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The Future of Nepalese Economy : Economic Nationalism Reconsidered

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INTRODUCTION

The advent of democracy in many parts of the globe, the demolition of the Berlin wall, and the dissolution of the Soviet super state have been exciting events in the contemporary history. Although analysts have tipped off a wide range of interpretations to these epoch-making events, economic issues have remained in focus as a major factor behind these upheavals. The current oscillating and fragile global economic scenario provides no scope to substantiate a 'big push' to developing countries. In fact, the challenges to development have proved so hard that they have made every effort for sustainable development *hors de combat*. After seven and a half years from now, humanity is going to enter a new millennium. But this may prove to be a millennium with the same old intractable economic problems: poverty, unemployment, population explosion, and environmental degradation. Developing nations could then plunge into deeper economic crisis; increasing uncertainty might lead to critical social predicaments; the existence of smaller countries may become even more vulnerable and their economic future more unpredictable. In such a perspective, this paper proffers *Economic Nationalism* for a developing economy like ours by examining the fundamentals of the Nepalese economy and exploring viable alternatives to development, especially with reference to smaller nations with geophysical limitations.

THE GLOBAL ECONOMIC SCENARIO : DEVELOPED VS DEVELOPING COUNTRIES

Recent years have witnessed a tremendous change in the global economy. The trend shows spectacular economic advancement in developed countries, fuelled by technological progress and increased innovations in agriculture, industry, and services. The pace of economic transformation also gained momentum in developing countries. Despite these dramatic achievements, however, there exists a great deal of variation in per capita incomes in both developed as well as developing countries. The per capita GNP in low income countries varied between US $120 and $500, while that of middle income countries ranged between $640 and $2,040. The magnitude of per capita GNP has been fairly high ($14,610— $29,880) in high income countries (table 1).

The structure of production and demand reveals a contrasting picture. In low income countries, the share of agriculture sector in GDP has been substantially higher

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(Tanzania: 66 percent, Nepal: 58 percent) while in middle and high income countries its contribution is steadily falling (Thailand: 10, Japan: 3). The industrial sector commands the largest share of GDP in industrialized countries (South Korea: 44, Japan: 44) against the diminutive ratios prevailing in developing countries (Ethiopia: 7, Nepal: 7 table 2). In developed countries, the share of gross domestic investment to GDP remained significantly higher in 1989 (South Korea: 35, Japan: 33) compared with developing countries (Bangladesh: 12, Nepal: 19) while the ratios of savings to GDP varied extremely in developed and developing countries in the same period (South Korea: 37, Japan: 34 vs. Bangladesh: 1, Nepal: 7). It is interesting to note that Japan and South Korea have enjoyed the privilege of a positive resource balance. A similar trend exists in the case of the export of goods and non–factor services (table 3).

The world economy came to a sudden halt in 1990 as a result of tightened monetary policy in response to production at near capacity levels and rising inflation. The situation aggravated further with the Gulf crisis in August 1990. The real GDP growth in industrial countries declined to 2.6 percent in 1990, compared with 3.3 percent in 1988. In the developing countries, real GDP growth shrank from 4.3 percent in 1988 to 2.2 percent in 1990, the lowest since 1992. Output in the developed regions is projected to expand by less than 2 percent in 1991, while in the developing regions it is expected to recover to the tune of 3 percent.

Macro economic instability in the global economy has posed serious challenges to both the industrially advanced and backward countries.[1] Subsequently, there has been a shift in the policy which focused on the fight against inflation, structural reforms including the privatization of publicly owned enterprises, and the liberalization of trade and financial markets. The policy toward structural rigidities, energy price control, misaligned exchange rates, and trade barriers received knee – jerk response where economic conditions are grave. "In some ways the international economy will be unfavorable to development in the coming decade. Interest rates may remain high, and growth is likely to remain slow worldwide. No early end to the debt crisis is in sight--nor is any substantial resumption in the North-South capital flows. The need to protect the environment poses an additional challenge."[2]

Analysis of the four alternative scenarios of global economic conditions for the 1990s suggests that this baseline scenario is relatively appropriate in evaluating prospects for developing countries which incorporate moderately better external circumstances for development in comparison to the eighties.[3] Between the two extremes of high case and low case scenarios, the middle ground is occupied by downside and baseline scenarios (see appendix 1).

These considerations bear strong theoretical implications for economic growth in developed and developing countries. However, with the poor quality of economic management referred to as 'management dimension' and weak institutional framework, economic forecasts often become preposterous. The optimism shown by the high case scenario tends to be a temporary phenomenon. In either case, dependence and uncertainty would increase, and for that reason chances are high that structural adjustment programs will not be sustained in developing countries. Since the economic conditions of many poor nations are likely to remain precarious during the 90s, they must make an ardent effort in designing their own approach to economic policies and institutions. This is more pertinent to the Nepalese context.

