

IMPACT OF GLOBALIZATION IN NEPALESE ECONOMY

A Dissertation

Submitted to

Master's in International Relations and Diplomacy (MIRD)

Faculty of Humanities and Social Sciences

Tribhuvan University

In Fulfillment of the Requirement for the

MIRD 526 Thesis of Master

In

International Relations and Diplomacy

By

Laxmi Phuyal

Symbol No.: 114

2014

T.U. Reg.No : 5-1-33-353-2002

Kathmandu, Nepal

August, 2019

ACKNOWLEDGEMENT

I am highly indebted to my respectable supervisor Miss Niha Pandey, Faculty Member of Master in International Relations and Diplomacy (MIRD) for his valuable guidance, mentorship and constructive suggestions, without which it was beyond imagination to bring this thesis in this form.

I would like to acknowledge Tribhuvan University, Faculty of Humanities and Social Science, MIRD for creating such an academic environment. I am grateful to all the teaching faculties of MIRD for their hard work and guidance during past two years. I would also like to appreciate my classmates who have helped me to direct my energy and thoughts and provided me with valuable resource materials and response to my queries.

Finally, I must express my deep indebtedness to my family members, especially my parents, who not only encouraged but also provided me with everything possible to pursue higher studies and to materialize my cherished dream.

LETTER OF RECOMMENDATION

I certify that this dissertation entitled “**Impact of Globalisation in Nepalese Economy**” has been prepared by **Laxmi Phuyal** under my supervision. I hereby recommend this dissertation for final examination by the Research Committee Master’s in International Relations and Diplomacy, Tribhuvan University, in fulfillment of the requirements for the Degree of MASTER’S IN INTERNATIONAL RELATIONS AND DIPLOMACY.

.....

Name of Supervisor

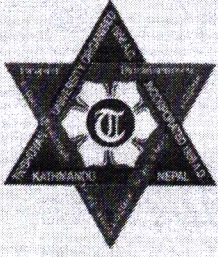
Date: 9th August, 2019

DECLARATION

I hereby declare that this dissertation is my own original work and it contains no materials previously published. I have not used its materials for the award of any kind and any other degree. Where other authors' sources of information have been used, they have been acknowledged.

Laxmi Phuyal

Date: July, 2018



त्रिभुवन विश्वविद्यालय

TRIBHUVAN UNIVERSITY

मानवीक तथा सामाजिक शास्त्र संकाय

FACULTY OF HUMANITIES AND SOCIAL SCIENCES

अन्तराष्ट्रिय सम्बन्ध तथा कुटनीति विभाग

DEPARTMENT OF INTERNATIONAL RELATIONS AND DIPLOMACY (DIRD)

Date: 26/04/2076
August 11, 2019

LETTER OF APPROVAL

This dissertation entitled "Impact of Globalization in Nepalese Economy" submitted to Department of International Relations and Diplomacy (DIRD), Tribhuvan University, Kathmandu by Ms. Laxmi Phuyal (Cohort 2014-2016) has been approved by the undersigned members of the Evaluation Committee.

Evaluation Committee:

Niha Pandey
Dissertation Supervisor

Asso. Prof. Karna Bahadur Thapa
External Examiner

Prof. Dr. Khadga K.C.
Program Coordinator
Date: August 11, 2019

ABSTRACT

The waves of globalization properly appeared on Nepal's shores after arrival of democracy in the 1990s, later than a lot of other South Asian countries. Thus, there are claims both for and against of globalization. The globalists are found firm on their view that globalization denotes the increasing impact of interregional cooperation upon building greater social interaction. In contrast, skeptics have their view that the key supposed agents of cultural globalization-Coca Cola, McDonald's, Microsoft and so on are in the business of making profits, seeking to enlarge their area of influence. Considering the views of scholars from different schools of thought would make it more arduous to come up with a single sharp conclusion regarding its impacts upon developing countries. Nonetheless, analyzing how globalization is being perceived in a specific country would, to some extent, give a clear picture. In case of Nepal, some literatures can be found that discuss the issues related to globalization, but none of them explore much on how it is actually being perceived. Thus, this paper attempts to study the impacts of globalization in Nepalese economy.

TABLE OF CONTENTS

ACKNOWLEDGEMENT	i
LETTER OF RECOMMENDATION	ii
DECLARATION	iii
APPROVAL LETTER	iv
ABSTRACT	v
TABLE OF CONTENTS	vi
CHAPTER 1: INTRODUCTION	1-7
1.1 Background	1
1.2 Statement of the Problem	2
1.3 Research Questions	3
1.4 Research Objectives	4
1.5 Significance of the Study	4
1.6 Limitation of the Study	5
1.7 Operational Definition	5
1.8 Chapter Outline	6
CHAPTER 2: LITERATURE REVIEW	8-18
2.1 Enablers and drivers of globalisation	8
2.1.1 Enablers of globalization	8
2.1.2 Drivers of globalisation	9
2.1.3 Roles within the globalised economy	10
2.2 Globalization and international economy	11
2.3 Globalization and Poverty Reduction	14

CHAPTER 3: RESEARCH METHODOLOGY	19
3.1 Research Design	19
3.2 Research Site	19
3.3 Nature and sources of Data	19
3.4 Tools and Technique of Data collection	19
CHAPTER 4: IMPACTS OF GLOBALIZATION IN TRADE OF NEPAL	20-29
4.1 Issues and Challenges	23
CHAPTER 5: IMPACTS ON FOREIGN DIRECT INVESTMENT IN NEPAL	30-37
5.1 Possible investment sectors: Areas of opportunities	34
CHAPTER 6: ADVANTAGES AND DISADVANTAGES OF GLOBALIZATION	38-43
6.1 Advantages of globalisation for developing countries	38
6.2 Disadvantages of globalisation for developing countries	39
CHAPTER 7: SUMMARY AND CONCLUSION	44-51
BIBLIOGRAPHY	52-54

CHAPTER 1

INTRODUCTION

1.1 Background

Nepal as a state formally accepted liberalization as the guiding economic principle after 1990 which can be marked as the starting point of globalization in Nepal. Globalization is a trend towards countries joining economically through education, society and politics and viewing themselves not only through national identity but as a part of the world as a whole. The intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa. (Giddens, 1990, p. 21). As anything, globalization also has its positive as well as negative aspects. And, with the exposure to globalization for more than two decades, it is high time now to determine or at least discuss whether globalization has been good or bad for Nepal. Globalization is the integration of the world economy (Gilpin, 2001). This integration of world economy has brought about various significant changes in terms of Nepalese economy.

Least Developed Countries like Nepal can get benefits from processes of globalization by getting more jobs, incomes, new technologies, and skills. Moreover, their benefits from globalization are restoring and regenerating the environment, concepts of good governance, popular participation civil society, human rights, media /communication, the nation's integration with global economy has brought more Foreign Direct Investment (FDI), foreign employment opportunities and regional trade mechanism. Besides, the effect of globalization in Nepalese economy can be clearly witnessed in remittance inflow which was possible due to easy access in international labor market mainly South East Asia and Middle East resulting in

increased foreign employment opportunities. However, the globalization may have adverse implications as well such as LDCs should compete with developed countries (i.e. competition between unequal), high possibility of brain drain, increasing gap between rich and poor. According to Marxism, rich are becoming richer and poor are becoming poorer. Liberalization, structural adjustment, and privatization in the process of globalization have had many impacts.

1.2 Definitions and components of globalization

The term globalization is used to describe a recent period in international economic activity, commencing from the late 1980s. Notably, there is no firm consensus of when the period of globalization started, and when or whether it has ended, however, the period indicated relates to when many of the writings on the subject globalization emerged, and the period generally discussed or referenced in these writings.

There are a significant number of definitions of globalization and concepts of what it entails, so much so, that Hirst and Thompson (1996) assert that there is no one accepted model of the globalised economy and how it differs from the past. Similarly, Bairoch and Kozul-Wright (1996, pp.2-3) assert “most contemporary observers have differed in their description of the globalisation process, and have failed to construct a consistent theoretical explanation of what is driving it and where it might be going”.

As a start to explaining the phenomena of globalisation, most definitions make reference to openness, integration or flows. Openness pertains to individual countries participating in, or being willing to participate in, international economic activity. Integration refers to combining or amalgamating elements across countries, which predominantly occurs through cross-border activity and international division of production (Gundlach & Nunnenkamp 1994). Flows as they pertain to globalisation

encapsulates the movement of goods and services through trade, financial transaction through investment and foreign exchange markets and the sharing of ideas, intellectual property and technology. While the focus of this thesis and analysis is on the economic aspects, globalisation is multidisciplinary and also spans the areas of politics, sociology and anthropology (Inda & Rosaldo 2002; Mittelman 1996).

In relation to what has been observed within the more recent period of international economic activity, Hay and Marsh (2000) assert that there has been a gradual evolution toward globalisation rather than a quantum leap at any particular point in time, while Hirst and Thompson (1996) note that what has emerged is not a truly global economy, but rather a high level of interaction between individual players within the international economy.

