

# Implications of Globalization in Nepal

Ghanshyam Lal Das\*

## Abstract

*This paper is an attempt to analyze how Brettonwoods system acts as an engine of globalization in the present global economic environment. Globalization cannot be treated as a grand panacea of all the economic ills of all the countries. It has both positive and negative implications. This paper attempts to dwell upon some emerging opportunities and major challenges of globalization in Nepal. It is crystal clear that globalization is unblockable and it will be faster in days to come, so no country can remain isolated for longer period. Thus instead of blind chasing or opposing the process of globalization, it should be managed cautiously to maximize benefit to all with minimum risks.*

## Introduction

The world economic scenario is fast changing towards liberalization; privatization and globalization and thus high protectionist wall for trade and industry are now becoming vulnerable. In the past fifty years or so, there have been many success stories, cases of failure and disappointed expectations. The challenges of economic development have to be visited and revisited because there are many central issues unsettled questions and unfinished tasks. One solved problem may open new issues (Meir 2000). Development strategies, policies and tools go on changing. Over the years, the development philosophies have undergone an extensive metamorphosis encapsulated by four changing paradigms. These are (a) Cooperation for survival also known as North South Dialogue (Willy Brandt) (b) Environment and sustainable Development (Bruntland) (c) Structural Adjustment Programs with built in features of market and globalization (IMF and World Bank) and (d) participatory Development or alternatively called as People Centered Development (Nyerere). Yet the ultra poor, the victims of development drama are far from the site of development (Dahal, 1999:2). Presently, it is period of policy reforms particularly towards market friendly plus IMF's debt conditionality, World Banks structural adjustment and WTO's free and fair international trade.

Globalization is the process by which events; decisions and activities in one part of the world have significant consequences for other part of the globe. It represents closer integration of the world economy resulting from increase in trade, investment, finance and multi nations

\* Dr. Das is Associate Professor and Head, Department of Economics, M.M.A. Campus, Biratnagar, Nepal.

production networks of MNCs. It extends beyond economic interdependent to include dilution of time and space dimensions as a result of spread of information technology (Yusuf and Stiglitz 2000). Globalization is a process towards growing economic integration of goods, services and capital markets, its benefit do not come automatically but require good policies especially "stable Macro economic policies, open trade regimes and flexible product and factor markets supported by effective exit" policies for non-competitive industries (IMF Survey 1997). Kuper and Kuper are of the view that globalization refers to an advanced stage of development where capital technology, labour, rawmaterials, information and transportation, distribution and marketing are integrated or interdependent on a global scale. This gives rise to the economy that works as a unit in real time on a planetary basis (Kuper and Kuper, 1996).

Thus it can be rightly concluded that globalization is the process of global integration of the national economy where there is just one world. It is supra national concept which has crossed national borders. It is cause of death of distance through fastest growth in information technology, unrestricted movement of goods, services and capital, weakening International borders and production network of MNCs. It represents the concept of "global neighborhood", "global village" or "the world without borders". It is crystal clear that globalization portrays the success of Anglo-Saxon Classicism based on Adam Smith and John Locke. It is the victory of democracy, liberalization and capitalism over all other ideology and statecraft (Gill, 1990).

### **Global Economic Environment**

The world economy till the last decade of twentieth century was divided into two parts. One led by socialistic block (USSR) which has largely influenced the developing and the newly independent countries and the other led by capitalistic block (USA). Communists countries launched their growth and social equality programme with the help of central economic planning and adopted the policy of nationalization and collectivization of means of production, whereas the capitalistic countries adopted free market economy to achieve socio-economic development yet the role of economic planning is not totally ignored by them. It is found that USSR, China and other communist countries achieved remarkable socio-economic changes on the one hand and in the capitalistic block, western Europe, North America, Australia, Japan and few other countries of Asia emerged as major power houses of economic growth on the other. Unfortunately during the 1970's and 1980's most of the communist countries faced the miserable impact of collectivization or nationalization of means of production such as low level of productivity, rising unemployment, scarcity of basic socio economic needs and poorest performance of state undertakings. China, under the pragmatic leadership of Deng Xio Ping had started to liberalize the Chinese economy to wipeout the weakness of centralized planned economy and to match the socio economic development with liberalized economy of the world (Das, 2002 :74). Gorbachov the then president of USSR had given the policies of "Glasnost" and "Perestroika" which encouraged towards the liberalization of soviet economy and adoption of free market economy. This is true it had made room for the abolition of centrally planned communistic system in USSR, Hungary, East Germany, Czechoslovakia, Yugoslavia, Poland, Romania, Albania and many other countries of the world. The most remarkable event as the symbol of wonder is the fall of the Berlin Wall, the dancing at the