THE STATUS OF NEPALESE ECONOMY : REVIEW OF MACRO ECONOMIC INDICATORS

With US $180 per capita GNP per annum and more than 9 million of the population below the absolute poverty line, the Nepalese economy is circumscribed by a low level equilibrium trap resulting in a built-in scenario of poverty and stagnation. Although the Nepalese economy is often characterized by rugged topography, landlocked position, and poor resource base, the more pertinent reasons attributed to sluggish economic growth in the past were the defective land tenure system, a fragile manufacturing sector, low productivity of external borrowings, unwarranted flow of liquidity to the real–estate and foreign trade sectors, rampant corruption, and a lack of political will and determination to effectively deal with these problems.

As a consequence, the agriculture sector witnessed no substantial increase in productivity in spite of top priority and massive investments; soaring prices aggravated the extent of poverty; and the life of the common people remained unchanged during the thirty years of planned development in Nepal, relegating the status of economy to one of the poorest countries of the world.[4]

The macro economic indicators show that population growth has outpaced increase in food production. The average annual growth rate of GNP per capita remained confined to 0.6 percent for the period 1965–89. The contribution of the agriculture sector which provides employment to 90 percent population to the GDP,[5] has been significantly higher (58 percent) in comparison to industry (14 percent) and tertiary sectors (28 percent), respectively. Yet the predominantly traditional agrarian structure is constrained by acute disguised unemployment, constant productivity, lack of innovations, and subsistence farming. Fragmentation of holdings in the land system makes poor prospects for mechanization. The average per capita index of food production (107, assuming 1979=100) has not been encouraging; this is extremely low compared with other developing countries.

The pattern of land distribution is skewed. Average holding sizes tend to be just over 1 ha in the Terai and just under 1 ha. in the hills. In the Terai, approximately 50 to 60 percent of the households are landless or tenants.[6] The poor are overwhelmingly rural subsistence farmers. Consumption rates both of fertilizers (per ha.) and energy (per capita) remain inordinately low in comparison to the developing countries of the South Asian region. According to a medium variant projection, the population is estimated to grow to 37 million by 2025 A. D. Furthermore, the demographic profile suggests that within ten years, the labor force will be growing at about forty thousand per year. One great challenge of the future will thus lie in managing the absorption of this massive labor force.

The industrial sector is vulnerable. With limited employment opportunities in this sector, the contribution of the manufacturing sector to GDP has remained at mere 6 percent. Nepal's industrial sector depends to a large extent on imported raw materials, capital and intermediate goods. As a result, there has been rapid growth of the assembling industries in the past. Although assembling industries, often referred to as "cake mix" industries, have provided preliminary attraction, these have hardly been instrumental in augmenting the contribution of manufacturing sector with any sort of high value added. The artificial growth of this sector has heightened the domain of the unsanctioned economy to an unprecedented level.[7] The industrial sector is characterized by a large number of spatially fragmented small establishments dwelling between formal and informal sectors of the economy.

There are no reliable data on the formal sector. It employs approximately 10 percent of the labor force, and its share (inclusive of tourism and the construction industry) is estimated at 25 percent of the GDP. Carpet industries have shown considerable potential for generating foreign exchange. However, the carpet–garment syndrome may prove to be temporary if the existing challenges are not met. In recent years, cottage and small industries have shown an enormous scope for export. Of the 61 public extant enterprises, many are now running below the capacity with huge losses. These enterprises have been a growing source of corruption and political entrenchment. Recent estimates show that the flow of funds to public enterprises reached US $2,000 million. Tourism has increasingly contributed to foreign exchange earnings. The foreign exchange earnings from this sector are estimated at 23.3 percent of the total foreign exchange earnings and 3.4 percent of the GDP in 1989.[8]

Nepal's vast hydroelectric potential is a point of frequent reference. The theoretial potential is 83,000 MW,[9] about 1.5 percent of the world's total potential; but the economically feasible potential which could be harnessed is 42,000 MW;[10]. Of the total theoretical hydropower production potential, only 0.28 percent (232 MW) has been so far exploited. It is estimated that hydro exports to India could yield substantial revenue on the order of US $300 million annually within the next twenty years, which represents a 10 percent increase in GDP[11]. Nepal remains a country with inordinately low consumption of energy. There has been a growing realization in recent years of the need for harnessing water resources, since these could significantly improve the status of economy and the quality of the life of people.

Official statistics reveal that the area covered by forests in Nepal equals 6,306,500 ha.[12] But precision about the current status of forest is difficult. Large scale forest depletion for the last fifteen years has created serious ecological imbalance, and various studies have warned about the grave consequences of environmental degradation in Nepal[13]. "The degradation and depletion of forests of Nepal are causing accelerated soil erosion, damaging hydrological changes in the land due to reduced water infiltration rates and increased run–off, and reduction in the supply of plant nutrients to croplands."[14] The transport sector is in limbo. After twenty years of construction, the East–West Highway (1,028 kms) remains incomplete and the flow of goods disrupted with no direct access to the western – most parts of the country.

