CHAPTER II
ECONOMIC PROFILE OF NEPAL

2.1 Introduction:

In the preceding chapter an attempt was made to introduce the nature of study with the methodology being adopted in the course of this study. In this chapter we will discuss the economic profile of Nepal. We will deal with the different variables influencing the economic conditions of the country.

2.2 Background:

Here we will briefly discuss the Geographical, Socio-Political and Historical factors influencing the Economic condition of Nepal.

2.2.1 Geographical:

Nepal is situated in the northern rim of South, Asia. The country has an elongated rectangular shape with roughly north-west to south-east orientation. The country has an area of 147,181 square kilometers. The length is about 585 km from Mechi in East to Mahakali in the West. The width however differs 144 km in the East to 241 km in West. The
average width is about 193 Km. The absolute location of Nepal lies between longitudes 80 degree 40 minutes to 80 degree 12 minutes east and latitudes 26 degree 22 minutes to 30 degree 27 minutes north. Geographically the country is located along the southern slopes of Himalayas between the Tibetan plateau in the north and the Gangetic plain in the south. Nepal has a strategic location when viewed in relation to her immediate big neighbours, India and China.

Nepal is a mountainous country with a maze of mountain ranges, ridges and spurs. The country has a rugged topography with a wide variety of terrain which changes in quick succession from south to north. The country is not however, exclusively the land of slopes, peaks and pinnacles. The mountain ranges and ridges are in marked succession intervened by low lands. The terrain extends from the terai plain in the south through a series of ranges and low-lying basins in the central zone to the lofty heights of the Himalayas in the north. In other words, the small strip of
territory ranging from the flat alluvial plain of the Indo-
Gangetic plain in the south in its terai to the high-altitude
mountains covered with perpetual snow in the north in which
some of the world's tallest peaks including Everest are
located.

Nepal is a land-locked country surrounded by Indian
territory on the three sides and shares its northern border
with China (Tibet province). The closest port is Calcutta,
approximately 900 kilometres from Katmandu. The alternative
transit via China is much less attractive; the straight-line
distance from Katmandu to Canton is some 5000 kilometres. The
land-locked nature accentuated by mountainous topography has a
colossal impact on her economic structure. A second
characteristic of Nepal that deserves to be noted is the
natural division of the country into three distinct
altitudinal regions; the plains in the south (known as terai),
the hills in the middle and the mountains in the north. Such
topography has made it difficult to connect the whole country
by a transport network. As a result, the mobility of goods is limited and the cost of such mobility very high. The difficult terrain and the dispersion of population over a large area makes the per capita cost of providing transport and infrastructural facilities extremely high.

Owing to the mountainous terrain, which covers about 83 percent of the total land area, usable lands are extremely limited. Therefore, land is the commodity in short supply here as plain land constitute about 17 per cent of the total land area only. The shortage of lands in the country is quite obvious. There is only about 1.2 hectare of land per capita to satisfy spatial requirements of all varied needs of the people. When unusable lands like rocky areas and lands under perpetual snow covered area are discounted, only 0.7 hectares of land is available per capita. Landslide, soil-erosion and depletion of soil fertility have been further limiting the extent of usable lands. The availability of cultivable land is
very low and the sharply growing population has put immense pressure on it. The sharply declining per capita cultivable land availability has a very important impact in the overall economy, per capita income and therefore demand structure in the predominantly agricultural country like Nepal.

Besides land resource, other important physical resources include mineral and water resources. Despite the identification of the potentiality of various mineral resources in Nepal, the volume and size of mineral deposits, as per present estimations, seem to be relatively small with limited commercial potentiality. No doubt, the information of mineral resources in Nepal is still sketchy. The possibility of significant occurrence of basic minerals in Nepal has been part of a geographic controversy that is still going on. Explorations and excavations of any noticeable magnitude re yet to be done. Furthermore, except very few mines that too mainly stone quarries, almost no exploration of mineral resource has been carried out.
However, Nepal is abundantly rich in water resources. Nepal is one of the most unique water catchment areas in Asia. The extra-ordinary difference in elevation with a few hundred kilometres and perennial nature of these rivers makes Nepal one of the richest nations on the earth in terms of potential water power which is estimated at 83200 megawatts. The water resources of Nepal may truly be the country’s chief resource asset for the future. Presently only a nominal fraction of the total potentiality has been brought into use.