Brandenburg Gate by millions of Germans and the integration of west and East Germany. It is remembered as the landmark incident of the later part of the twentieth century and also as the sign of the desire of long suppressed citizens towards the free market capitalistic economy (Das, 2000 :75). It has strengthened an environment in favour of privatization, Liberalization and globalization, which have gained momentum later on in every parts of the world.

### **Brettonwoods System: An Engine of Globalization**

United Nations Monetary and Financial Conference held at Brettonwoods, New Hampshire in July 1944 sprang up the Brettonwoods twins the IMF and IBRD which have become stronger over six decades. In 1945 US department of state proposed for setting up an International Trade Organization. In 1946 economic and social council of the United Nations started to prepare the charter for proposed ITO. In 1947 AD the first tariff negotiating conference was held at Geneva and a multilateral contract was signed on October 30, 1947 and became effective from 'Jan 1948 which is commonly known as GATT. In 1952, US administration declared that it would not submit the proposed ITO charter to the congress for ratification. Thus the proposed ITO was never born. On the other hand the GATT has been working as the major multilateral instrument for international trade over its five decade of history. Since then eight rounds of multilateral trade negotiations have been completed. The Eighth or the Uruguay Round took more than seven years and was participated by 123 nations. The Uruguay Round went much beyond the reduction in tariff and non tariff barriers to most comprehensive multilateral agreements including tariff, non tariffs measures, services, TRIPs (Trade Related Intellectual property Rights) TRIMS (Trade Related Investment Measures), Textiles, clothing, anti-dumping, agriculture, Technical Barriers to trade TBT, MFA abolition, Special Privilege to developing and least developed countries etc. From Uruguay Round WTO replaced GATT with effect from 1Jan 1995, through the long process of multilateral negotiations of several rounds taking almost four decades as the 3<sup>rd</sup> pillar of Bretton woods systems (Sharma, 2001:13)

At present, there are 145 signatories in WTO. Nepal had applied for WTO membership in 1995. Under WTO regime new member has to satisfy the conditions put forward by existing members. Nepal is proceeding forward in this direction. Our neighbor countries India, Pakistan, Bangladesh and Srilanka are the members of WTO since 1995. China got membership on December 2, 2001 after seventeen years. It had applied for GATT membership in 1984 after having walked out in 1950. IMF exercised four methods i.e. devaluation export promotion, privatization and liberalization, The structural adjustment of the world Bank asks to reduce public spending or the role of the government, increase privatization of public enterprises, go for liberalization, shift incidence of taxation from tariff to domestic taxes, widen tax base, reduce public deficit, liberalize the financial system and assure benefit to the private sector. The WTO is stated as striving for free but fair trade and are the conclusion of the programs under taken by both the IMF and the IBRD (Sharma 2001:21-22). Thus WTO supplement the IMF and IBRD pressure for liberalization, privatization and globalization of the economy. Thus it can be rightly said that Brettonwoods system acts as an engine for free market capitalism as against state assisted capitalism.