The foreign trade sector consists of large trade deficits. The primary reasons attributed to increasing deficits are massive imports of project goods, construction materials, and other consumer items over the limited exports of one or two major items such as woolen goods, carpets, and ready– made garments. Exports of traditional items have substantially declined to zero. The magnitude of CIF imports marked US $580 million while the size of FOB stagnated at US $156 million, in 1989 (table 4).

The low export base, poor quality, inability to compete in the international market, and comparatively high cost of production have been the main issues of concern in harnessing our exports. In recent years, foreign trade has been liberalized and structural changes have occurred, both commodity–wise and country–wise. The share of trade with India decreased to 23 percent in 1990 against 77 percent with other countries. A wide gap exists between exports and imports, and the overall trade deficit has considerably increased. Despite such trends, the balance of payments position remained favorable and foreign exchange reserves increased substantially.

Nepal's tax effort ratio (10.8 percent) is perhaps lowest in the world, next to Bangladesh. The overall elasticity of tax was found to be equal to unity.[15] The tax system is characterized by a heavy reliance on indirect taxation. About three quarters of Nepal's tax revenues are derived from indirect taxes. The average annual growth rate of government expenditure was 18.6 percent while revenue went up by 16 percent during the period 1974/75–1989/90. With an increasing component of loan, in recent years, the volume of external assistance stepped up significantly and marked a record US $1.5 billion in 1989, which is 43.5 percent of GDP (table 4). In the preceding years the money supply increased by 27 percent; this is attributed mainly to the public sector, which has the largest share of internal loans. The average price rise was nearly 12.0 percent per year between 1979–80 and 1982–83. However, in 1990 and afterwards, prices have increased several–fold. During the period 1985–90, the prices of selected commodities (e.g., rice, black gram, edible oil, construction materials) increased from 22 to 85 percent.[16] The gross national product per capita (US $180) is likely to remain unchanged, with no substantial change in the level of savings (7 percent of GDP) and investment (19 percent). The resource balance is -12 percent of the GDP (table 4). Considering the gross national income and its components, the gross factor income and transfer income have played a significant role in increasing the GNP in the past.

ECONOMIC NATIONALISM : FOUNDATION OF THE NEW ECONOMIC ORDER

During the last one hundred and fifty years humanity has remained sharply divided over the ideologies of liberalism, nationalism and Marxism. These three ideologies still exist, but with a radically changed scenario at the end of the twentieth century. Economic liberalism has the essence of market economy to propel economic efficiency, growth, and welfare. The problem with market economy is that it tends to result in a process of uneven development. Diffusion of wealth and growth takes place unevenly throughout the system, and markets are constrained by cyclical fluctuations and disturbances which often lead to increasing vulnerabilities and dependencies. Whenever markets proved to be inadequate or failed, consensus emerged over the "market friendly" approach as an alternative to development. Protagonists of the latter philosophy believe that markets and governments must work in tandem for spectacular achievements. Otherwise, they anticipate the results to be disastrous.

It is this context that makes *economic nationalism* pertinent and salient. *Economic nationalism* is essentially a doctrine that assumes and advocates the safeguarding of a nation's own economic interests as the anchor line of its economic policy. This principle is held the minimum essential requirement for a nation's survival and security.[17] Although economic nationalism emphasizes total commitment to nation–building, the precise objectives pursued and policies advocated have differed in different times and places. Expressed in simple terms, economic nationalism is the conduct and management of the economic welfare of a nation. It is untrue to say that its sway ended with the rise of the market economy. "Defensive economic nationalism frequently exists in less developed economies or in those advanced economies that have begun to decline; such governments pursue protectionist and related policies to protect their nascent or declining industries and to safeguard domestic interest. In a world of competing states, the nationalist considers relative gain to be more important than mutual gain."[18]

Since interdependence is the hallmark of market, it is often asymmetrical and does not always lead to integration. Therefore, nationalists prefer national self–sufficiency to economic interdependence. The term economic interdependence suggests a two–way process. When interdependence exists between small and big countries, a relatively small change in the big country may lead to a seismic change in the small country. For instance, the link between the United States and Canada is so close and strong that when the United States sneezes Canada catches pneumonia. Since Canada is as developed industrially, culturally and politically as the United States, its 'interdependence' does not suffer from the risk of becoming perverted into dependence in this particular instance. But this is not the case in the relations of many other countries such as those of the United States and Guatemala, France and the Ivory coast, Britain and Ghana, and India and Nepal. Interdependence is sharply asymmetrical in these countries. "The more unequal and one –sided the flow of influence and power, the more have people in the poorer and weaker countries been inclined to speak of 'imperialism' and 'dependency.'[19]

Economic nationalism is not just a reaction to the market and price mechanism; neither is it a revolt against non–interventionism. Economic nationalism is an appropriate foundation for market economy and the most effective means of managing domestic and international economic relations, especially in a small geographically handicapped economy like ours where there is always skepticism about sustaining democracy. "Democracy" observes one author, "will not be valued by the people unless it deals effectively with social and economic problems and achieves a modicum of order and justice".[20]