Another important physical resource, forest resources, has shown great decline in the last few decades. From an estimated coverage of 34.19 per cent of the total land area, the present estimate is below 25 per cent. The fastly declining forest areas have not only reduced its commercial and economic potentiality but it has also raised significant questions regarding ecological disturbances and environmental degradation. The declining forest area has become a stigma in overall development process of Nepal.
We can therefore say that the physical structure and the available natural resources have great impacts on the economic development of a country.

2.2.2 *Socio-Political* :

Nepal enjoyed an independent political existence from the very earliest times. This has led to the development of some unique socio-cultural structure and values. But her geographical location has led to the emergence of numerous ethnic diversities and groups. There is a pronounced socio-cultural linkage with her neighbours too.

"Nepal is wedged between India on the south and Tibet on the north, and this intermediary position has a definite bearing on the development of her culture. India and Tibet were two countries from which Nepal received cultural contributions and through which Nepal passed her achievements to the outside"
world. This phenomenon has led to great ethnic diversity, multiplicity of languages and a wealth of cultures thriving within her border. There are at least forty disparate languages and cultural groups reckoned in Nepal not considering the very small ones consisting only of a few thousand speakers./14

The nature of social changes, in most cases, occur relatively slowly; sometimes so slowly that they are imperceptible. Social change is a modification in behaviour by a group or groups within society that occurs over time.

Typically, such changes are a result of changing economic and social conditions, changing values and life styles, or the changing national environment. It is essential to anticipate such changes which generates a time advantage. It should be borne in mind that core social-cultural values have high persistence while secondary socio-cultural values undergo shifts through time. /15

People develop relationships to themselves, others, institutions, society, nature and cosmos. /16 There may be varying emphasis about people’s relationship with themselves.


16. ibid
The present trend indicates growing tendency to self-fulfilment.

Dr P.R. Sharma also attributes the diversities in culture and languages as a product of difficult terrain. Most of the ethnic groups are governed by two main language facilities: the Indo-Aryan and the Tibeto-Burman. Among the major ethnic groups, Nepali, the major group has shown fast increase. This is due to the adaptation are synthesis brought by the people. They have evolved different ecological adaptations according to the attitude, climate, and topography of the arena in which they live. The number of people who are now mobile and more of a national nature than of regional, tribal, religious or ethnic identification are increasing.

The cultural practices of Nepal are essentially of Hindu and Buddhist derivation finding expressions in the numerous rites and rituals, beliefs, social values, festivals, art and
architecture of land. These are all historical accretions of different ages. Another interesting trait of Nepalese culture is its power of synthesis and assimilation. It has blended and harmonised even the most opposing philosophies and dogmas reaching its territorial confines. Buddhism and Hinduism have been fused in Nepal obscuring their sectarian distinctiveness quite often. There are scores of divinities, religious rites and festivals which at the popular level of their practice by illiterate masses are devoid of any sectarian character.

The obvious picture presented by these obscure diversities and harmony, divisions and synthesis present unique socio-cultural values having far reaching implications in economic as well as non economic activities.

Among the major ethnic groups the major ones are Nepali, Maithili, Bhojpuri, Newari, Gurung, Tamang, Oudhi, Tharu, Magar, Limbu, Rai Kirati and Bhutia Sherpa. Nepali is spread over all parts of the country and increasing at faster pace-
an example of growing assimilation and synthesis and also the
growth of national character. Maithili, Bhojpuri, Oudhi and
Tharu communities mainly dwell at southern plainlands while
Newar community dwell predominantly at urban centers. Gurung,
Magar, Tamang, Limbu and Rai Kirati are spread over the hill
regions while Bhutias and Sherpas live at mountain regions.
The internal migration, to some extent, is affecting aforesaid
trend.

The substantial populace of the country belong to Hindu
religion group accounting for about 88 per cent while
Buddhism accounts for about eight per cent and the rest
belongs to Mohammedans. There is a very close harmony among
Hindu and Buddhist religion followers in Nepal.

Nepal is in a state of transition, mirroring the
evolution of the economy from subsistence agriculture to a
more monetized one. The traditional political system, which
prevailed until the middle of this century, was highly
paternalistic. It involved a complex web of feudal patron-
client relations; the majority (and certainly the poor) were not expected to participate actively in it, nor particularly to benefit from it.