The economic components of globalisation pertain to production, trade, investment, finance, competition and demand. All of these factors have exhibited increased international integration over the past two decades.

1.3 Statement of the Problem

Economic liberalization and privatization are the supportive policies for globalization. Although globalization is a process toward growing economic integration of goods, services, and capital markets, its benefits do not come automatically but require good policies especially "stable macroeconomic policies, open trade regimes, and flexible product and factor markets supported by effective "exit" policies for non-competitive industries". (Schwab and Smadja, 1996). A commemorated concept of globalization called "win win result" is under inquiry now; especially in the situation when it has been found that the benefits of globalization to developing nations are extremely limited compared to that of the developed countries which has resulted in widening

the gap between developed and developing nations. Now, globalization has entered a critical phase back-lashing against the so-called "win-win effects" in industrial democracies. The gap between those able to ride the wave of globalization and those left behind is widening at all levels attributing to the lack of info-techno revolution (Schwab and Smadja, 1996). Again, Globalization is also termed as neo-colonialism, a new approach used by developed countries to colonize developing countries for exploitation. According to the world systems theorists, the three zones of the world economy are linked together in an exploitative relationship in which wealth is drained away from periphery to the centre. Thus this paper tries to examine both the positive and negative implications brought about by globalization in Nepalese economy. Further the changes brought about by Globalization in trade, Industry, agriculture and FDI.

1.4 Research Questions

1. How can globalization impact on Nepalese economy?
2. Why globalization is advantageous and disadvantageous for Nepalese Economy?

1.5 Objectives of the Study

1. To examine the impact of Globalization in Nepalese economy – trade, industry, FDI
2. To study the positive and adverse impacts of globalization for Nepal
3. To analyze the Globalization from various theoretical perspectives

1.6 Significance of the Study

Nepal enter into the wave of Globalization only after the restoration of democracy in 1990s. After that only Nepal was able to enter in the global market. Globalization is not only related to foreign trade and market, it deals with all the aspect like social, economy, political and culture of any country.

The most beneficial of aspects of globalization in Nepal was the flow of capital, tourism, reduction of absolute poverty and easy access to the global labor market. Also there is exchange of cultural, ideas, technology and market.

But for countries like Nepal we are not able to get much benefited by this globalization. After Nepal being the first south Asian country to get the membership of WTO we are still backward in all the aspect of globalization. Our dependency has increased day by day as we are not able to produce required goods and services need within the country by ourselves.

This study tries to find out the consequences of globalization along with the mitigation measures. It is focused in finding the way how we can take advantages of globalization. Also it helps in understanding globalization through different theoretical perspective.

1.7 Limitation of the Study

- 1. Scope of the research:** As there are multiple dimensions of globalization like economic, political, socio-cultural and many more, the analysis of every aspect in a single study is challenging. Therefore, this research elaborates the impacts of globalization through the economic aspects only.

2. **Availability of resources:** There are very few resources about globalization in Nepal. Most of them are article, reports and journal. Therefore, the study faced scarcity of the resources available for review.
3. **Timeframe:** For the literature review several dimension of globalization has to be studied .So it was very hard to complete the research in the limited time frame.

1.8 Definition of Key Terms

Liberalism

A commonly used paradigm in IR, which bases its arguments on the actions of rational utility-maximizing individuals. It believes that there exists co-operation between states because of the complex interdependence with each other.

Neo-realism

This is a theory of IR that believes states seek to maximize their power in an anarchic international system.

Globalization

Globalization is the free flow of capital, labor, market, technology , culture from one parts of the world to another parts . In economic terms, it describes an interdependence of nations around the globe fostered through free trade.

FDI

Foreign Direct Investment is the investment done by one party from one country to another country in fulfilling their interest.

Institutionalism

Theory of IR which believes that international cooperation between the states is feasible and sustainable which can reduce conflict and competition between the states.

LDC

Least Developed countries are the group of countries whose economic and social development are satisfactory. They are the under developed countries.

1.9 Organization of Thesis

Chapter 1: Introduction

This introductory part will set the background of the study and include the statement of problem, objectives, significance, methodology and organization of the study.

Chapter 2: Literature Review

Literature by various scholars in the relevant field is reviewed in order to create a discussion on the relevant matters of the study.

Chapter 3: Impacts of Globalization in Trade of Nepal

Chapter 4: FDI and Nepal

Chapter 5: Advantages and Disadvantages of Globalization

Chapter 6: Analysis and Conclusion

This chapter deals with the overall analysis of the research carried out. Further, it analyzes from various theoretical perspectives.

CHAPTER 2

LITERATURE REVIEW

2.1 Enablers and drivers of globalization

2.1.1 Enablers of globalization

Broadly, the factors that have enabled globalisation encompass technology and innovation, improvements in transportation and communication, political developments, reduced protectionism, trends towards deregulation, and developments in financial markets. These factors are explored in further detail below.

New technologies have been introduced, which have increased the ease of relocating production facilities and have enabled buyers to understand and source products globally (Dunning, Van Hoesel & Narula 1998). Improvements in transportation and communication have reduced perceptions of time and distance (Hoogvelt 1997; Sassen 1996). More specifically, transportation innovations have lowered the cost of transporting and reduced the time it takes to move products, while developments in communication have resulted in improvements to consumer markets, for example, through providing an understanding of alternative offerings, and have facilitated knowledge sharing (Naisbitt 1994).

Two key political developments have enabled globalization – ideological shifts and growth in international institutions. The end of the cold war and the demise of communism has increased the strength of capitalism and free market forces within the international economy, which has in turn facilitated the spread of private sector activity (Oman 1994; Pieper & Taylor 1998). Simultaneously, multilateral institutions, such as the World Bank, International Monetary Fund (IMF) and World Trade Organisation (WTO), have strengthened in influence, and alliances between

countries such as Group of 7 (G7) have emerged. Such developments have contributed to a higher level of integration within the international economy.

In the period preceding globalisation, trends of deregulation were evidenced across many economies, encompassing liberalisation of trade, foreign investment and financial markets. Barriers to trade, in particular tariffs, progressively fell during the first four decades following the Second World War under the auspices of the General Agreement of Trade and Tariffs (GATT), thereby encouraging trade between countries. Additionally, countries entered into regional trading bloc arrangements in order to facilitate and promote trade. Within the 1990s, protection levels within developed countries increased by way of non-tariff barriers, especially through contingent protection measures such as anti-dumping duties (ADD), countervailing duties (CVD) and safeguard measures, which are discussed further later in this chapter. Technologies and new instruments in financial markets, along with liberalisation of foreign investment and financial markets have increased cross border financial flows.

2.1.2 Drivers of globalization

Globalization has predominantly been driven by economic factors, and more specifically the profit motivations of corporate entities, and these entities seeking to achieve competitive advantages. Firms have globalised by fragmenting their production processes across national frontiers, in order to reduce costs, and have sought to attract customers from multiple markets in order to maximise revenues. Profit motivations have also influenced foreign investment decisions and decisions to globally outsource and enter into strategic alliances with foreign entities. Trends evidenced in production, such as high sunk costs, rates of technological obsolescence

and changing product life cycles, have necessitated corporate entities seeking lower production costs and multiple markets for products.

2.1.3 Roles within the globalised economy

With the deregulation that has enabled globalisation, market forces are increasingly driving international economic activity. MNEs, firms that own and control operations in more than one country, have emerged as the dominant players within the globalised economy. Such entities largely control trade and investment, and their contribution to global economic activity tends to receive as much, if not more, recognition as that of nations (Naisbitt 1994; Porter 1990). Supranational organisations, international banks and financial intermediaries have also increased in significance within the global economy (Nayyar 2003; Pieper & Taylor 1998; Scholte 1996).

Much has been written about the changing role of government within the globalised economy. Some critics have referred to the diminishing role of government (for example, Chang 1998; Nayyar 2003), while others have pointed to changed roles for governments to fulfil (for example, Cantwell 1989; Porter 1990). With trends toward deregulation, governments have less of a regulatory role to play in economic activity. Similarly, with privatisation of activity, governments less directly participate in economic activity. With the proportion of economic activity which has moved from a national to an international level, individual governments have a diminished ability to control or influence economic activity (Rodrik 1997). There has been some convergence in government policies globally, under the auspices of multilateral institutions. This has contributed towards the trends of privatisation and deregulation, and the growth of more market oriented economies. The increasing volume of funds circulating has lessened the ability of central banks to manage exchange rates.

Governments have used monetary and fiscal policies less to control and influence economic activity, recognising that these policies potentially impact the competitiveness of domestic industry in an international economy. These policies have also influenced investment decisions of MNEs, which has further constrained governments in the policies they have been able to implement. The effectiveness of monetary policy has also been weakened by the volume of funds circulating within the international economy (Oman 1996).

Despite the trends noted in relation to the changing role of national governments, there are clear, albeit less direct, functions for national governments to perform within the international economy that have emerged in the most recent period of globalisation. Such roles pertain to enabling private sector activities to be successful through the promotion of trade, innovation and industrial development. National governments also have a role to target and foster select industries (Cantwell 1989; Porter 1990). Gwynne (1996) notes that targeting lay at the heart of the successful East Asian development model. Further, national governments have a role to enable access to the most competitive goods and services globally, in order to assist domestic entities in becoming internationally competitive (Ohmae 1994). Finally, national governments have a role in the attraction of FDI through setting appropriate domestic economic policy and the provision of infrastructure.