### **Some Realities of Nepalese Economy**

Implications of globalization or any economic doctrine basically depends on the ground realities of the economy concerned. It is bitter truth that in spite of five decades of development planning in Nepal the overall situation of the Nepalese economy does not seem to be rosy. Agriculture, the backbone of Nepalese economy continues to be the largest subsistence sector. Nepal, decades ago was food exporter presently it is turned into food importer country and a nation of hungry due to dismal performance in agricultural sector, mounting population growth rate and basically due to absence of good governance. Disequilibrium in the balance of trade has reached to the critical stage. According to CBS measurement of National standard living Survey 1996 around 9 million people i.e. 45 percent of the population of Nepal live in abject poverty (CBS 1996). Thus poverty still remains the central critical issue in Nepal. Unemployment is rising day by day in spite of tireless planned efforts to generate creative employment opportunities. Annual population growth rate is 2.24 percent where as GDP growth rate in 2057/2058 B.S. is only 0.8 percent. Any one can imagine the graveness of the economic situation in Nepal. Most of the public sector undertakings are running into heavy losses due to mounting corruption, mismanagement and political interference. In fact, public sector undertakings of Nepal are turned into politician undertakings Slackness and sickness are commonly observed in private sectors trade and industry. External aid and loan are rising year after year but Nepal remains among the worst poverty stricken nation of the world. Political instability, insecurity, terrorism, corruption, poverty, unemployment, rising deficit in balance of trade etc are the ground realities which's are determining the fate of 23 millions people of Nepal. Economic development efforts of Nepal in recent years have been toned down by increasingly acute and rampant corruption that marginalized the prospects for good governance in Nepal. Although good governance requires accountable, legitimate and transparent government, corruption has been the biggest curse, which has broaden the gap between government and the citizen in the absence of conscious civil society (Bongartz and Dahal 1996). Commission fed politics; corrupt bureaucracy and smuggling have jeopardized the economic progress of Nepal (Dahal, 1998).

### **Globalization: Emerging Opportunities**

A country may be benefited from the following emerging opportunities of globalization. Certainly Nepal can also take advantages from these opportunities.

Globalization makes trade and industry more competitive. It creates an environment where there is the only possibility of survival of the fittest due to global competition and integration Competitive trade, industry, and service sector will remain alive and others have to be folded up. Certainly it is painful but it is must for long-term benefit. It provides an opportunity to develop competitiveness in cost and price, quality improvement through increasing efficiency in trade, industry and service sector. An economy should proceed either to achieve it or be ready to die. Due to liberalization in financial sector more than dozen foreign joint venture banks and other institutions are operating efficiently and competitively in Nepal. Thus at this juncture, the days of more vocal advocacy to protect national enterprises have gone away.

Consumers of all over the world are the real gainer of globalization. In practice, consumer again become the real king because of huge availability of goods and services and rising choice between them. Consumers are able to enjoy wide range of qualitative products at the lowest possible prices. It gives rise to consumerism. Consumers become the focal point of attention. They are getting basket of choice so they become more quality and health conscious. Consumer's courts are established to protect the interest of consumers at large.

Globalization increases Foreign Direct Investment (FDI) everywhere in the world. Multinational Corporations (MNCs) are investing largely everywhere in the world. They are solving the problem of scarcity of capital of poor countries. It has opened new horizon for harnessing benefits from FDI to all developing countries. China is the fastest growing developing economy and the largest recipient of FDI. Multinational companies are inabserved that global change in FDI is from US\$ 200 billion in 1990 to US\$ 855 billion in 1999 (World Bank 2001). The change is highly remarkable and appreciable. It will certainly raise level of productivity, employment, income and standard of living of the people in different countries. WTO special study 2000 remarks that liberalization is generally a strong positive contributor to poverty alleviation, it allows people to exploit their productive potential, assists economic growth, curtails arbitrary policy interventions and helps to insulate against shocks (WTO Special Study No. 5, 2000) Some of the multinationals are successfully facilitating the development of trade and industry in Nepal such as Coca-Cola, Pepsi Cola, Dabur, Lever, Mc-Dowels etc. FDI is also coming in the power sector of Nepal. It depends on our ability to channelize them in proper direction.

Due to globalization the world has made very significant progress particularly in the field of information technology. Revolution in information technology has bind Nepal with the rest of the world in unimaginable ways. Personal computers, fiber electronics, satellites, cellular phones, network of faxes, email, the Internet etc makes economic, political, social globalization more and more a reality. Prices of Communication means's have been falling consistently in many countries of the world. These services are knocking even at the door of weaker sections and also in remote areas. Though this situation is not found in Nepal due to lack of liberalization and privatization of our communication sector in full swing.

