

A Note on Economic Cooperation and Sustainable Development in Nepal

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Abstract

Economic cooperation and sustainable development has emerged as most popular and vital agenda at present globalized and liberalized economic scenario. No nation can proceed forward in isolation on its way ahead in the path of development. Obviously, the concept and channel of cooperation in national, regional and international levels have been widening rapidly at present context. Thus, the mobilization of economic cooperation to generate the result oriented outputs and its sustainability is a challenge for developing countries like Nepal. In this context, the promotion of economy with the preservation of the social and natural resources for the use of future generation can only sustain the achieved development.

Background

In the present context of globalized and liberalized economic scenario, economic cooperation and sustainable development have come up as a crucial challenge for the developing countries like Nepal. The disheartening macro economic scenario as has been presented below demands a lot of efforts to take the nation along the path of growth and development and thus to sustain the tempo of such development.

Of the total population of 2.32 million in Nepal, almost 31 percent is below poverty line. The per capita income as has been reported by CBS (2006) stands at US \$ 314 in the fiscal year 2005/06. According to the latest information, the growth rate of GDP in an average is 2.7 percent. However, it is expected to go down to the level of 1.8 percent in fiscal year 2062/063. The growth rate of revenue is expected to be at the vicinity of 0.5 percent for the fiscal year 2062/063 whereas government expenditure is expected to increase by 13.3 percent for the same fiscal year. As a result, the overall government budgetary deficit situation stood at Rs. 2.6 billion. The price level has gone up by 7.6 percent. The 10.4 percent growth in export has been over shadowed by the 22.2 percent import growth. (NRB, 2006)

Global and Regional Cooperation

The multilateral/bilateral supports along with national policy and programmes for development are the basic mechanisms for economic promotion of developing countries. In

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this regard various policies and reforms in the National Economy were adopted in recent years. During 1980s and 1990s, Nepal proceeded forward towards the liberalized economy. As a result, Nepal liberalized some specific sectors such as: Trade, Banking, Industries, Agriculture, Communication, Transportation, Health and Education. Introduction of currency convertibility on the current account, duty draw back facilities for export industries, upliftment of restriction on foreign investment are the basic trade reforms adopted in the process of liberalization. Similarly, the government's guarantee not to nationalize private sector with the abolishment of licensing system, encouragement to Foreign Direct Investment (FDI), exploration of potential investment opportunity for Non Resident Nepalese (NRN) are recent industrial reforms. Opening up of Banks in private sector in the form of joint ventures, is a very vital reform in financial sectors. Agricultural perspective plan/APP, with the twenty years prospects spells out the liberalized market of agriculture with the introduction of research extension training system. The formal induction of Nepal in the WTO paves way for international market penetration for Nepal.

Basic Thrust of Sustainable Development

Experiences of developed economies clearly visualize that development can be sustained or may come up with results only when it approaches the local level. The basic thrust of sustainable development is community development based on the mobilization or preservation of natural capital. (ADB, 2003)

Sustainable development is the concept of common future – sharing of natural resources and environment. More specifically sustainable development is a process which implies growth with equity, without the natural capital. "Development that meets the needs of present, without compromising the ability of future generations to access their needs" can be defined as sustainable development.

During the 1960s and 1970s, it was widely realized all over the world that mere economic advancement (GDP/GNP) could not accelerate and sustain the development. The Growth with equity and its sustenance, is not only intra-generus but it is inter- generation as well.

Brundtland (1987) has clearly indicated that the consumption of natural resources must be maintained in such a way that it should not exhaust, but preserve for future generation too. More specifically, the volume of the natural resources needs to be enlarged but not narrowed, since the consumption volume will be increased according to population growth that would help maintain sustainable development. The approach of sustainable development is closely linked up with demographic dynamics and sustained growth in agriculture and other sectors.

Nepal's Effort for Sustainable Development

According to (CBS, 2003), Nepal's population has touched the figure of 23.2 million (2 crore & 33 lakhs). However, it is estimated to be 28.3 million for the year 2006 (CBS, 2006). Development can be sustained only balancing the growth of population and productivity of the nation.

After Rio International Workshop at Brazil in 1992, Nepal also developed a Sustainable Development Agenda. In order to sustain development, a positive change in production and consumption pattern in natural capital, is required such as promotion of environment through the friendly consumption pattern. For this, we can take the case of Community Forestry. Reduction of dependency on forest products by promoting Biogas and solar system can be taken as an alternative energy option. Prevention of deforestation through launching the plantation programs are encourage since conservation of natural resources are the basic thrust for development in a sustainable pattern. Improvement in transport access by developing road networks that connect various geographical regions of the country could add a mile stone on the way of development. Moreover, expansion of nutrition programs targeted to pregnant women, infant and children of poor families should not be ignored as a base of community development. Control the consumption of narcotics, drugs and alcohol through awareness and advocacy needs due consideration. Diversification of consumption by raising the quality and nutrition levels of food is also the major concerns of community development that would encourage sustainable development. Capacity building for enhancing local participation in water supply and sanitation is another community effort for sustainable development (MOPE, 2002). At the same time, sectoral commitments, willingness for development from political, social, community leaders, policy makers, beaucrates and civil society as a whole are the key factors for the development and its sustainability.