2.2 Globalization and international economy

Much of the literature on the most recent period of globalization discusses what has been observed or what has occurred within the international economy. There are many and diverse occurrences. Efforts to describe these have contributed, firstly, to the vast literature on globalization and, secondly, to the lack of consensus surrounding

what globalization means and how the most recent period of globalization is distinct from other periods in history. What has occurred from an economic perspective can be broadly categorized into the areas of overarching effects, national economy impacts, consumer trends, market trends, production and trade. As referenced earlier in this chapter, there are also non-economic aspects such as social and political observations, which will be briefly discussed for completeness.

Overarching effects are those that span and influence a number of the other areas identified. To provide some context, the overarching effects are largely reflected in the enablers and drivers that have been previously discussed, but deserve attention because these trends have not only enabled or driven globalised activity, but have also remained an integral part of the activity that has been observed. Specifically, there has been strengthening of private sector activity, and movement of the focus of economic activity from nations to the firms that operate within nations. Distance has become less relevant due to developments in transportation and communication. Transaction costs have fallen and at the same time transaction volumes have increased.

There have been a larger number of flows between countries that have participated in the most recent period of globalisation, which has resulted in greater integration between these countries. Hoogvelt (2001) refers to this as ‘thickening of the core’. Notably, not all countries have been able to equally participate in globalisation, specifically some groups of developing countries have not participated, or at least their participation has been substantially less than that of other countries. What has resulted from this unequal spread of activity is greater differences between the countries which have achieved a higher level of integration and those that have been largely by-passed the processes of integration. These differences are evidenced in

aspects such as income, development and technological advancement. James (2002) likens participation in globalisation to Myrdal's cumulative causation, in terms of setting of a spiralling effect of benefits, whereas not participating sets off a spiral effect of detrimental impacts. It is a matter of debate as to whether developing countries deliberately choose not to participate or whether there are factors beyond their control. This is also explored later in the chapter, however, it is suffice to say that a country's ability to engage in the process of globalisation may be limited by a variety of external factors which the country is unable to influence. There are domestic factors which are controllable and impact the extent to which a country is able to participate in international economic activity.

A number of trends pertaining to buying are discussed in the globalisation literature. Such trends pertain to both consumers and businesses that purchase inputs for production and to fulfil their value chain activities. Buyers are more aware of what is available due to communication technologies. They are also able to increasingly source products globally, meaning that they are no longer constrained by, or restricted to, what is available domestically. Time to market has become increasingly important. A further trend has been differentiation of previously commodity like products, for example, coffee and some fruits, whereby, purchasers will seek out products from specific regions. In relation to consumer markets, there has been convergence of markets globally, as a consequence of improvements in communications and transportation technologies (Salvatore 1998).

The trends outlined have resulted in greater competition in both domestic and international markets. Domestic firms need to be internationally competitive in order to continue to exist. Exposure to international competition has seen the removal of

entrenched domestic monopolies. Within the international arena, MNEs have grown and strengthened. This in part has been the consequence of mergers and acquisitions, and alliances, such as joint ventures, between competitors and firms that operate within the same value chains. There has been intensification of competition and concentration of power, with smaller firms that are less able to compete with MNEs either being consumed by larger entities, or being forced out of the market by the competition. As a consequence of these trends, an oligopolistic market structure has emerged in many industries (Nayyar 2003). Privatisation has meant that governments are no longer directly participating in economic activity, while deregulation has meant that government regulation of activity has significantly lessened. Given that MNEs span several countries, governments are less able to regulate or influence the activities of these entities, outside their own jurisdiction.

2.3 Globalization and Poverty Reduction

Globalization is the process in which people, ideas and goods spread throughout the world, spurring more interaction and integration between the world's cultures, governments and economies. According to Cambridge dictionary, globalization is the increase of trade around the world, especially by large companies producing and trading goods in many different countries. According to Oxford dictionary, poverty is the state of being extremely poor or the state of being inferior in quality or insufficient in amount.

According to World Bank, Poverty is pronounced deprivation in well-being, and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity. Poverty also encompasses low levels of health and education, poor access to clean water and

sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one's life. Globalization on the other hand, has been an emerging and continuously expanding trend. From countries, companies to people, everything is globalizing.

As globalization is a two-edged sword, it possesses both benefits and costs. Theoretically, the major benefits of globalization include expansion of the market, consumer benefits, increased competition, greater inflows of FDI, transfer of technology along with managerial and entrepreneurial skills, expansion of the economy through linkage effects and global partnerships.

On the other, its major possible costs are displacement effects, price effects, job insecurity, widening income inequality, possibility of capital flight, high dependency and socio-cultural disruption (Khanal, 2014). Developing countries have been given the main responsibility to harness the potential benefits of globalization for the rural poor and to counter possible negative effects. They are urged to adopt appropriate structural and social measures that promote macro-economic stability essential for economic growth and poverty alleviation. High-income countries are urged to support these initiatives through increased aid, debt relief, experience exchanges e.g. on policy making and good governance, liberalized market access for products of importance to low-income countries, and increased resources for the fight against communicable diseases.

However, many low-income countries already face tremendous and often contradicting challenges in achieving poverty-alleviation goals e.g. implementation of education for all programmes with reduced government expenditure, or ensuring sufficient income-generating and employment prospects for the rural poor without

intervention in agricultural output prices or in investment allocation policies. (Department of Economic and Social Affairs, 2001)

While the vast majority of contributions to the academic and institutional literature conclude that globalization has spurred economic growth and that the overall benefits of globalization are larger than its overall costs, the literature assessing the impact of globalization on poverty is considerably more controversial. The more influential (and mostly institutional) literature concludes that globalization reduced poverty. However, many individual researchers have pointed out that the empirical analysis leading to that conclusion is conceptually flawed in various ways. The comprehensive study by (Watkins & Fowler, 2002) which popularized the view that current trade rules and institutions are rigged in favour of developed nations, has shown that international trade can have both a positive and a negative impact on poverty. The companion study by Oxfam America (2002), analyzing the impact of private international finance on poverty, concluded that current global financial systems hurt the poor. Examination of the impact of global finance can be broken down into studies examining the impact of FDI and of portfolio investments. Most of these assert that FDI is far more beneficial than other capital flows.

The ultimate impact of globalization in underdeveloped countries is to alleviate poverty by increasing production and export of goods and services. In Nepal, poverty has been reduced from 42 percent in 1996 to 25 percent in 2010 (Asian Development Bank, 2017). The major cause of reduction is remittance of workers. It is a remarkable achievement in Nepal but Gini-coefficient has been increasing which shows the widespread income inequality between people. (Khanal, 2014).

Many of the studies in *Globalization and Poverty* in fact suggest that globalization has been associated with rising inequality, and that the poor do not always share in the gains from trade. Other themes emerge from the book. One is that the poor in countries with an abundance of unskilled labor do not always gain from trade reform. Another is that the poor are more likely to share in the gains from globalization when workers enjoy maximum mobility, especially from contracting economic sectors into expanding sectors (India and Colombia). Gains likewise arise when poor farmers have access to credit and technical know-how (Zambia), when poor farmers have such social safety nets as income support (Mexico) and when food aid is well targeted (Ethiopia). (Nesvisky, 2009).

Rural poverty reduction in India may be attributable to the spread of the Green Revolution in agriculture, government antipoverty programs and social movements--not the trade liberalization of the 1990s. In Indonesia the Green Revolution, macroeconomic policies, stabilization of rice prices and massive investment in rural infrastructure played a substantial role in the large reduction of rural poverty. Of course, globalization, by expanding employment in labor-intensive manufacturing, has helped to pull many Chinese and Indonesians out of poverty since the mid 1980s (though not yet as much in India, for various domestic institutional and policy reasons). But it is only one factor among many accounting for the economic advances of the past 25 years. (Bardhan, 2006).

Nepal formally adopted the policy of liberalization, privatization and globalization after the restoration of multiparty democracy in the early 1990s as the forerunner of globalization in the South Asian region. The accession of Nepal to the WTO in 2004 accelerated the process of globalization. However, in the past two decades or so,

Nepal has experienced a few success stories as well as cases of failure and frustrated expectations, which clearly highlight the need to assess the whole process of globalization. Nepal has gained some genuine benefits and opportunities from globalization, but in small areas and amounts. As economic reports and indicators reveal, the per capita GNI increased from \$185 in 1990 to \$721 in 2015 and the size of the GDP has expanded manifold since then. Furthermore, the extent of absolute poverty has reduced from 49 per cent to 23.8 per cent during that period. Though many factors may be responsible behind the historical transformation of Nepali economy, it would be prudent to analyze this phenomenon through globalization. (Khanal, the rising nepal, 2018)

The relationship between globalization and poverty is complex. A number of persuasive conclusions may be drawn from the studies in Globalization and Poverty. One conclusion is that the relationship depends not just on trade or financial globalization but on the interaction of globalization with the rest of the economic environment: investments in human capital and infrastructure, promotion of credit and technical assistance to farmers, worthy institutions and governance, and macroeconomic stability, including flexible exchange rates. The existence of such conditions is emerging as a critical theme for multilateral institutions like the World Bank.