In a developing economy like Nepal's, economic nationalism needs further conceptualization and modification. It should not be viewed simply as crude isolationism, benign protectionism or even arrogant autarkism. All nationalists ascribe to industrialization as a vehicle for economic self –sufficiency and political autonomy. However, the contemporary developing economies must maintain a balance between the three sectors — agriculture, industry, and environment for sustainable development. Sustainable development has universal appeal in the developing world, irrespective of various economic principles adhered to, be it market economy, economic nationalism, or Marxism. The proposal of economic nationalism as a foundation of economic statecraft[21] has to be tested in a vulnerable economic situation on the ground that economic liberalism does contain unrealistic assumptions of the existence of national economic actors and competitive market.

FIVE PILLARS OF ECONOMIC NATIONALISM

The first and foremost precondition for sustaining economic nationalism is the evolution of a sound *national consensus* on the major economic issues at both the local and national levels. This would strengthen the role of peoples' participation in making decisions and help transform political strength into economic strength. National consensus has wider implications in small economies. It manifests general agreement beyond majority and homogeneity. It is imperative to identify critical economic issues and priorities in developing economies like ours. Where national issues, economic or political, are unsettled, there are examples of how nations opted referendum to ratify. In the Nepalese context, where hydropower remains a controversial issue, consensus has to be developed to harness its potential. The suggestion for multi-purpose water resource schemes including irrigation, surface and ropeway transportation, navigation, rural electrification, and export of surplus to India and neighboring countries, has often been a subject for long and heated discussions. The common Nepalese people have no special fascination for India or any other bilateral or multilateral cooperation to exploit water resources for economic development.[22] More significant is the equal sharing of benefits without circumventing the national interest.

The Nepalese obsession for hydro-dollars from its 6,000 odd streams and rivers has completely ignored the reality that "Water development in general and energy marketing in particular are political questions involving resource control and bargaining strength rather than straightforward economics and technology."[23] In the absence of a consensus over the national economic issues--e.g., water resources--any attempt toward economic development would remain patchy and incomplete. Why is national consensus a desirable feature of economic development in vulnerable economies? One obvious reason is that politics tends to divide and economics tends to unite. National consensus also paves the way for independent formulation of national economic policies in the small, highly dependent, and poor countries.

The developing countries are mostly governed by "comprador groups" and elites whose loyalties remain confined to the multinational corporations and foreign governments. This has tended to sharpen the sensitivity and vulnerability of small states with which they maintain economic relations. "Most interdependent relationships are asymmetrical; if they involve significant vulnerabilities, they become instruments for manipulation, pressure or even threats".[24] Small states are characterized by their inability to develop appropriate strategies for development and their lack of vision or self-direction. Thus, the second important feature of economic nationalism is the *evolution of independent domestic economy* more efficiently. Recent developments on the economic front illustrate the point that Nepalese economic policies--whether in the case of devaluation, partial convertibility of currencies, or trade iberalization--are totally dependent on and strictly tied up with Indian economic policies. Although the proposal to join the Indian economy on a greater scale to ensure long – term growth and stability in the Nepalese economy has its own attractions and limitations, it is certainly an indication of the inability of the Nepalese leadership to apply an independent domestic economy. The rise of a 'Third Wave Economy' or 'Super Symbolic Economy' is not only the result of the 'info-techno revolution', but also the aftermath of successful application of independent domestic economy.[25] The high priests of development, a product of western liberalism, who are engaged in delivering development in poor countries, are delivering only tensions and unrest.[26]

The third essence of economic nationalism is *economic integration* within and across the national boundaries. Three features of economic integration--national, regional, and global-- are equally important for a small country like Nepal where accessibility and infrastructure are extremely poorly integrated with the national market, resulting in poor delivery, excessive price discrimination, and inflation. Unfortunately, the Nepalese economy does not have control over even the national market. In the absence of an integrated national market in Nepal, the exports of specific commodities to India have turned into imports of the same materials with a manyfold increase in prices.[27] For the last several years, the process of regional economic integration subscribed to an introverted *uni-regional* approach to trade and industrial development. Ours is a special situation and, therefore, the strategy for economic integration must contain a *bi-regional* approach. The greater the possibility for expansion of the boundary of economic integration, the higher the advantages secured for the least developed countries.

Although structural changes in the past have resulted in trade diversification, excessive dependence within the realm of the subcontinent still predominates the trade scenario of Nepal. The propositions of a customs union and common market with India offer no guarantee against the trade and transit impasse of 1988. Thus we must find a substitution for the conventional framework of the Regional Common Market, that remains confined strictly to the perimeter of the subcontinent, and reach beyond this framework. On the other hand, import liberalization without sufficient export possibility has a certain built-in implication of higher demand for luxury items that may exert considerable pressure on foreign exchange and savings, create a serious economic imbalance. The term bi-regional trade means the Trans-Himalayan trade which Nepal has enjoyed for centuries with the Tibetan autonomous region of China. This part of our economic relationship demands new dimensions in the changing context.