Traditional patron-client relations are breaking down as a result of increased monetization, off-farm employment opportunities, and education. The modern political system has generally mirrored the traditional power structure, representing largely the same interests, although there is a complex intermingling of traditional political forces with economic interests, and cultural and caste groupings.

There is a widespread perception that at least until recently the political system was designed to operate for the benefit of a very small minority. The system had employed a range of formal and non-formal pressures to discourage unmanaged change or participation by rural peasantry. The moves towards decentralization and more participatory approaches over the last five years represent changes in the
right direction. The more dramatic recent changes (in early 1990) appear to reflect an acceleration of this trend, although it is too early to tell how deep rooted the changes are, and whether the political evolution will be accompanied by any corresponding economic restructuring.

As in most countries a whole array of social and political pressures make it difficult for the poor to effectively take advantage of services or developments which could benefit them. These include an aversion among the poor to approaching official institutions, the tendency of officials to prefer to work with the better off, and an unwillingness or inability to deal with illiterate peasants.

2.2.3 Historical:

The economic history of Nepal is camouflaged by instabilities, lack of direction and efforts, and scattered subsistent economy. Nepal enjoyed a very important place in the
region during the Lichhavi period due to her amicable relationship with Guptas in the South and Tibetan and Chinese in the North. The entrepot trade flourished appreciably during the period. Agriculture, cottage industries and mining activities grew. However, the growth did not reach any significant levels. Accordingly the economy could not make any headway being further constrained by political sufferings and other problems. During the period of Mallas the country achieved progress in crafts and trade but there were also numerous instances of disintegration and problems. Unification of Nepal by king Prithivi Narayan Shah could not contribute substantially towards creating an economic infrastructure despite the political and strategic consolidation. The era following witnessed further dwindling of economic situation due to chaotic political situation and emergence of Jung Bahadur Rana at the helm of autocratic rule which spurred any activities towards economic development. Though some of the Rana premiers attended towards developmental activities, nothing substantial was achieved and the economy was put into oblivion. The formulation and
execution of economic plans gained momentum towards economic
development but progress so far seems to be lethargic and the
desired result has yet to be achieved. /17

Nepal remained a feudal kingdom for a substantial part of
its history. It was divided into numerous tiny principalities.
On many occasions, efforts were made to unite them and on many
occasions they disintegrated. King Prithvi Narayan Shah, the
great ruler of Gorkha, took up the task of uniting these
principalities and successors too undertook the task. In the
early nineteenth century, the boundary of Nepal extended to
Teesta river in the east and Sutlej river in the west.
However, it attracted the wrath of the British colonial rulers
and ensuing war reduced the boundary to the present limits.

17. Bajracharya P., Marketing Strategies in Public and
Private Sector Manufacturing Industries, Thesis,
The feudal system of polity operated for most part of the history. Since around the later half of the nineteenth century, Rana premiers occupied all power and ran the country in fully autocratic manner for 104 years. Democracy dawned in the country in 1951 and democratic experiments of Varying measures failed to keep up to expectations. So, since 1961, the country followed the path of panchayat democracy which aimed to create some sort of welfare state in the country. In the year 1990 another important and remarkable political turning took place. A democratic government was installed after 32 years of the panchayat system following general election based on adult franchise, there has been a new vigour in the economy particularly in the non-agriculture sector with increased industrial production and resumption of economic activities in trade and construction including that in the financial sector. The political environment basically reflects stability but marginal upheavals are also continually taking place. This has mainly affected the economic environment.
Nepal pursued the path of planned economic development to attain desired economic goals, idea of planned development emerged in 1948 and some preliminary activities were carried out. However, the plan could not get concrete shapes due to chaotic political situations.

2.3 Economic Development & Problems:

In many developing countries economic development faces a pathetic situation. Mehta (1980) illustrates the Indian scenario, which can be applied in the case of many developing countries including Nepal.

"However, the economy (Indian is characterised by one of the lowest average per capita income in the world-low literacy(30%) low productivity in agriculture and a low level of industrialisation, all of which limit the capacity to consume many products associated with a high standard of living in the developed countries. These factors often dampen enthusiasm of an entrepreneur who is looking for an attractive
investment opportunity or marketer who is faced with the problem of setting a product of the right quality, at the right price, with the right promotion to (Indian) consumers."