CHAPTER 3

RESEARCH METHODOLOGY

In this chapter, sources, sites, method and technique of data collection and analysis of collected data, techniques of research designs and the limitation /delimitation of the research have been discussed.

3.1 Research Design

The research is qualitative in nature. The research design is descriptive. It describes the impact of globalization in Nepalese economy. It is entirely a library-based research. As this study is primarily concerned with the literatures books, articles and journals written in this regard for answering the research questions.

3.2 Research Site

The study was mainly through secondary data sources, research sites were mainly libraries, internet sites and data base etc.

3.3 Nature and sources of data

The study is qualitative in nature. This is a library-based research, so the research collected ample secondary data from books, articles, reports, publication working in a particular area, along with the online materials available on the websites.

3.4 Tools and techniques of data collection and analysis

This research will conduct content analysis of documents and texts. It will refer and analyze Newspaper Articles/Reports, relevant scholarly articles, published books, and data available from various ministries, line ministries, websites and CBS of Government of Nepal. Theoretical perspective will be used to understand the collected data.

CHAPTER 4

IMPACTS OF GLOBALIZATION IN NEPAL

Foreign trade is considered as an essential factor for accelerating the path of economic development. Most countries are involved into foreign trade to create employment, raise propensity to save, increase foreign exchange earnings, and raise the productivity of investment moving from less productive use to high productive use (Hussain 1996). Because of the benefits of openness, it is settled as the integral part of every country. For developing countries, trade is the primary vehicle for realizing the benefits of globalization. Import brings additional competition and variety of domestic markets benefiting the consumers.

Nepal, a developing country, has profound potential on information technology, which may solve the problem of landlockedness and trade and tariff barrier. The opportunities on garments, carpets and other agriculture and service related productions and good access to herbal production and Ayurvedic medicines cannot be overlooked. Nepalese foreign trade performance has so far been poor. Several factors seem to be responsible, and of these, its landlockedness is one of the major causes for Nepal's weak production base, which is eventually linked with the growth of exports and imports of technology and raw material. Not only the open border with India but also the limited transit facilities in one or other way have constrained its trade with overseas countries. Since transit through china is virtually impractical, India is only economically viable for all commercial flows. Indeed, no country in the world (excluding Bhutan) is so hopeless dependent on the availability of transit facilities from a single country as Nepal (Poudyal 1998).

Historically, it is evidenced from almost all trade and transit treaties between these two countries that the transit facilities had in the past always been provided by India in exchange for Nepal's acceptance in giving incentives to Indian goods in Nepalese territories. For this reason, Nepal's trade, especially import trade, in the past virtually had confined to India. Trade with only one partner leaving the options on the basis of comparative advantage virtually obstruct the flow of benefits which is expected to accrue from free trade (Poudyal 98). Naturally, in such a situation, neither foreign trade nor the economy can be expected to have speedy growth.

The growing and continued mismatch between import and export have resulted in an alarming level of trade deficit in Nepal. Over the years, export has almost been stagnated, and the import skyrocketed. From 1:3 until a decade ago, Nepal's import is now 9 times bigger than export. Available statistics show that the total export, which used to be 9.4% of the Gross Domestic Product (GDP) a decade ago, has squeezed to 5.2%, whereas import has swelled to almost 40 percent GDP- in fiscal year 2004/05 it was 35 percent (Nepal Rastra Bank, Current Macroeconomic situation 2014/15).

During the last decade, import increased by 4.8 folds to Rs. 775 billion whereas export went up just by 1.4 folds to Rs 85 billion. As a result, trade deficit swelled by 6 times in the last one decade and has reached to Rs. 689 billion. The current Three Year Plan, ending on 15 July 2016, aimed at maintaining a trade deficit of 20 percent of the GDP, however, the preliminary estimates and the data indicate such deficit to be around 35 percent of the GDP. India continued to command a major share in Nepal's foreign trade. With Indian economy's growth accelerating and manufacturing as well as industrial base enhanced further and strengthened, India's share in Nepal's total merchandise trade in the last fiscal year increased to 64 percent - in 2003-4, it

was 58 percent. China's trading share with Nepal also doubled in the last 5 years to 12 percent - around one fifth of the trade with India (Ministry of Finance, Economic Survey 2017/18).

The share of other countries continued to decline to 26 percent of Nepal's total trade last year, with Nepal shifting its long-running dependency on other countries for the imports of vehicles and machinery, equipment, among others, to India. The slow growth in export compared to the robust growth in import remains a major concern for Nepal to benefit from trade. The average growth in export was 4.2% in the last decade whereas growth in import during the same period was 18.2 percent. India continued to be the largest export destination of Nepalese goods and services with absorbing 66 percent of Nepal's export (Ministry of Finance, Economic Survey 2017/18).

In terms of commodities exported, textiles are the largest export to India followed by zinc sheet, polyester yarn, and juice and jute products. These five commodities represented 42 percent of the total exports to India in the last fiscal year. Despite being the second largest economy and northern neighbor, China absorbed only 2.8% of Nepal's total export on average in the last three years. Tanned skin, handicraft, woolen carpet and noodles are major commodities exported to China. Countries other than India and China absorbed almost a quarter of the total export in the last one decade. Woolen carpet, readymade garments, pashmina and pulses occupied almost half of the total exports to other countries.

Similarly, import recorded a robust growth of over 18 percent, on average, over the last decade, also triggered and prompted by remittance supported consumption. Import from India was 64 percent of Nepal's total import. And, from China it was 12

percent. Nepal imported 24 percent from countries other than India and China. Oil and the petroleum products, imported from India accounted for 22 percent of import from India and 14 percent of total import of last year.

The value of oil and petroleum products last year was Rs. 110 billion - 18 percent less than the previous year. This decline was due to a decline in price of petrol in the international market. Again, the value of oil and petroleum products import was more than the total value of goods and services Nepal exported. The other major items of import from India included are vehicles and spare parts, MS billet, and rice and paddy. Telecommunication equipment is the largest import from China followed by electrical goods, machinery parts and chemical fertilizer. With an import value of Rs. 24 billion, silver topped the list of goods imported from other countries last year. Aircraft's spare parts, crude soybean oil, polythene granules, silver and gold are other major imports from other countries.

4.1 Issues and Challenges

High cost of production coupled with poor access to international markets are some of the major constraints to expand Nepal's export base. In addition, Nepal's limited exportable items, such as carpet and readymade garments that used to command over two-third of total overseas export have lately lost shine. Indo-Nepal trade treaty has Nepal, an agro-based economy, has more than 80 per cent of its people engaged on agriculture profession and the contribution of the agriculture sector to the total GDP constitutes more than 40 per cent (CBS 1999). Since Nepal is least developed in industrial raw materials and highly equipped machinery, there is minimum chance of cost-effectiveness. Small domestic market seems to be an obstacle to economic

growth. The world market is then the only readily available way to exploit resources.
(Ministry of Finance, Economic Survey 2017/18)

a. Export performance of manufactured goods is very dismal and depressing.

A steady decline in overall export has portrait a dismal indication in the foreign trade sector. The share of total export in the GDP declined to 5% in 2014-15 from 10% a decade ago, and from 15 percent one and half decade ago. Though merchandise exports, in domestic currency, grew by an average of 4.2% during the last one decade, in an US dollar terms, it was less than 1% during the same period. The main reason for the decline is the shrinking number of exportable commodities that can compete in the international market. About 85 percent of the total export used to be manufactured goods about seven years ago but the ratios shrunk to 78 percent in the last fiscal year. Growing share of agriculture products in total export basket reflects that Nepal's competitiveness in manufactured goods has weakened over the years. In addition, there is virtually no change in the types of finished products or commodities that Nepal has been exporting during the last two decades. However, trade in service has increased over the last five years. (Ministry of Finance, Economic Survey 2017/18)

b. Consumption also prompted by remittance help swelling of imports.

Despite sluggish economic growth, demand in Nepal remained strong in the last one decade, due mainly to remittance earning by migrant workers. In dollar terms, the average annual growth of remittance including pension was 21 percent in the last decade. Nepal received US\$ 6.63 billion worth of remittance last year, which was 11.38 percent, more than the amount that Nepal received in the previous year, and was equivalent to 31 percent of the GDP. The whopping flow of remittance in the

economy propelled disposable income to grow by 13 percent annually on average in the last 10 years. However, in the absence of domestic industries capable to seize the opportunities in meeting increased demand of basic goods such as construction materials, household goods and clothing, among others, Nepal had no options but to import such items. Because of this, total import in dollar terms increased by 3.3 times in the last one decade with average annual growth of 15% percent. As the export growth in dollar terms remained almost stagnant, Nepal recorded an alarming level of trade deficit. (Ministry of Finance, Economic Survey 2017/18)

c. Nepalese industrial bases have been enfolded and squeezed.