It is necessary for us to act according to the world trade network within the sphere of WTO, if Nepal fails to do so, certainly it will be isolated from rest of the world particularly in the field of international trade. To avoid WTO means the exporters of Nepal would be left at the mercy of bilateral trade agreement. It is to be noted here that Multi Fiber Arrangement (MFA) system is going to be phased out so isolation from the world in the present scenario is beyond the imagination. We must keep in mind that almost cent percent of international trade are conducted under the umbrella of WTO nations.

WTO an architect of globalization provides some special facilities to the developing and least developed countries such as TRIPs will not come into practice in least developed countries before January 1, 2006. Being a least developed country, Nepal would get privilege of longer transitional period for the enforcement of many agreement on the one hand and can also use subsidy in certain specified cases on the other. Thus to enjoy these facilities, membership of WTO is a must.

WTO gives ample of opportunities to settle any disputes regarding trade, tariff between member countries, facilitating rules regulations for fair and free international trade. It has developed Dispute Settlement Body (DSB) so that no country can discriminate any other country on any ground. DSB acts neutrally. It gives equal status to all nation whether rich or poor for example the US-Venezuela case in which the decision was made in favour of Venezuela i.e. against the most powerful and economically well off country USA under dispute settlement mechanisms of the WTO (Chhetri, 1999). It proves that all member countries without any favor and disfavor will follow negotiated agreement of WTO. It will certainly benefit to the land locked country like Nepal who had faced severe trade and transit problems in the past.

Spread of globalization has certainly minimized the gap between capitalistic and socialistic blocks. Globalization has pushed the process of democratization in Asia, Africa, Eastern Europe and many other parts of the globe. It emphasizes on free market economy and good governance everywhere.

### Globalization: Emerging Challenges

The major emerging challenges of globalization which Nepal and other developing countries are facing are as follows, Globalization, though open doors for export all over the world, in practice developing countries are not able to raise export tremendously due to lack of sizeable surplus of goods, competitive price and quality. Thus trade liberalization in Nepal actually leads to import liberalization because year after year the gap between import and export is widening and deficit in balance of trade is reached to the critical stage. It is openly observed that Nepalese market is flooded with Indian and Chinese goods. It may leads to the destruction of national economy.

After the introduction of liberalization in Nepal, especially after 1990 Nepalese currency was devalued with respect to dollar from Rs 29.10 in 1990 to Rs 64.0 on January 18, 1998 (Dahal, 1999:16) and to Rs 77.75 in February 14, 2003 AD. Thus purchasing power of Nepalese currency is falling down which is ultimately affecting negatively the standard of living of the people.

Globalization encourages foreign direct investment (FDI). Multinational Corporations are rising. If it is not managed wisely, it may make the position of small and medium indigenous industries more vulnerable due to low capital, low technology and low level of labour force used there. MNCs are generally using capital-intensive technology and highly skilled labour force. In Nepal, it is roughly estimated that about one million labours are unemployed and most of them are unskilled. What will be their fate on the way of globalization? MNCs generally create an environment of survival of the fittest in which small and poor enterprise and unskilled labours have to gone out. So it is said that globalization has no human face and heart.

Globalization is widening the gap between rich and poor. It is more beneficial to the developed countries and billionaires than to the developing countries and marginalized peoples. The assets of the top three billionaires are more than the combined GNP of all LDCs and their 600 million people (Gurugarana, 2001) Facts reveal that the richest one fifth of worlds population has an income 74 times more than the poorest one fifth. Is it fair? (PBKIVV, 2002)

Globalization also leads to financial integration. Crises in one economy can be easily transmitted to other countries due to the death of distance between nations. Crises felt in East Asian countries in 1997 spread across the world. It is said that if United States sneezes the whole world catches a cold. Economic shocks in any one of the top five or six economies are electronically and instantaneously transmitted across the globe and there may be devastating effects (Dunning, 1997).

Globalization is creating threats to national interest. It will be encapsulated by excruciatingly keen competition among the nation with the rise of globalization and regionalization, a threat to nationalism where market and ideology would coincide and where only economically prosperous nations may survive and other whither away. Ideology, morality and security will be largely, if not exclusively determined by the whirlpool of globalization and the market (Dahal, 1999). Peoples of developing countries are badly worried about the threatening of neo-colonization on the name of liberalization privatization and globalization.