Nepal is by nature a high-cost economy. It is landlocked, and suffers from difficult internal communication as a result of extremely mountainous terrain. Among the world's poorest countries are most of those which are land-locked. They suffer from higher border prices for imports, and are at a competitive disadvantage with respect to exports, due to both higher transport costs, and the higher costs of imported intermediate goods. There are of course counter-examples (e.g., Switzerland, Austria), but these tend to be located at the centre of efficient transport networks, surrounded by diversified high-income economies, and have also compensated by specializing in high value-added and skill-intensive goods and services. Nepal, at the moment, has none of these compensating advantages.

Economic environment, thus is the principal determinant of opportunities as well as threats and further may put severe limitations in strategic options and the development of the
enterprise. Nepal's economic environment being further inferior to that of India, enterprises in Nepal are put to severe tests and limitations by the none too encouraging state of economic environment.

Nepal is predominantly an agricultural country with more than 80% of her active population being engaged in this sector and about 55% of GDP being contributed by it. It reflects the overwhelming dominance of agricultural sector not only in national economy but also the socio-cultural phenomena.

The year 1990/1991 has been remarkable for Nepal while in political term, a democratic government was installed after 32 years following general election based on adult franchise. There has been a new vigour in the economy particularly in the non-agricultural sector with increased industrial production and resumption of economic activities in trade and construction including that in financial sector. This has enhanced the growth momentum as reflected in the improvements in the major economic indicators.
2.3.1 **Income:**

Nepal has a geographical area as large as that of Bangladesh—the archetype of densely populated country—yet less than a sixth of the population of the later. The low density of population is largely misleading, however, in view of the scarcity of cultivable land. In terms of cultivated land per person, Nepal is one of the most land-scarce countries of the world. Since agriculture is the main source of livelihood for an overwhelming proportion of Nepal’s population, this puts a severe constraint on the ability to generate employment and income.

Rural Nepal is overwhelmingly agricultural and crop production is the predominant activity within agriculture, land turns out to be the most important determinant of income.

"In a situation with a poor resource base and near stagnation of the economy, the question of what has been
happening to the pattern of income distribution becomes particularly important, for any increase in inequality during a period of stagnation would automatically imply a decline in the real income of poorer section and worsening of their living conditions." /18

Average per capita income are estimated at about Rs 280 per month in 1988/89 prices (US$ 122 p.a.) in rural areas, and about Rs 426 (US$ 200 p.a.) in urban areas. In urban areas the mean income in hills is about 20% lower than in the terai, in urban areas, reflecting in particular the relative wealth of Katmandu, in order is reversed, with average income in hills about one quarter higher than in the terai. /19

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At the very low level of average GDP, raising personal incomes for most Nepalese depends on overall economic growth. Given the limited cultivable land base, agriculture alone cannot ultimately be counted on to provide the solution to poverty in Nepal. The basis for long-term growth, if it is to come at all, must thus eventually be sought in the expansion of services, energy, and industry. For these it seems inevitable that Nepal will have to look to a large extent to greater participation in a growing Indian economy. However even with the best policies and most robust external environment, industrial sector growth will be a very long term proposition. Therefore, in the medium-term raising incomes will have to rely in large part on agricultural intensification, and agriculturally-led growth in the formal sector.

Within Nepal the best source of data relating to incomes is the "PHBS conducted in 1984-85 by Nepal Rastra Bank. Average per capita monthly incomes levels by decile are presented in the table below:
Table 2: Average per Capita Monthly Income by Income Deciles
(1984/85 expressed in 1988/89 Rs per month)