The fourth element of economic nationalism is the notion of *self–reliance*. There is an urgency for small countries to move from dependence to interdependence and finally to self–reliance. This needs protection for the national entrepreneurs and domestic industries, transfer of technology from industrialized to backward countries, and development of indigenous technology. The success stories of "four dragons" of the Asian new industrialized countries (NICs)--Hongkong, South Korea, Singapore, and Taiwan[28]--have encouraged many developing nation to follow their strategies for development. Although the actual magnitude of the unsanctioned economy is yet unestimated, the growth of assembling industries with poor value added in the past has heightened the domain of the parallel economy in Nepal. These assembling industries have preliminary attraction to industrialization but provide no substantial contribution to the nation's economy. They do not lead to self–reliance; they rather help in increasing the degree of dependence. Thus, it would be prudent to develop industries based on domestic raw materials with spatial diversification. Import substitution and export diversification have been used by Third World countries as development strategies for many years.[29] But the primary focus of industrial development should be industrialization for the domestic product.[30] In order to sustain industrialization and promote self-reliance, focus must be centered around the growth of cottage and small scale industries. The village and small industries sector has been imbued with a multiplicity of objectives: generation of immediate employment opportunities using relatively low investment, promotion of more equitable distribution of national income, effective mobilization of untapped capital and human skills, and dispersal of manufacturing activities all over the country. This would lead to the growth of villages, small towns and economically lagging regions. It would also help promote sub-urbanization of the villages.

The fifth approach to economic nationalism is the induction of *innovative resource planning*. The evolution of democracy, modernization, and planning began in Nepal during the fifties. However, democracy capsized within a short span, with continuation of three additional decades of political confusion that countervailed efforts at combating poverty and stagnation. After more than thirty-five years since the emergence of the First Five Year Plan, the people still live in untold misery, suffering, and wretched conditions and continue to struggle for a better future. What went wrong with our exercise in planning? No single answer would be sufficient to explain the disaster.

The approach paper to the Eighth Plan (1992-97)[31] appeared with promises for a better life to each Nepali within five years from now. The Eighth Plan document, an outcome of the contradiction between privatization and socialism, as stated in the manifesto of the ruling party, has political overtones of futurism that consider static parameters of development with no proposal for substantial change in the nation's socio-cultural settings, economic order, and bureaucratic set-up. This is a continuation of the previous plans in the sense that it lacks management dynamism and fails to incorporate innovative resource planning. Unless the prospects for total resources in the country --physical, human, and capital--are fully identified, development planning will remain backhanded. Innovative resource planning not only demands a total knowledge of the existing status of resources-- water, subterranean raw materials, flora and fauna, and human power--at the local level and their commercial potentialities, it also perceives their complementarities to each other in a holistic framework, both spatially and temporally. So far, there has been no such attempt to explore resources in the Himalayas and in the Terai for their commercial viability and their relationships. Although the nature of resource constraints seems at first sight straightforward, this appearance is to some extent receptive. What is more important is the introduction of a long—term perspective planning for at least twenty-five years which could effectively deal with the problems of poverty, stagnation, and sustainable development. Planning in a resource-scarce economy and development of a future-oriented economy is certainly a difficult choice, not to be compromised with the number games, whims of ivory towers, and the fiat of conventional decision makers. But that also is the real challenge before economic nationalism.

CONCLUSION

The small nations, especially the landlocked ones with narrow and fragile economic structure, suffer from increasing threats to their economic security related with poor resource base, specialization of exports confined to one or two items, high dependence on foreign aid and technology, external debt, and little control over resources.[32] Furthermore, poverty has been an important destabilizing factor in increasing the vulnerability of the small countries.[33] This has often led to the assumption that small countries are not viable entities, economically and politically, and that developing countries have been forced to reconcile growth strategy with privatization, market liberalization, and structural adjustment without appropriate infrastructure. "If the claims for privatization depend on market liberalization and if market liberalization means highly imperfect market, then privatization means that one imperfect system is being substituted for another, the presumption of market superiority, which depends on the approximation of a perfect market, is no longer guaranteed".[34] This paper is thus not a proposition to denigrate the significance of market system but a reminder to vulnerable economies not to overlook the critical role of economic nationalism pushing themselves ahead for development.

The challenges to the Nepalese economy are countless. "The country is now in a period of crisis, whose major components, over the next decade, will include serious over–population relative to employment opportunities, ecological collapse in the densely populated and highly vulnerable hill areas and the elimination of certain important natural resources, both in the hills and in the plains."[35] How can we cope with these challenges? The hill economy, for years neglected, has to be geared up in the Eighth Plan so as to sustain the carrying capacity of the Terai on the hand and, more importantly, to eliminate poverty from the hills. The development of the hill economy requires division of various ecological zones, for it stands for specialization of cash and food crops. The Eighth Plan must incorporate the issue of strengthening the hill economy as a special feature of planning, for it is the backbone of the Nepalese subsistence economy.