It is usually seen that when an economy starts modernizing, a normal trend seen worldwide, the share of agriculture sector to the GDP shrinks while the contribution of service and industrial sector increases and widens. However, available data show(s) that Nepal is not in foot prints that almost all the economies worldwide followed in their development history. Shrinking industrial activities is one of the disturbing features of Nepal's economy. The industrial sector that used to contribute 18 percent to the GDP a decade ago has squeezed - 15 percent in last year. The contribution of industry group to GDP stood 14.1 percent in 2010-2011 whereas the contribution of manufacturing to GDP was 6.5 % - annual average growth rate of 2.5% in the manufacturing sector in the last decade (Ministry of Finance, Economic Survey 2017/18). A decreased from 10 percent to 6.5 % of the manufacturing sector's contribution to GDP indicates that industrialization in Nepal is very much sluggish. This also indicates that Nepal's industries failed to capitalize the opportunities unveiled by the remittance-fueled consumption in the domestic economy, compelling

the domestic economy to depend on imports to meet increased internal demand, let alone producing goods for exports.

d. Nepal lacks exportable production from volume, value and quantitative perspectives.

Nepal has been requesting for a duty - free as well as quota -free access of its products to various markets. However, attention has not been paid and no efforts have been made to producing high quality products to be able to compete in the international market. About 33 items - 26 in the category of goods and 7 in the category of service, have been identified as products with higher potentialities, no concrete efforts have been made to make goods and service readily available for exports. No seriousness has been shown on market research and market development. Nepal borders with five States of India which are also the most populous region of India. With the bilateral Nepal -India Free Trade Treaty in place, Nepal is in a perfect position to tap the market of 400 million people with per capita income of US\$1,340, which is almost twice of Nepal's per capita income. However, owing to the lack of policy and strategies to explore rapidly emerging business opportunities in such a huge market, Nepal hasn't been able to reap the benefits. With Indian economy advancing more and more toward shifting priority to producing products with higher profit margin from lower profit margin products, Nepal could benefit from exporting products with low-profit margin-daily household commodities, such as readymade garments and slippers, among others. Though the size of population is small compared to Indian cities, adjoining Chinese cities where consumerism is rapidly growing, also provide good business opportunities. In addition, the European Union has given duty-free as well as quota-free access to all exportable items under its 'Everything but Arms'

initiative. Adequate efforts have also not been made to benefit from Trade and Investment Framework Agreement (TIFA) Nepal signed with the United States and from BIPA agreements signed with other countries.

e. Both trade related as well as other infrastructures remain inadequate and in poor condition.

Probably, the status of poor infrastructure is the biggest constraint that is limiting the prospects of industrialization in Nepal. Along with the lack of access to sea that adds around 15% to transit related transit cost in export compared to the countries that have access to sea, shortage of electricity, reliable road network, and access of finance have all work against to make Nepalese products competitive in the global markets. The shortage of electricity is forcing firms to operate at far less than the captive capacity. Those industries that can afford diesel power plant increases the cost of production, thereby eroding cost competitiveness. Studies have shown that the power produced by such plants using diesel as inputs are five times more expensive than the electricity. In addition, owing to lack of round-the-clock supply of power, industries utilize only about half of the productive capacity, if they opt not to have diesel generators. According to the Enterprise Survey, 2013, about 69 percent of firms identified electricity as a major constraint. The percentage of firms using a generator jumped to 50.5 percent in 2013 from 15.8 percent in 2009. Similarly, one-third of the manufacturing firms identified bad transport facility as a major constraint. In addition, the lack of adequate facilities for warehouses, handling equipment, scanning machines, and testing laboratories, have limited the prospects of export potentials(Ministry of Finance, Economic Survey 2017/18).

f. Nepal continues to struggle with poor business doing environment.

Nepal's long-running political instability has produced many ills. Industrial unrests and strikes that are often orchestrated by somehow politicalized trade unions are some of them. As a result, industrialists are often forced to talk to outsiders such as political leaders to settle unrests and strikes in their factories. Unpredictable strikes and unrests have made exporters struggling all the time to meet supply deadlines set by foreign buyers. Such activities also further add to cost of production and erode competitiveness. According to Doing Business 2014, Nepal has the highest export lead time (days) in the region, as it needs 11 documents, 42 days and costs US\$2,295 to export a container. Similarly, rigid labor policy that bars enterprises to adjust labor force as per the change in demand in the market. As per existing law, employees get permanent status after working for more than 240 days and after getting a permanent status, they can't be fired until they are proven engaged in criminal activities (Ministry of Finance, Economic Survey 2017/18).

The provision has become a recipe of disaster for order-based industries such as readymade garments and woolen rugs and season-based industry such as tourism and hotels. Enterprises are compelled to keep on paying to the laborers even during the lean seasons, something that swells cost of doing business.

g. Nepal's quarantine certificates are not recognized by the importers.

Nepal has a huge potential of exporting agro-products to China and India. But both the countries do not recognize quarantine certificates issued by Nepal's laboratories because they do not meet international standard. As a result, agricultural products, such as fresh vegetables and seasonal fruits have been barred from entering into the neighboring markets just because Nepalese exporters are unable to submit quarantine

certificates acceptable to both the countries (Ministry of Finance, Economic Survey 2017/18).

h. Export incentives are not giving much incentive to exports.

In 2011, the government introduced cash incentive scheme to promote exports. As per the scheme, traders exporting goods to countries other than India are entitled to receive up to 2% of the value of the products as an incentive. Also, those goods with at least 30 per cent domestic value addition qualify for export cash incentive. However, exporters exporting goods to India are not qualified for such incentives, although it accounts for two-thirds of total exports.

CHAPTER 5

IMPACTS ON FOREIGN DIRECT INVESTMENT IN NEPAL

Foreign Direct Investment (FDI) plays a catalytic role in economic growth. It is a source of capital formation. Likewise, it helps technology to spillover, supports human capital formation, enhances international trade integration, creates competitive environment and strengthens enterprise development. There are three common motives of foreign direct investment: resource-seeking, market seeking and efficiency-seeking (Dunning, 1993). Moreover, FDI also seeks strategic assets in a local economy – brands, new technology or distribution channel. Developing countries, emerging countries and countries in transition have come to consider FDI as a source of economic development and modernization, income growth and employment (OECD, 2002).

FDI is not a new topic in the global economy. The concept of FDI originally introduced in the early Nineteenth century. The study perceived by Steven Hymer, in his thesis in 1960's, tends to be the first introduction of foreign direct investment to the global economy (Magnus Blömstrom, 2002, p. 2). In the early stage, FDI faces a toll of problems as it hails to face the local competitors who possess better knowledge of the local economy. With the end of the Second World War, as peace flattens around the globe, FDI vigorously penetrates the global economy.

For a least developed-country (LDC) like Nepal with huge saving-investment gap; limited, albeit growing, revenue to gross domestic product (GDP) ratio; and limited amount of foreign aid flow, foreign direct investment (FDI) is considered an indispensable mode of development financing. Although FDI is traditionally viewed as foreign investments made in manufacturing and services sectors, which

undoubtedly contribute to employment opportunities as well as economic growth, they are increasingly attracted by host countries for meeting financing requirements for large infrastructure projects. This is an area in which foreign investors used to shy away from investing in the past due to various risks associated with such projects resulting from long gestation and pay back periods. In the context of Nepal, although FDI is generally welcome in all sectors, due to acute dearth of resources for infrastructure financing, it has become an imperative in the latter sector. It must be noted that the utility of foreign investment for a country like Nepal does not end there. It is an instrument for the transfer of technology from the technology-rich countries to technology-deficient countries. Similarly, leadership and managerial skills transferred by foreign investors and eventual expansion of local knowledge and skill base, whether at the enterprise level or at the sectoral level, are considered yet another spillover impact of foreign investment.

The impact of FDI on an economy can be considered in terms of a number of indicators such as its potential contribution to: technology and skills; establishment of new industries and export promotion; formation of new clusters as anchor investors; and creation of linkages with, and associated upgrading of local enterprises (UNCTAD, 2004). substantially low in comparison with other peers, which is just above Bhutan. Nepal's share in the world total FDI is only 0.01 percent.

Nepal has been developing institutional and legal infrastructure to ease doing business since the 1980s with an objective of attracting FDI. FDI inflow is however, very low despite its great importance to Nepalese economy. Although small in size, Nepal could be an emerging destination for FDI in South Asia. Nepal has several advantages such as demographic structure, gradually improving business indicators, strategic

geographic location and its improving legal infrastructure. Firstly, the economically active population in Nepal is about 56 percent which is rising every year. Availability of cheap labor force could be an attraction for investors. Secondly, the increasing disposable income with remittances, expansion of economic activities and changing consumption pattern have been creating new markets for products. Thirdly, Nepal ranks at 105, second in South Asia after Bhutan, on the World Bank's Doing Business Report 2018. The gradual reforms and realization for the requirement of foreign capital in mega projects would improve the business environment for foreign investors. Fourthly, Nepal lies in a strategic geographic location surrounded by two populous countries, China and India, which has more than 35 percent of total world population. Lastly, Investment Board of Nepal (IBN) has identified potential investment sectors for FDI - hydropower, transport, agriculture, tourism, information communication technology, mines and minerals, health and education, manufacturing and financial institutions.

