.4% from 32% in the same time period. The structure of GDP has also changed. Percentage shares of service sector industries such as transport, storage and communication, financial intermediation, real estate, renting and business activities, education, health and social work etc. have been increasing significantly.

The study comes at the conclusion that many factors such as political instability, Maoist insurgency, inefficient government mechanism, poor infrastructure base, dominance of strike culture etc. significantly remained main constraints of development activities during two decades from 1995/96 to 2005/2006 before comprehensive peace agreement between Maoist

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and Nepal government in 22 September 2006. The country again trapped in prolonged political transition during the period from 2007 to 2015. Nepal entered into era of new political order after promulgation of new constitution by constituent assembly in 22 September 2015. This constitution declared Nepal as federal republic democratic country with three layers of government. Nepal is still facing problem of political instability and inefficient governance. Lack of good governance, decreasing faith on rule of law, lack of political consensus on major socioeconomic issues, inefficiency of government to spend its capital expenditure, policy inbuilt corruptions, brain drain due to prevalence of pessimism in the society have still been opposing the process of acceleration of economic globalisation in Nepal.

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