Poverty in Nepal is largely the manifestation of the poor agricultural situation, which itself is an immediate consequence of the prevailing structure of economic and political relations.[36] The agriculture sector in Nepal is facing the acute problem of dual ownership on land. It is virtually impossible to abolish dual ownership on land, for it has provided status, security, and power in the prevailing socio–economic structure for generations. The Nepalese have shown emotional attachment to land. An alternative is to ask the absentee landowners to voluntarily withdraw their entitlements at reasonable market prices in favor of the actual cultivators and tenants. The financial institutions could be instrumental in helping negotiate such deal by supplementing the desired level of investment to the tenants. This should be a continuous phasewise process at the micro level. In this context, a scientific land ceiling becomes imperative to sustain productivity in agriculture, with due care to the prospects for mechanization.[37] This needs a movement toward green revolution.

Economic development in Nepal is associated with foreign aid. However, there is considerable apprehension over the role of foreign aid, for it has provided little to target groups and has economically and politically legitimized the status quo.[38] Although there has been no such attempt to measure the productivity of foreign aid, its effective use would have had significant bearing upon the economy.

Water resources, tourism, and human resources are three pertinent areas which could give a new lease of life to the Nepalese economy. Critical efforts must therefore be made in the Eighth Plan to sustain economic development by generating confidence through peoples' participation and by developing a new administrative culture. Poverty alleviation, a popular slogan of the new development dialogue, has brought in a worldwide wave and curiosity in the development drama. Unfortunately, communism has failed to eliminate poverty; capitalism is aggravating the extent of poverty; and the so – called mixed economy can only be expected in the future to increase both poverty and dependence on the developing countries. Nepal can be no exception to such prospects. Hence Nepal must develop a clear national alternative on the economic front.

In an economy like Nepal's, where sensitivity, vulnerability, dependence, and interdependence concurrently exist, the only appropriate alternative to the traditional models of economic development would be the propagation of a philiosophy and the implementation of economic nationalism for survival and development. Small states must transform their struggle from the political to the economic level. They must transcend political strength achieved through political democracy to economic strength to sustain economic democracy. It is a grim reality that the Nepalese economy is vulnerable and, its future unpredictable. The growth of economy and rise of nationalism must therefore move together in the small economies like ours.

Table 1
Basic Indicators: Selected Developed and Developing Countries

Country	Population in millions (mid 1989)	GNP Per Capita Income (in US dollars)	Average Annual Growth Rate (in Percent) 1965–89	Average Annual Growth of Inflation 1980–89	Life Expectancy birth (years) 1989
Low Income					
Ethiopia	49.5	120	–0.1	2.0	48
Bangladesh	110.7	180	0.4	10.6	51
Nepal	18.4	180	0.6	9.1	52
India	832.5	340	1.8	7.7	59
Srilanka	16.8	430	3.0	10.9	71
Indonesia	178.2	500	4.4	8.3	61
Average	2,948.4	330	2.9	9.1	62
Middle and Upper Middle Income					
Egypt	51.0	640	4.2	11.0	60
Philippines	60.0	710	1.6	14.8	64
Thailand	55.4	1,220	4.2	3.2	66
Argentina	31.9	2,160	–0.1	334.8	71
Brazil	147.3	2,540	3.5	227.8	66
S.Korea	42.4	4,400	7.0	5.0	65
Average	1,104.5	2,040	2.3	73.0	66
High Income					
United Kingdom	57.2	14,610	2.0	6.1	76
Germany, F.R.G.	62.0	20,440	2.4	2.7	75
United States	248.8	20,910	1.6	4.0	76
Japan	123.1	23,810	4.3	1.3	79
Switzerland	6.6	29,880	4.6	3.6	78
Average	830.4	18,330	2.4	4.6	76

Source: *World Development Report*, 1991, Table 1, p. 204–5

Table 2
Structure of Production, 1989
Distribution of Gross Domestic Product (in percent)

Country	Agriculture	Industry	Manufacturing	Service
Tanzania	66	7	4	27
Nepal	58	14	6	28
India	30	29	18	41
Srilanka	26	27	16	47
Egypt	19	30	14	52
Thailand	15	38	21	47
S. Korea	10	44	26	46
United Kingdom	2	37	20	62
United States	2	29	17	69
Japan	3	41	30	56

Source: *World Development Report*, 1991, Table 3, p. 208–9

Table 3
Structure of Demand, 1989
Distribution of Gross Domestic Product

Country	Gross Domestic Investment	Gross Domestic Savings	Exports of goods and Non–factor Services	Resource Balance
Bangladesh	12	1	8	–11
Nepal	19	7	13	–12
India	24	21	8	–3
Srilanka	21	12	27	–9
Egypt	24	7	22	–17
Thailand	31	29	36	–2
S.Korea	35	37	34	3
United Kingdom	21	18	24	–4
Japan	33	34	15	2