Nepal's Foreign Direct Investment (FDI) increased by 24.3 USD million in Apr 2019, compared with an increase of 24.7 USD million in the previous quarter. Nepal's Foreign Direct Investment: USD million net flows data is updated quarterly, available from Oct 2002 to Apr 2019. The data reached an all-time high of 80.1 USD mn in Jan 2018 and a record low of -6.0 USD million Apr 2006. CEIC converts quarterly Foreign Direct Investment into USD. Nepal Rastra Bank provides Foreign Direct Investment in local currency. Nepal Rastra Bank average market exchange rate is used for currency conversions. Foreign Direct Investment is in quarterly frequency ending in April, July, October, and January of each year. The fiscal year is from July 16th to July 15th.

In the latest reports of Nepal, Current Account recorded a deficit of 464.4 USD million in Apr 2019. The country's Nominal GDP was reported at 29.0 USD billion in Jul 2018.

However, the agriculture sector is the least preferred sector having only 0.3 percent of outstanding FDI as in mid-July 2018. Loans have a very small share (i.e. 3.7 percent) in total outstanding FDI. In terms of paid up capital, India brought the highest FDI in Nepal. However, if we consider total stock of FDI by including reserves and loans, West Indies surpasses India with FDI Stock of 62.8 billion as in mid-July 2016. All FDI from West Indies has been made in the services sector. Regarding the manufacturing firms established with FDI, two-third of them are producing industrial goods, the rest are producing fast moving consumer goods.

Economic globalization, and the subsequent growth of single world economic market, has affected the way in which international and domestic business activities are undertaken and organised (Cantwell & Narula, 2001). As mentioned in the introduction, globalization not only has increased the flows of investment between countries, but it also has led to a reconfiguration of the ways that MNEs pursue their objectives (UNCTAD, 1998).

Estimating and explaining the change, however, is a complicated issue. The determinants are complex, and not always susceptible to measurement. One alternative is to gather together different kinds of information. In this way, the theory that explains the way the forces driving FDI have worked in the past can eventually be merged with more qualitative and speculative assessments of the changes related to the new global conditions (The Economist, 2001).

The United Nations (1999) World Investment Report (UNCTAD, 1999) defines FDI as “an investment involving a long term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affiliate enterprise or foreign affiliate)”. Economy-watch defines FDI, as “Foreign Direct Investment, or FDI, is a type of investment that involves the injection of foreign funds into an enterprise that operates in a different country of origin from the investor. Investors are granted management and voting rights if the level of ownership is greater than or equal to 10% of ordinary shares. Shares ownership amounting to less than the stated amount is termed portfolio investment and is not categorized as FDI”.

FDI is not a new topic in the global economy. The concept of FDI originally introduced in the early Nineteenth century. The study perceived by Steven Hymer, in his thesis in 1960’s, tends to be the first introduction of foreign direct investment to the global economy (Magnus Blömstrom, 2002, p. 2). In the early stage, FDI faces a toll of problems as it hails to face the local competitors who possess better knowledge of the local economy. With the end of the Second World War, as peace flattens around the globe, FDI vigorously penetrates the global economy.

5.1 Possible investment sectors: Areas of opportunities

Nepal a country with an area of 147,181 Sq km has a population around 28 million populations (census 2010). It can play as a trade bridge between world’s two largest economy India and China. Nepal has several features to lure Foreign Investors. Despite of having more than 80% of cultivate geography, it fails to attract foreign investors on agriculture sectors. Along with it, with a hydropower capacity of Eighty

thousand megawatt of electricity, it has been able to produce a mere Eight hundred megawatt of energy. Tourism, industrial, technical, manufacturing, etc is other sectors where investors can jump. Based on UNCTAD article, the crucial areas for opportunities are agriculture & related industries, Hydroelectricity, Tourism, Internet & Telecommunication, etc

a. Agriculture and related industries

This sector has great international demand. Nepalese soil is favorable to many agricultural products. Rice, wheat, paddy, Millet and barley are the main food crops and mustard and rapeseed as the major oil seed (UNCTAD, Investment policy review Nepal). Other vital agricultural products as printed by (NRN association) are “sunflower, sesame and groundnut in oilseeds; asparagus, French beans, green peas, snow peas, chick peas, pigeon peas, black gram and grass peas; okra, lettuce, onion, garlic, ginger, cauliflower, broccoli, cabbage, sweet peppers, mushrooms and tomatoes in vegetables; roses, carnations, orchids, chrysanthemums and ornamental plants in floriculture. Apple, pear, walnut, peach, plum, apricot, persimmon, pomegranate and almond are the major winter fruits, while mango, banana, guava, papaya, jackfruit, pineapple, lychee and coconut are the major summer fruits, in addition to citrus, which includes orange, sweet orange, lime and lemon”. Sheep farming is another relevant investment as the raw wool is a high demand for carpet industries. Nepal has suitable climate condition to various types of fruits, crops, vegetables. Thus, implementing technology and skills in the sectors, foreign investor can make a handsome business.

b. Hydro Electricity

Nepal is the second richest country in terms of hydro resources. It holds the capacity to generate Eighty three thousand megawatt of electricity. Despite of having Forty four thousand megawatt of electricity economically feasible, Nepal has been able to produce mere Five hundred twenty eight megawatt (UNCTAD, Investment Policy Review Nepal). This sector could be a significant investment as the demand of electricity is high in Nepal and India. The government is highly encouraging foreign investors to jump into Hydropower as it has potential benefits. The following table describes the current hydropower projects in Nepal.

c. Tourism

Tourism is the second largest employment sector after agriculture (Telegraph Nepal). The scenic beauty with several religious monuments and a home to the highest peak of the world has infinite resources that could attract tourist. Mountains, hills, lake, springs, caves, etc have equipped Nepal as one of the most beautiful places of the world. Lumbini, the birthplace of Buddha, attracts thousands of Buddhist pilgrimage every year. There are several such historic places, which can be further developed and used as tourists' means.

d. Internet and telecommunications

This sector possesses significant influence to foreign investors. Nepal telecommunication has been entertaining the monopoly market for decades. However with the introduction of UTL and Spice Nepal (which later TELIASONERA bought), NTC has lost its single monopoly over the market. A country with a population of 28 million seeks massive investment in this sector. 'NCELL', which is an investment by

TELIASONERA group of Finland, is climbing a ladder of success these days. Nepal still lacks high-speed internet facilities.

e. Land, Land and More Fertile Land

Although land prices in the Terai and rural areas in Nepal are starting to go up, they are still cheap. Land can provide dividends in terms of crops while waiting for the value to go up in a couple of decades.

Jeremy Grantham, a famous investor who predicted the 2007 financial meltdown, predicts that state-of-the-art organic farming is the best investment in the world now. In Nepal, we can combine both traditional and modern organic farming techniques to grow food in anticipation of the rapid food price increase.

CHAPTER 6

ADVANTAGES AND DISADVANTAGES OF GLOBALIZATION

6.1 Advantages of globalisation for developing countries

Despite the exclusion and disadvantages outlined previously, globalisation is proposed to have had a number of benefits on developing countries. Dollar and Kraay (2001) assert that where developing countries have been able to participate in globalisation, they have experienced higher growth rates than developed countries. Some of the benefits of globalisation to developing countries are based on arguments put forward by free-trade advocates in earlier periods, while others are driven by the specific trends evidenced during the more recent period of globalisation.

Globalisation has increased the FDI and MNE activity for some developing countries (Gundlach & Nunnenkamp 1998), has provided the dynamic benefits outlined by Harberler (1988), such as access to capital, technology and managerial practices and production techniques. It also afforded the opportunity for some developing countries to increase manufacturing outputs, which form part of the critical path towards development. More generally FDI and MNE activity have brought unemployed or underemployed resources into production and stimulated domestic demand through imports. A further benefit is that greater exposure to the competitiveness of international markets should have improved the efficiency and the quality of outputs of domestic industry within developing countries.

The breakdown of value chains is considered to provide benefits to developing countries through giving these countries opportunities to get involved in manufacturing activity that might otherwise not exist (Gundlach & Nunnenkamp 1998). It is more manageable for a developing country to attain competency in part of

a value chain or a component rather than an overall good. Further, value chain breakdown allows specialisation based on inherent resource endowment and skills, and therefore is more efficient for developing countries (Arndt 1999).

As has been discussed, communication and transportation have been important aspects of globalisation. Developing countries have benefited through these areas, with growing awareness of the problems faced by the populations of developing countries and increasing activity to address these problems (Johnson 2002). The result has been improvements in the lives of people within developing countries evidenced by lower child mortality rates and higher life expectancy. Some of the specific areas that have been addressed include access to clean water and food supplies, and provision of medical treatment including vaccinations.