<table>
<thead>
<tr>
<th>Decile</th>
<th>Rural Terai</th>
<th>Rural Hills</th>
<th>Urban Terai</th>
<th>Urban Hills</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>123</td>
<td>85</td>
<td>162</td>
<td>171</td>
</tr>
<tr>
<td>2</td>
<td>164</td>
<td>116</td>
<td>203</td>
<td>229</td>
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<tr>
<td>3</td>
<td>188</td>
<td>140</td>
<td>235</td>
<td>281</td>
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<tr>
<td>4</td>
<td>207</td>
<td>163</td>
<td>262</td>
<td>334</td>
</tr>
<tr>
<td>5</td>
<td>232</td>
<td>188</td>
<td>294</td>
<td>395</td>
</tr>
<tr>
<td>6</td>
<td>262</td>
<td>217</td>
<td>343</td>
<td>453</td>
</tr>
<tr>
<td>7</td>
<td>295</td>
<td>253</td>
<td>396</td>
<td>543</td>
</tr>
<tr>
<td>8</td>
<td>348</td>
<td>299</td>
<td>493</td>
<td>644</td>
</tr>
<tr>
<td>9</td>
<td>435</td>
<td>368</td>
<td>675</td>
<td>830</td>
</tr>
<tr>
<td>10</td>
<td>719</td>
<td>564</td>
<td>1196</td>
<td>1394</td>
</tr>
</tbody>
</table>

All Families | 292 | 231 | 378 | 475 |

Source: Mission estimates derived from MPHBS

The data are expressed as terai-equivalent prices, so that they can be compared across hills and terai. Incomes are
uniformly low except in the top decile and are even then only about two and a half times the average.

The distribution of per capita household income is presented in the table below:

Table 3: Per Capita Household Income Distribution in Nepal (percentage share of income)

<table>
<thead>
<tr>
<th>Income Group</th>
<th>All Nepal</th>
<th>Rural Terai</th>
<th>Rural Hills</th>
<th>Rural Mountains</th>
<th>Urban Terai</th>
<th>Urban Hills</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom 40%</td>
<td>23%</td>
<td>24%</td>
<td>23%</td>
<td>33%</td>
<td>27%</td>
<td>24%</td>
</tr>
<tr>
<td>Middle 50%</td>
<td>54%</td>
<td>53%</td>
<td>56%</td>
<td>54%</td>
<td>52%</td>
<td>56%</td>
</tr>
<tr>
<td>Top 10%</td>
<td>23%</td>
<td>23%</td>
<td>21%</td>
<td>13%</td>
<td>21%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: Multi-Purpose Household Budget Survey

The distribution of income is essentially the same in all regions except the mountains where it is remarkably flat, with poverty being shared by almost the entire population.
The composition of income for different groups show that among the rural poor, only 35% of the income are in cash coming from wages. The poor get a larger share of their incomes from wages and salaries than do the non poor. The wages and salaries account for only a quarter of the income among the rural poor in the hills. In the urban area wages account for less than half of the income of the poor. A significant portion of wage income of the poor is in kind rather than cash. Cash incomes from agriculture are insignificant among the poor-less than US$ 3.50 equivalent per household per month and off-farm enterprises are also insignificant contributing less than 5% of household incomes among the rural poor-and even in urban areas agriculture remains three times more important than off-farm enterprises as a source of income.

At the very low level of average GDP, raising personal incomes for most Nepalese depends on overall economic growth. Given the limited cultivable land base, agriculture alone
cannot ultimately be counted on to provide the solution to poverty in Nepal. The basis of long term growth, if it is to come at all, must eventually be sought in the expansion of services, energy and industry. For these it is inevitable that Nepal will have to look to a large extent to greater participation in a growing Indian economy.

2.3.2 *Savings & Investment:*

Although there were ups and downs in the saving rates in the past, but in the recent years it has been continuously declining. Decline in the Gross domestic product was attributed to the accumulation of gold, increase in purchase and distribution of land, and price surge due to the fast growth in liquidity brought about the increase in unproductive expenditure both from government and non-government sectors.
during that period. Other factors contributing to the decline in domestic savings rate are the absence of contributing to the decline in domestic savings rate are the absence of development of alternative sectors to encourage saving or negative growth in the short-term real interest rate. The gross domestic saving in 1989/90 as compared to that in the previous year decreased by 0.5 % and remained at the level of 9.3 %. In same period, total investment, is estimated to have declined by only 18.2%.