Execution modalities such as mobilization of International and National Economic Cooperation, Budgetary allocation, people's awareness and participation at all levels in development programmes are also equally important. Political stability, sound and stable law and order situation and strong security system are the foundations of sustainable development.

The previously mentioned macro economy scenario has clearly indicated that the national development is not in progressive and positive channel. Moreover, the model of sustainable development has become inappropriate. The internal economy is obviously dominated by international economic forces. In fact, the national economy is based on remittance backed by the heavy out flow of youth's migration for work Similarly Foreign Direct Investment (FDI) in Banking and Finance, Education, Health sectors are increasing during last one and half decade. No doubt, these activities offer both the promotion and challenges to the economy. If all our youths keep on flying or disappearing from the country, who will contribute on state building process is a big question mark. Similarly if our local resources and potentialities will not be mobilized or chanzalized, in a proper direction, how development can be sustained? The man power export model will not have any guarantee for economic development. Although it may give a push to the economy it would not definitely sustain the tempo of growth in economy.

The environmental profile of any country plays a vital role to promote and preserve the sustainable development. In this regard, land degradation, loss of biodiversity, water shortage, floods and pollution, air quality, directly affect not only the people's livelihood but also on their quality of lives. Obviously, to maintain the sustainable development in Nepal, some very important measures need to be adopted and executed immediately. In this connection, various steps for environmental reforms and human development measures and extension of

relief packages for the victims of disasters and displacements (both man made and natural) are closely linked up with the concept of sustainable development. (UNDP, 2006)

In fact, community based conservation and development are restoring the bio diversity and also benefiting the community differently. Obviously, total dependent on available natural resources is no longer viable for the rapidly growing population and options must be explored in other sectors as well. It can be clearly realized that in the long run, a degrading environment costs very high for whole civil society if not managed timely. Of course, to bring it into right track many issues need to be addressed at economic, political, institutional, ethical and professional fronts.

Still there is a long way to go in terms of successful exploitation regarding the potential existing natural resources. Some of the development activities can be linked up with the promotion of its natural potentials in forestry, water resources and ecotourism. Conservation of the environment must be an integral part of its all round development strategy to achieve the sustainable development in Nepal.

On 12th June 2006, Annual National Budget of Rs 143.9 billion has been presented, for the fiscal year 2006/07. The prime objectives of the current budget are to institutionalize the democratic system, develop economic infrastructures, improve investment climate and make economic programmes pro-poor and inclusive. Other major objectives of the budget are to increase investment in social sector, implement programmes for relief, rehabilitation and reconstruction. It is expected that it would in addition to the promotion of developmental activities sustain such activities in the country. (MoF, 2006)

Conclusion

In the present global scenario, for the developing countries like Nepal facing multidimensional problems, international support in any form, makes difference on its development and sustainability. Moreover, its foreign policy regarding the political and economic spheres as well as domestic initiatives on public or private investments along with other social activities and civil awareness are the parameters for the sustainable development.

Finally, the government should act as a facilitator of development while the other line agencies such as the NGOs and the concerned community or the civil society are the key players to turn the generated development into the sustainable one.

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Book Review

Madan Kumar Dahal (ed.) (2004). *Nepalese Economy: Approach Towards Building a Strong Economic Nation-State*. Published by The Central Department of Economics (CEDECON) at Tribhuvan University (TU), Kirtipur in collaboration with New Hira Books Enterprises. Price: NA.

Nepalese economy is currently passing through series of hardships. The real sector of the economy has performed well below satisfaction in the past couple of years. The internal instability in the past has pulled down the economic growth rate to less than 2.0 percent. After an end to the decade long internal conflict and the restoration of peace and stability, the economy is all set to bounce back. At this hour, a book on Nepalese economy, a compilation of papers written by prominent figures of the nation and edited by Prof. Dr. Madan Kumar Dahal. This book is the product of Central Department of Economics in collaboration with New Hira Enterprises.