Source: *World Development Report*, 1991, p. 220–21

Table 4
Nepalese Economy: Selected Macro Economic Indicators
(As of 1989)

Structure of production	
1. GDP (millions of US$)	2,810.0
2. Distribution of gross domestic product	
Agriculture Sector	58.0
Industry Sector (manufacturing 6 percent)	14.0
Tertiary sector	28.00
Agriculture and food	
1. Fertilizer consumption (hundreds of gms. of plant nutrient/ha. of arable land)	232.0
2. Average index of food production per capita (1979–81=100)	107.0
Commercial Energy	
1. Energy consumption per capita (Kilograms of oil equivalent)	24.0
Structure of Demand (as percent of GNP)	
1. Gross domestic investment	19.0
2. Gross domestic savings	7.0
3. Resource balance	–12.0
Structure of Consumption	
1. Food	57.0
2. Clothing and footwear	12.0
3. Gross rents, fuel and power	14.0
4. Medical care	3.0
5. Education	1.0
6. Transport and Communication	1.0
7. Other consumption	12.0
Central Government Expenditure (as percent of total expenditure)	
1. Defense	5.2
2. Education	10.0
3. Health	5.0
4. Housing, Social Security and welfare	5.0
5. Economic Services	49.0
6. Other	25.8
7. Total expenditure (as percentage of GNP)	22.0
8. Overall surplus/deficit/as a percentage of GNP	10.1
Central Government Current Revenue (as percent of total revenue)	
1. Taxes on income, profit and capital gains	11.7
2. Domestic tax on goods and services	36.1

3. Taxes on international trade and transactions	30.5
4. Other taxes	5.6
5. Non–tax revenue	16.2
Growth of Merchandise Trade	
1. Exports (millions of US$)	156.0
2. Imports (millions of US$)	580.0
Total External Debt	
1. Total External Debt (millions of US$)	1,359.0
Total External Debt Ratios	
1. Total external Debt as a percentage of GNP	43.5
2. Total external Debt as a percentage of GNP exports of goods and services	16.0
3. Interest payment as a percentage of exports of goods and services	6.9
Population Growth and Projections	
1. Average annual growth and Population (in percent) (Population growth rate of some countries Libya: 4.2%, Kenya: 3.9%, Zambia 3.7%, Iran 3.5%, Pakistan: 3.2%, Bangladesh: 2.6%, Sri Lanka: 1.1%)	2.6
2. Age structure of Population (in percented)	
0–14 years	43.0
15–64 years	54.9
Demography and Fertility	
1. Crude birth rate (CBR) per, 1,000 population	41.0
2. Crude death rate (CBR) per, 1,00 population	15.0
3. Total Fertility rate (TFR)	5.7
Health and Nutrition	
1. Population per physician (1984)	30,220.0
2. Infant mortality rate per 1,000 live births	124.0
3. Daily Calorie supply (per Capita)	2,078.0
Education	
1. Primary net enrollment (%)	6.0
Urbanization	
1. *Urban Population as a percentage of Total population*	9.0

Source: *World Development*, 1991

Table 5
Key Economic Indicators

	1984/85	1987/88	1988/89	1989/90	1990/91	1991/92[1/]
1. GDP at constant price (Percentate change)	6.15	7.25	3.86	3.59	4.01	3.20
2. Consumer Price Index („)	4.1	11.1	8.1	11.5	9.80	20.8
3. Balance of payments (in Billion NRS)						
Export	2.75	4.13	4.21	5.17	7.62	14.06
Import	7.77	13.89	16.30	18.36	24.23	34.29
Trade balance	-5.02	-9.76	-12.09	-13.19	-16.61	-20.23
Current A/C balance	-1.85	-4.62	-6.32	-7.75	-10.25	-10.08
Current A/C balance (As % of GDP)	-4.1	-6.7	-8.1	-8.7	-10.2	-8.0
Foreign Loan	1.36	4.68	6.30	6.62	7.15	8.32
Capital and other items	-0.29	2.53	0.47	4.51	8.74	7.76
(Surplus + Deficit -)	-0.87	2.27	0.08	2.65	4.78	5.00
Foreign Exchange Reserve of the Banking System	2.38	7.06	8.29	11.59	18.76	22.29+
Reserve Adequate for month of the Import	3.69	6.11	6.12	7.59	9.30	8.60+
4. Government Finance (In Billion NRs.)						
Revenue	3.92	7.35	7.78	9.28	10.70	13.22
Expenditure	8.39	14.10	18.00	19.67	24.48	26.64
Fiscal Deficit	-4.47	-6.75	-10.22	-10.39	-13.78	-13.42
Foreign Grant & Loan	2.67	5.90	7.35	7.94	8.68	11.82
Domestic Borrowing	1.80	1.13	1.33	2.15	4.89	2.08
Domestic Borrowing (As % of GDP)	4.1	1.6	1.7	2.4	4.9	1.7
5. Monetary Survey (In Billion NRs)						
Money Supply (M_1)	5.48	9.60	11.78	16.22	16.28	19.11
Broad Money (M_2)	12.30	21.43	26.61	31.55	37.71	45.23
Domestic Credit	12.55	20.47	26.58	29.66	34.49	41.13
Credit to Govt & Govt. Enterprises	8.51	12.16	15.34	16.77	18.91	20.48
Private Sector Credit	4.04	8.31	11.24	12.89	15.58	20.65
Time Deposits	6.82	11.83	14.83	17.33	21.43	26.12