In 1974/75, gross national saving was only Rs. 2283 million but in 1979/80 it went up to Rs. 3929 million at current prices representing an 11.5 % annual increase. Gross national saving rate slightly decreased between the period 1979/80 and 1988/90 representing a growth rate of 10.2%. Accordingly gross national saving in 1989/90 increased to Rs. 10,378 million. With reduction in GDS and net transfer income in 1989/90 as compared with the previous fiscal year, gross saving decreased by 3.7%.
In the recent years, the large extension in public expenditure has created high liquidity in National economy which increased the consumption ratio and decreased the saving ratio. Nepal's saving rate is minimal as compared with other SAARC countries having least saving rate. Hence concrete step should be taken to improve the situation. It therefore has become necessary to minimize the level of public expenditure and maximize saving, discourage unproductive expenditure and investment, providing alternative opportunities for saving mobilization and make saving more attractive.

2.3.3. Poverty:

The poverty in Nepal and its neighbours can be seen in the fact that only six countries are shown as having a lower per capita income than Nepal while fourteen and twenty-two
respectively have per capita income than those of India and China. /20

In the usual international league tables of per capita income Nepal ranks as the poorest nations. Whatever doubts there may be about the degree of precision of such ranking it is clear that Nepal is an extremely poor country and that shortfall from any reasonably defined level of basic needs satisfaction is widespread.

The most fundamental factor contributing to poverty in Nepal has been the rapid increase in population— which approximately doubled in the last 20 years.

It is important to note that the poverty of Nepal stems from a weak economic and resource base. The land/man ratio in the hills is extremely unfavourable and, even in the terai, the land frontier is being rapidly exhausted. This is compounded by the fact that the level of productivity and agricultural technology is extremely low, that agricultural productivity has been declining and that environmental deterioration has begun to affect both arable land and pasturage.

The average personal incomes are about Rs 3,340 per capita—equivalent to US$ 130 annually. Approximately 40% of the population live in absolute poverty, defined as having less than the income required consume a minimum bundle of calories on a daily basis. There are also chronic and seasonal food deficits, which probably affect half of the population.

Poverty in Nepal is chronic, basically rooted in the insufficiency of the resource base vis a vis excessive population. Its solution will lie in productivity growth
coupled with population control, but this will take a long
time. In the meantime, there will remain a large number of
absolute poor. It is therefore legitimate to consider a
sustained program of support to the poor - some of its
production-oriented and some of it welfare-oriented.

There are too many poor to realistically consider large-
scale transfer or subsidy programs. Therefore it is important
to design cost-effective transfers. Both Government and the
donors, under a wide-range of projects, are already putting
substantial resources into poverty-type programs - to
relatively little effect. Better targeting and institutional
strengthening are needed to improve the efficiency with which
those resources are used. In addition, some significant
welfare improvements for the poor can be achieved without
major resource transfers or income increases.

It has been shown that the rural economy of Nepal has ,by
and large been experiencing stagnation with undiminished
inequality. This implies that an increasing portion of the rural population may have been driven towards conditions of poverty.

There is no easy poverty alleviation strategy for Nepal, but significant gains can be made through a combination of measures—mostly involving increased labour absorption in agriculture, coupled with productivity gains in low-input farming system; informal sector growth; and some redistributive measures, if tightly focused.

While there is no easy solution to poverty in Nepal, the potential contribution of public policy is large. The priority element of poverty alleviation strategy in Nepal are:

i) an effective program to curb population growth—through the promotion and support of temporary methods of contraception;
ii) an agricultural program that includes: small farmer irrigation, input supply deregulation, development of technical package free of purchased inputs for inaccessible hill farmers;

iii) a program of increased rural access in the terai and selected areas of the hills;

iv) intensification of basic education;

v) in addition, there is scope for package of low-cost measures to help the large numbers of those who will remain absolutely poor for the foreseeable future through selected off-farm income generating activities and improvements in health, nutrition, and access to food.

Pervasive poverty in Nepal stems from four factors:

i) a limited resource base;

ii) a physical location between two large countries - both of which are poor

iii) a rapid population growth

iv) poor economic performance
With GDP growth averaging under 3% per annum over the last 25 years. Little can be done about the first two factors, however effective policies can reduce population growth and accelerate economic expansion. Unfortunatley Government initiatives in these areas to date have been partial and ineffective. The Government now has an opportunity to play a more aggressive role - by pursuing a very active population program, and laying the basis for more rapid growth, through inter alia: widespread public service reforms, accelerating education and skills training, further liberalization of trade and industrial restrictions, a more aggressive agricultural growth strategy, and reform of financial sector.