6.2 Disadvantages of globalisation for developing countries

Developing countries have not been by-passed by the most recent period of globalisation, rather that participation in international economic activity has largely disadvantaged developing countries, putting them in a worse position than would otherwise have been the case. The problems faced by developing countries participating in the international economy are due to the high level of concentration brought about through specialisation, and to the unattractiveness of the industries being specialised in, for example, agricultural commodities and simple manufacturing

Globalisation has brought about developing countries participating in international economic activity according to comparative advantage. The poorest developing countries tend to export a narrow range of low value-add products, typically dominated by one or two key exports which exhibit relatively low growth rates within global export markets. Such countries therefore lack export diversification. This

structure is problematic, because it creates vulnerability and instability in revenue, arising from any external shocks. Any number of events could put an export at risk, with severe implications for export earnings. For example, the introduction of a less expensive substitute could diminish export earnings considerably. Genetic engineering could also pose a threat to a narrow export structure (Rifkin 1996). Where there is concentration in agriculture, a crop failure or natural disaster could adversely impact on export earnings for a given time period.

Much of the criticism pertaining to developing countries and globalisation relates to the industries that developing countries have a comparative advantage in, and therefore the goods that are exported by these countries when participating in international economic activity. Porter (1990) asserts developing countries are largely stuck in unattractive industries with low scope for growth. The industries that developing countries predominantly specialise in are primary commodities, and simple manufacturing, often processing these primary products.

The problems inherent with industry and exports dominated by primary commodities did not emerge during the most recent period of globalisation, with economists such as Prebisch (1950) and Singer (1950) warning against such structure several decades earlier. However, the problems highlighted by these economists have continued to exist, and have potentially even increased in relevance in recent years, with increasing evidence to support the initial theories proposed. Over the past four decades, there has been evidence of the sustained decline in terms of trade for commodities, which Prebisch and Singer predicted. Additionally, commodities have largely exhibited instability and short-term price fluctuations (UNCTAD 2001).

In recent periods, including the globalisation period, agriculture has exhibited low, and for some products, negative growth rates (UNCTAD 2002a). There are a number of factors that have contributed to the observed trends including population growth rates, income elasticity of demand for agricultural goods, and the emergence of substitute products (Gwynne 2003). Due to low population growth rates in developed countries, the export market size for agriculture is declining. Agricultural commodities exhibit low income elasticities of demand relative to manufactured goods, and therefore, as incomes rise in developed countries there is not a proportionate increase in demand for agricultural commodities. Agriculture also exhibits low price elasticity of demand, so that movements in price do not have significant impact on demand. At the same time, agriculture exhibits high price elasticity of supply, so that when multiple countries export the same commodity, prices fall. In recent times, a growing number of substitutes for certain agricultural commodities have been introduced, which has increased the vulnerability of producers of these commodities. Trends of increased protectionism toward agriculture and other commodities and the emergence of product differentiation for agricultural commodities, previously discussed, add to the issues that make specialising in agriculture problematic for developing countries.

In terms of manufacturing, the trend of breakdown of value chains has provided opportunities for developing countries to participate in manufacturing, albeit at the lower end of the value chain where a smaller amount of value is typically added relative to the total value of the good or service being produced (Krugman, 1995). The problems associated with this kind of participation is that developing countries are not developing the skills necessary for advancement and export income is minimal,

reflective of the relative value the output of developing countries brings to the overall production process (Chussodovsky, 1997).

The growth of FDI and global expansion of MNE activity have been referenced as some of the key aspects of globalisation. FDI and MNE activity in developing countries is suggested to disadvantage developing countries in a number of ways. Because MNE activity is driven by profit motivations of shareholders, their presence in developing countries potentially leads to surplus extraction with limited benefit to the developing countries (Chang 1998; Goldsmith, J. 1996). As developing countries compete to attract FDI, a so-called race to the bottom can emerge, as a consequence of developing countries lowering and compromising standards to attract FDI (Nayyar, 2001). Standards that have the potential to be eroded include labour, health and environmental standards (Crotty, Epstein & Kelly 1998). Another problem associated with FDI and MNE activity is that governments either provide concessions, thereby reducing income, or spend to meet the infrastructure requests of MNEs, diverting spending away from development areas such as health and education. Technologies introduced by MNEs have displaced local technologies, and the technologies introduced are potentially less aligned with the resources and skills that exist within developing countries. Finally, the FDI that is directed toward developing countries may not go toward sectors that are conducive to economic development, for example, investment may be made in agriculture and mining.

A number of environmental issues have been associated with globalisation and activity within developing countries. Ecological problems highlighted throughout the literature include soil erosion and land degradation due to over-farming, and destruction of marine life due to over-fishing of rivers and oceans (Cole 2000; Daly

1996; Khor 1996). Pollution has been caused by emergence of industry, and inadequate sanitation to cope with rural-urban migration. Health problems have also increased as a consequence of rural-urban migration. There have also been adverse social and cultural impacts of developing countries participating in globalisation, such as loss of natural cultures and the introduction of alternative values such as materialism (Scholte 1996).

CHAPTER 7

CONCLUSION AND SUMMARY

Nepal formally adopted the policy of liberalisation, privatisation and globalisation after the restoration of multiparty democracy in the early 1990s as the forerunner of globalisation in the South Asian region. The accession of Nepal to the WTO in 2004 accelerated the process of globalisation. However, in the past two decades or so, Nepal has experienced a few success stories as well as cases of failure and frustrated expectations, which clearly highlight the need to assess the whole process of globalisation.

Nepal has gained some genuine benefits and opportunities from globalisation, but in small areas and amounts. As economic reports and indicators reveal, the per capita GNI increased from \$185 in 1990 to \$721 in 2015 and the size of the GDP has expanded manifold since then. Furthermore, the extent of absolute poverty has reduced from 49 per cent to 23.8 per cent during that period. Though many factors may be responsible behind the historical transformation of Nepali economy, it would be prudent to analyse this phenomenon vis-a-vis globalisation.

First, globalisation has greatly contributed to the modernisation of the Nepali economy. Nepal has been transformed into an open and service-based economy by lowering the share of agriculture in the GDP to 33%. Second, Nepal has expanded its market to the global level. Consequently, the country's total exports have been increasing, though gradually, and the trade with the outside world has been diversified to some extent.

Third, Nepal has witnessed increased inflow of FDI. A number of multi-national companies such as Standard Chartered, Ncell and UniLever are operating in the

country. The FDI in the field of ICT, tourism, education and financial sectors is noteworthy, which has facilitated the transfer of modern technology and helped improve the balance of payments of the country.

Fourth, the consumers have benefited by way of increased quality at cheaper price due to global competition. A wide range of global brands such as iPhone, Samsung, KFC, JohnPlayers, Facebook, Youtube have come within easy reach of Nepali customers. Fifth, globalisation has provided access to global financial institutions such as the World Bank, IMF, and the Asian Development Bank, which has facilitated the country's development efforts by greater volume of foreign assistance.

Sixth, globalisation opened up the international labour market to Nepali workers. The share of remittance has reached nearly 30% of GDP which has helped to reduce unemployment and poverty to a great extent as well as rescue the economy in the hardest of times. Finally, globalisation has promoted socio-cultural transformation of the country through cultural exchange, tourism activities and expansion of knowledge. Besides, it has raised concerns over environmental issues of the day, such as climate change, global warming, and pollutions of various forms.

Analysing the globalization from various theoretical perspectives:

1. Theory of Liberalism:

Liberalism sees the process of globalisation as market-led extension of modernisation. At the most elementary level, it is a result of 'natural' human desires for economic welfare and political liberty. As such, transplanetary connectivity is derived from human drives to maximise material well-being and to exercise basic freedoms. These forces eventually interlink humanity across the planet.

- Technological advances, particularly in the areas of transport, communications and information processing, and,
- Suitable legal and institutional arrangement to enable markets and liberal democracy to spread on a trans world scale.

Liberalists stress the necessity of constructing institutional infrastructure to support globalisation. All this has led to technical standardisation, administrative harmonisation, translation arrangement between languages, laws of contract, and guarantees of property rights.

But its supporters neglect the social forces that lie behind the creation of technological and institutional underpinnings. It is not satisfying to attribute these developments to ‘natural’ human drives for economic growth and political liberty. They are culture blind and tend to overlook historically situated life-worlds and knowledge structures which have promoted their emergence.

All people cannot be assumed to be equally amenable to and desirous of increased globality in their lives. Similarly, they overlook the phenomenon of power. There are structural power inequalities in promoting globalisation and shaping its course. Often they do not care for the entrenched power hierarchies between states, classes, cultures, sexes, races and resources.

2. Theory of Political Realism:

Advocates of this theory are interested in questions of state power, the pursuit of national interest, and conflict between states. According to them states are inherently acquisitive and self-serving, and heading for inevitable competition of power. Some

of the scholars stand for a balance of power, where any attempt by one state to achieve world dominance is countered by collective resistance from other states.