1/ = Provisional Estimate
\+ = First eight months
Source : *Nepal Rastra Bank*

APPENDIX

Characteristics of Four Scenarios of Global Economic Conditions for the 1990s

Clusters of Characteristics	Low case (15 percent)	Downside (30 percent)	Baseline (40 percent)	High case (15 percent)
Finance	Serious financial crisis in the United States and Japan with "contagion" effects worldwide & long-term ramifications wide-spread defaults by highly indebted developing countries; very little net inflow of capital to developing countries; very high real interest rates reflecting extreme uncertainties.	Continued financial stress in the United States and Japan, with unchanged policies; many bank failures; lack of further progress of Brady Plan; high real interest rates continue mainly because of the perception of serious risks by markets and a growing shortage of global savings relative to investment needs; little growth of foreign direct investment worldwide.	Gradual reduction in financial stress in the United States and Japan as reforms are introduced to revitalize investment and banking institutions; Brady Plan makes progress remaining major debtor countries are included; real interest rates fall somewhat despite high demand for capital in Europe and Japan, and productivity improves gradually; foreign direct investment flows grow more rapidly but some developing regions are bypassed.	Global financial reforms make the system much more robust; financial integration continues unabated while systemic risks are reduced through regulatory changes; real interest rates decline to pre-1980s levels as risk premia are reduced and as a lengthening of time horizons creates ample savings; a new, more ve combined comprehensive debt initiati- with a sharp increase in foreign direct investment brings about a significant rise in net resource flows to developing countries.
	Trade "war" among major trading blocs (Europe,	Failure of GATT trade negotiations leads to increased	GATT negotiations achieve modest success; tari-	GATT negotiations succeed in bringing about

Trade	North America, and East Asia); GATT framework collapses as high barriers bring a much-reduced growth in the volume of world trade	protectionism worldwide; growth of world trade slows relative to that of the late 1980s, particularly interbloc trade. Now new free trade initiatives.	ffs and nontariff barriers are lowered; both inter & intrabloc trabloc trade grow relatively rapidly, reflecting fundamental trends; but agricultural trade remains protected. New free-trade initiativees lack force and are symbolic only.	a new and more liberal trading system covering goods, services, and agricultural commodities; regional trade arrangements reinforce the global trade creating forces under a new world trade organization.
Energy	Big swings in oil prices around a high level, because of continued political and social instability in the Middle East, while the region becomes a more predominant supplier of oil. Relative decline in the monopoly power of conservative forces in OPEC.	Presistence of high oil prices in the early 1990s because of political uncertainty in the Middle East, but relatively flat and stable path (compared with low case).	Oil prices repidly return to prewar levels and then rise at a steady pace reflecting market fundametals; moderate fuel conservation measures gradually exert downward pressure on international oil prices.	New political arrangements in the Middle East combined with cooperation between producers and consumers and bold new environmental initiatives lead to persistently lower international oil prices.
Policy	The G-3 countries fail to agree on macroeconomic policy goals; the policy dialogue established in the 1980s collapses; extreme uncertainty about global inflation and exchange rates among G-3; large number of developing countries	The G-3 countries cooperate only to avert crisis but fail to stabilize excessive volatility in financial prices; U.S. fiscal deficit becomes major source of uncertainty; payments imbalances within the OECD persist or reemerge; OECD	Improved cooperation among the G-3 countries; gradual but steady decline of balance of payment imbalances and less volatility in financial prices; low G-3 inflation remains an anchor; improved exchange rate stability; most developing	Policy coordination among the G-3 countries on fundamental monetary reform leads to far less volatility in financial prices, especially exchange rates and interest rates; pace of supply-side reforms in both indus-

	fail to implement extended reforms; only a small fraction of developing countries continue with intended policies.	remains a net capital importer; many developing countries attempt to stabilize macroeconomic conditions and introduce reforms but the pace of progress is slow, with many setbacks.	countries manage to implement intended policies, particularly countries that experienced little or no growth in the 1980s.	trial and developing countries accelerates; most developing countries implement intended policies or initiatie new programs for development.

Note: The percentage in parentheses associated with each scenario refers to the subjective probability of occurrence.

Source: World Bank, *Global Economic Prospects and the Developing Countries*, May 1991.

FOOTNOTES

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