The book under review was published in 2004. It covers various aspects of the Nepalese economy ranging from poverty, environment, and remittances to conflict economy; from agriculture, tourism, human resource to industrial development; from foreign aid, trade, FDI, hydropower to private sector development; from monetary policy, balance of payments, unemployment to value added taxation; from WTO, regional cooperation, financial sector reform, local financing to women and development. The contributors, among others, are Prof Dr. Madan Kumar Dahal, Prof. Dr. Bishwambher Pyakuryal, Prof. Dr. Madhavi Singh Shah, Prof Dr. Bhuwan Bajracharya, Dr. Badri Prasad Shrestha, Madhukar SJB Rana, Dr. Shanker Sharma, Tula Raj Basyal, and Nara Bahadur Thapa.

Of the four sectors of the economy—real, monetary, fiscal and external sectors, the book has extensively covered several issues related to the real sector of the Nepalese Economy. While there are focused papers on Hydropower and Tourism sub-sector of the real sector, the book also contains papers on agriculture, industry and human resource. Macro-economic issues including poverty, employment conflict, and economic development and planning have also been dealt with greater importance.

The book recognizes water resource, tourism, human resource and remittance, and biodiversity as a foundation of the Nepalese economy. Peoples' participatory holistic approach has been explained as a road to build strong economic nation-state. This is a process of transformation of Nepalese economy from lower to upper middle income stratum.

Hydroelectricity has been recognized as a leading sector in the development and modernization of Nepal since Nepal has relatively abundance of water resource, which gives rise to its comparative advantage in hydro-electricity generation. Hydropower helps to initiate a rapid and sustained economic growth by using it in production process or by exporting it. The book elucidates the present status, reviews objectives, strategies, policies and target of

hydropower development in Nepal. It also discusses about the cost, revenue and demand structure of hydropower in Nepal in comparison to other countries. Distorted market, lack of development strategy and some other institutional hurdles have been explained as obstacles for the exploitation of water resource. The book comprehensively covers the problems and prospects of tourism, agriculture, industry and human resource and remittances in the process of economic development. Issues of ongoing conflict, unemployment, poverty, women and development, dualistic model of development and role of economic planning have also been dealt with in the book.

In monetary sector, the book deals with the financial sector reform and formation of monetary policy. It summarizes the past efforts, explains the needs, present programs and strategies and existing challenges of Financial Sector Reform (FSR) in Nepal. It has shown the necessity of vigorous FSR for the sustained economic growth and vitality of the whole economic system. Weak financial position of the state-owned financial institutions, negative net worth and huge accumulated losses of the state owned commercial banks, higher proportion of NPA predominance of the informal financial system, high interest rate differentials between the formal and informal sectors, high interest spread between lending and borrowing rates and presences of large intermediate cost are some major challenges of the financial sector reform in Nepal. The book also discusses the real practice and framework of monetary policy formation in Nepal. It discusses the exchange rate regime as a nominal anchor, in the selection of goal, operating target and choice of policy instruments of monetary policy. It also explains the demand for and supply of money in Nepal.

In the fiscal sector, the book discusses the existing tax structure, composition of revenue, tax administration and legal framework of tax system in Nepal. It examines the present status of VAT implementation in Nepal including its prospects and challenges for resource mobilization. Proposed agendas for tax system reform in Nepal including IT system, human resources, tax administration, laws and regulations has discussed in the book. The book also focuses on improving institutional and infrastructure development related to tax.

In the external sector, the book discusses the principles, opportunities and challenges of WTO for Nepalese economy. Similarly, it examines the future of the South Asian Growth Quadrangle (SAGQ) in the light of goals, governing principles and Action Plan. Structure and trend of foreign trade and situation of balance of payment has also explained in the book. The book reviews some basic concepts of the Balance of Payments (BOP) in the present context of BOP situation of Nepal. Two empirical tools: a model perspective using the monetary approach to the balance of payments and an empirical analysis of contribution to the economic growth of the country; to examine the impact of the BOP situation on the Nepalese economy have been used. Present status, roles, features, structures of Foreign Aid in Nepal with special reference to Indian Joint ventures have been discussed with a review of existing policies towards FDI.

There are two articles on government resources and one on foreign aid on the fiscal sector front. The book, however, does not talk on the expenditure side of the fiscal sector. Although the book discusses the formation of monetary policy in Nepalese prospective, it fails to cover

the issues related to transmission mechanism into the real sector. There are no focused papers on agriculture and biodiversity, which are recognized as a foundation of the Nepalese economy. Had these topics been covered, it would have been an icing on the cake.

Some technical errors also can be seen in the book. In the preface, the editor has mentioned that there are 28 papers, but there are 29 papers. Paper Six has been written twice; however, Paper Eight is missing. Some spelling mistakes can be found in the book. For instance, Katmandu has been written for Kathmandu on the author's introduction (page 387).

Nonetheless, this is a breakthrough in the history of publication of CEDECON. The book is very useful for the students of economics of all levels. It is also equally useful to academicians, researchers, planners and policymakers, and others who desire to gain knowledge on the Nepalese economy.

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