Trade Related Intellectual Property Rights (TRIPS) agreement recognizes patents, copyrights, trademark, layout, industrial design etc as an intellectual property. TRIPS agreement protects innovator on the one hand and any imitation and infringement of the original invention regarded as violation of rules and thus made it punishable on the other. After joining WTO, Nepal should have to frame sufficient rules regulation and network to strengthen and enforcement of WTO agreement. It is not an easy task rather costlier one.

Not only this, there is ample of possibilities to increase the food prices, prices of pharmaceutical, agricultural seeds etc due to reduction of subsidies and patenting of seeds, drugs and pharmaceutical, Developed countries and MNCs are very faster in patenting their seeds, drugs and pharmaceutical which will provide monopoly power in their hands.

WTO is gradually proceeding towards the integration of textiles and clothing sector in the multilateral commercial regime for goods ending the special trading arrangement of Multi-fiber Arrangement (MFA) conducted through bilateral trading agreements (Jha 2002). It may be regarded as an opportunity as well as a challenge for the developing countries like Nepal. Nepalese exporters must develop competitive strength regarding cost and quality of output otherwise phasing out of MFA will harm negatively the second largest foreign exchange earnings source of Nepal.

There is lack of "Level Playing Field" in the WTO rules, i.e. the uneven treatment to the labor and capital. Free movement of capital is encouraged whereas free movement of labor is blocked what is this? Certainly it harms the labor surplus developing economy like Nepal. There is necessity to make a common voice of all developing and least developed nations in this concern.

The agreement on the Application of Sanitary and phyto-sanitary (SPS) is related to the trade of food product, animal, animal product and plant. Sanitary measure is associated with the safety of human and animal health and phyto-sanitary to plant health. It is not an easy task to follow this agreement in letter and spirit for developing countries. There is necessity of good governance so that we can improve our technical, legal and moral standard in order to take necessary steps to safeguard human, animal and plant health.

At this phase of globalization, developed countries have raised the issue of Labor standard i.e. to ban the goods produced by child labor, bonded labor etc. It is well-guarded protectionist tools used by developed nations against developing and least developed countries. It has threatened the export opportunities of developing countries. Nepal is facing this problem particularly in the export of carpets. Exporter country must satisfy them that the products to be exported meets labor standard i.e. there is no use of child and bonded labor.

### Conclusion

It is crystal clear that globalization like all other economic philosophy can not be treated as the grand panacea of all the problems of all the people and of all the nations. We must be aware to the fact that it has both positive and negative implications for Nepal. Thus blind chasing or opposing of globalization is at odds. The process of globalization is unblockable and unalterable in present global environment. It is fruitful to change domestic rules, regulation and to implement them with full determination on the one hand and to develop competitiveness, efficiency and corruption free society on the other hand in such a way so that global integration should be more beneficial. Globalization will be faster in days to come so no country can afford to remain isolated for longer period. The world without borders may be turned into reality. The increased international economic interdependence further reduces the scope of individual nation to pursue independent economic objectives. Therefore, the need for effective and accountable global governance has become increasingly obvious (Tisdell, 1999).

There is necessity of global cooperation and awareness to eliminate mass poverty, mass unemployment environmental pollution, ozone depletion, loss of bio-diversity, spread of infectious diseases, drugs smuggling and marginalization of poor Globalization driven by profit and power will certainly not work, it must take account of the human dimensions of the phenomenon. Free market economy after industrial revolution led to imperialism and colonialism. Its result went in favor of the rich, thus developing countries should unite together, act together so that same result should not come once again. Benefits from the globalization do not come automatically rather we should take it out proceeding on the path of free market economy, good governance, transparency, accountability and corruption free society. We should unite and act with the other developing countries to pronounce single voice to safeguard developing countries.

I do remember and agree with the feelings of the great legendary leader Nelson Mandela, who, said, "If globalization is to create peace and stability across the world, it must be a process benefiting all."

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