Another group suggests that a dominant state can bring stability to world order. The 'hegemon' state (presently the US or G7/8) maintains and defines international rules and institutions that both advance its own interests and at the same time contain conflicts between other states. Globalisation has also been explained as a strategy in the contest for power between several major states in contemporary world politics.

They concentrate on the activities of Great Britain, China, France, Japan, the USA and some other large states. Thus, the political realists highlight the issues of power and power struggles and the role of states in generating global relations.

At some levels, globalisation is considered as antithetical to territorial states. States, they say, are not equal in globalisation, some being dominant and others subordinate in the process. But they fail to understand that everything in globalisation does not come down to the acquisition, distribution and exercise of power.

Globalisation has also cultural, ecological, economic and psychological dimensions that are not reducible to power politics. It is also about the production and consumption of resources, about the discovery and affirmation of identity, about the construction and communication of meaning, and about humanity shaping and being shaped by nature. Most of these are apolitical.

Power theorists also neglect the importance and role of other actors in generating globalisation. These are sub-state authorities, macro-regional institutions, global agencies, and private-sector bodies. Additional types of power-relations on lines of class, culture and gender also affect the course of globalisation. Some other structural

inequalities cannot be adequately explained as an outcome of interstate competition. After all, class inequality, cultural hierarchy, and patriarchy predate the modern states.

3. Theory of Marxism:

Marxism is principally concerned with modes of production, social exploitation through unjust distribution, and social emancipation through the transcendence of capitalism. Marx himself anticipated the growth of globality that 'capital by its nature drives beyond every spatial barrier to conquer the whole earth for its market'. Accordingly, to Marxists, globalisation happens because trans-world connectivity enhances opportunities of profit-making and surplus accumulation.

Marxists reject both liberalist and political realist explanations of globalisation. It is the outcome of historically specific impulses of capitalist development. Its legal and institutional infrastructures serve the logic of surplus accumulation of a global scale. Liberal talk of freedom and democracy make up a legitimating ideology for exploitative global capitalist class relations.

The neo-Marxists in dependency and world-system theories examine capitalist accumulation on a global scale on lines of core and peripheral countries. Neo-Gramscians highlight the significance of underclass struggles to resist globalising capitalism not only by traditional labour unions, but also by new social movements of consumer advocates, environmentalists, peace activists, peasants, and women. However, Marxists give an overly restricted account of power.

There are other relations of dominance and subordination which relate to state, culture, gender, race, sex, and more. Presence of US hegemony, the West-centric cultural domination, masculinism, racism etc. are not reducible to class dynamics

within capitalism. Class is a key axis of power in globalisation, but it is not the only one. It is too simplistic to see globalisation solely as a result of drives for surplus accumulation.

It also seeks to explore identities and investigate meanings. People develop global weapons and pursue global military campaigns not only for capitalist ends, but also due to interstate competition and militarist culture that predate emergence of capitalism. Ideational aspects of social relations also are not outcome of the modes of production. They have, like nationalism, their autonomy.

4. Theory of Constructivism:

Globalisation has also arisen because of the way that people have mentally constructed the social world with particular symbols, language, images and interpretation. It is the result of particular forms and dynamics of consciousness. Patterns of production and governance are second-order structures that derive from deeper cultural and socio-psychological forces. Such accounts of globalisation have come from the fields of Anthropology, Humanities, Media of Studies and Sociology.

Constructivists concentrate on the ways that social actors 'construct' their world: both within their own minds and through inter-subjective communication with others. Conversation and symbolic exchanges lead people to construct ideas of the world, the rules for social interaction, and ways of being and belonging in that world. Social geography is a mental experience as well as a physical fact. They form 'in' or 'out' as well as 'us' and 'they' groups.

They conceive of themselves as inhabitants of a particular global world. National, class, religious and other identities respond in part to material conditions but they also

depend on inter-subjective construction and communication of shared self-understanding. However, when they go too far, they present a case of social-psychological reductionism ignoring the significance of economic and ecological forces in shaping mental experience. This theory neglects issues of structural inequalities and power hierarchies in social relations. It has a built-in apolitical tendency.

5. Theory of Postmodernism:

Some other ideational perspectives of globalisation highlight the significance of structural power in the construction of identities, norms and knowledge. They all are grouped under the label of 'postmodernism'. They too, as Michel Foucault does strive to understand society in terms of knowledge power: power structures shape knowledge. Certain knowledge structures support certain power hierarchies.

The reigning structures of understanding determine what can and cannot be known in a given socio-historical context. This dominant structure of knowledge in modern society is 'rationalism'. It puts emphasis on the empirical world, the subordination of nature to human control, objectivist science, and instrumentalist efficiency. Modern rationalism produces a society overwhelmed with economic growth, technological control, bureaucratic organisation, and disciplining desires.

This mode of knowledge has authoritarian and expansionary logic that leads to a kind of cultural imperialism subordinating all other epistemologies. It does not focus on the problem of globalisation per se. In this way, western rationalism overawes indigenous cultures and other non-modern life-worlds.

Postmodernism, like Marxism, helps to go beyond the relatively superficial accounts of liberalist and political realist theories and expose social conditions that have favoured globalisation.

BIBLIOGRAPHY

- Acharya, M. and Khatiwada, Y. and Sharma, S. (2003) *Structural Adjustment Policies and Poverty Eradication*, Katmandu, IIDS.
- Bairoch, P. 1972, 'Free Trade and European Economic Development in the 19th Century', *European Economic Review*, vol. 3, no. 3, pp. 211-45.
- Baylis, J. (ed), *The Globalization of world politics: An introduction to international relations*. New York: Oxford University Press. 2011
- Chussodovsky, M. 1997, *The Globalisation of Poverty*, Zed Books, New York.
- Crotty, J., Epstein, G. & Kelly, P. 1998, 'Multinational Corporations and the Neo-liberal Regime', in D. Baker, G. Epstein & R. Pollen (eds), *Globalization and Progressive Economic Policy*, Cambridge University Press, Cambridge.
- Dunning, J.H. 1973, 'The Determinants of International Production', *Oxford Economic Papers*, vol. 25, np. 3, pp. 289-336.
- Gwynne, R.N. 1996, 'Trade and Developing Economies', in P.W. Daniels & W.F. Lever (eds), *The Global Economy in Transition*, Addison Wesley Longman Limited, Harlow.
- International Monetary Fund. (2000). "Globalization: Threats or Opportunity." 12th April 2000: IMF Publications
- Ministry of Finance. 2007. *Economic Survey, FY 2009/10*. Kathmandu: Ministry of Finance.

- Plattner, M and Smolar, A(ed) *Globalization, Power and Democracy*. Baltimore and London: The Johns Hopkins University Press
- Porter, M. 1990, *The Competitive Advantage of Nations*, The Free Press, New York.
- Prebisch, R. 1950, *The Economic Development of Latin America and its Principle Problems*, New York.
- Gundlach, E. & Nunnenkamp, P. 1994, *Globalisation of Production and Markets*, Kiel Institute, Germany.
- Goldsmith, E. 1996, 'Global Trade and the Environment', in J. Mander & E. Goldsmith (eds), *The Case Against the Global Economy*, Sierra Club Books, San Francisco.
- Hay, C. & Marsh, D. 2000, 'Introduction: Demystifying Globalization', in *Demystifying Globalization*, Macmillan Press Limited, Houndmills.
- Horst, T. 1972, 'The Industrial Composition of U.S. Exports and Subsidiary Sales to the Canadian Market', *American Economic Review*, vol. 62, no. 1, pp. 37-45
- Schultz, T.W. 1961, 'Economic Prospects of Primary Products', in H.S. Ellis & H.C. Wallich (eds), *Economic Development for Latin America*.
- Krugman, P. 1981, 'Trade, Accumulation and Uneven Development', *Journal of Development Economics*, vol. 8, pp. 149-61. ---- 1990, *Rethinking International Trade*, MIT Press, Cambridge, Massachusetts.
- Nayyar, D. 2001, 'Globalization: What Does it Mean for Development?' in K.S. Jomo & S. Nagaraj (eds), *Globalization versus Development*, Palgrave Publishers Ltd., Houndmil

Oman, C. 1994, Globalisation and Regionalisation: The Challenge for Developing Countries, Development Centre of the Organisation for Economic Co-operation and Development, Paris

Dollar, D. & Kraay, A. 2001, Trade, Growth and Poverty, Development Research Group, The World Bank.

<http://www.everestuncensored.org/globalization-is-it-a-threat-or-an-opportunity-for-nepal/>

World Bank. 2003. Global Economic Prospects: Economic Implications of Remittances and Migration. Washington, D.C.: World Bank.

Ministry of Finance (2013).*Economic Survey :FY 2012/13*, Kathmandu: Ministry of Finance

Ministry of Finance (2014).*Economic Survey :FY 2013/14*, Kathmandu: Ministry of Finance

Ministry of Finance (2015).*Economic Survey :FY 2014/15*, Kathmandu: Ministry of Finance

Ministry of Finance (2016).*Economic Survey :FY 2015/16*, Kathmandu: Ministry of Finance

Ministry of Finance (2017).*Economic Survey :FY 2016/07*, Kathmandu: Ministry of Finance