2.4 Economic Sectors:

In Nepal the primary economic sectors are Agriculture, Industry, Trade and some others. Let us discuss them briefly.
2.4.1 Agriculture:

The predominant position occupied by agriculture sector in the Nepalese economy is borne out by the fact that 90% population of this country is dependent upon agriculture which contributes about 61% of GDP in actual price. Since agriculture sector is a key sector of the country providing employment opportunity, the living standard of majority of Nepalese people is directly linked with the progress achievement in this sector. It is therefore essential to achieve remarkable accomplishments in agriculture production and productivity so as to bring improvement in the economic condition of the common people and also to meet the increasing demand of necessary raw materials for industries.

Cultivable land area for agriculture is estimated to be 6533 sq Km, which is about 18% of the total land area of the country. The major portion of agriculture land is in the Terai zone. The Hill belt has potential for horticultural development while the Mountainous zone is suitable for livestock farming. Type of food production depends upon
climatic nature of each zone. Major crops grown are paddy, maize, wheat, barley, millet, sugarcane, jute, oilseed, tobacco, potato.

Nepal is an agricultural country, more than 90 per cent of the economically active population is estimated to be involved in agriculture and this sector contributes about 53% of the GDP.

Approximately a third of population live in areas in the hills and mountains which are inaccessible by road, where the costs of physical inputs are prohibitive, and marketed outputs are uncompetitive and where it is infeasible to deliver developmental or social services at reasonable cost. Unlike other developing countries, Nepal does not have significant reserves of cultivable virgin land to be settled. Net cultivable land represents only 18% of land area with very limited scope for expansion.
In the fiscal year 1974/75 the total food grain production was 3 million 778 thousand metric tons which was estimated to have declined to 3 million 218 thousand metric tons in the fiscal year 1982/83. But food grain production seemed to have been increasing after the fiscal year 1986/87 due to favourable weather. Food grain production increased and reached 5 million 698 thousand metric tons in the fiscal year 1989/90 and it has been estimated to increase further and reach 5 million 830 thousand metric in the fiscal year 1990/91. /21

On livestock development growth in supply seemed to have lagged behind the increase in the domestic demand despite some growth in the past years in the production of milk, meat and egg. Given less employment opportunities elsewhere, the pressure of population growth is heavily reflected in the

agriculture sector. This led to the cultivation areas covered by forests and bush lands resulting to environmental degradation, such as the frequent changes in the course of rivers culminating in the loss of fertile lands, increasing soil erosion etc.

Despite the huge investment in agricultural sector in the past years, substantial growth in production was not achieved. As agriculture still depends to a large extent on a favourable weather condition, agriculture production, therefore fluctuated according to the weather. Increase in agriculture production in the past 16 years is mainly brought about by the expansion in agriculture area, whereas the increase in productivity has been insignificant.

We have seen that about two-thirds of the rural hill households and just under half of terai households could never be expected to rise out of poverty on the basis of agriculture alone— their holdings are too small to do so. It is incorrect to keep thinking of these people as poor farmers, rather they are poor households, who happen to own some land. Their coping strategies thus have to depend on a range of interventions.
This is not to say that agriculture is not important, especially in the terai. The poor receive half or more of their current income from agriculture, so even the increase of 20-30% in output which achievable would have a substantial impact. In addition, they disproportionately affected the demand for agricultural labour. Equally importantly, experience in other countries shows that while agriculture itself may not be the solution to rural poverty, reasonably equitable growth in agricultural incomes leads to very significant expansion of non-farm rural employment.

Furthermore, it should be remembered that in a heavily agricultural economy which is not heavily taxed, and where the agricultural transition has scarcely begun, social safety needs to be built of resources found in farming itself; resources are not yet being transferred out of the sector for welfare purposes, that is, to take care of people crowded out of the economy for lack of adequate resources, or because of age or infirmity of one kind or another. So while these small plots may not produce much, their major use is for the succor of
the families that live on them in a job-scarce economy. In economies such as that of Nepal agriculture must serve not only the functions we usually attribute to farming, but also as a social safety net.

About a third of the agricultural poor in the hills have enough land to potentially raise themselves above the poverty line through agricultural improvements. In the terai, perhaps 40% of the poor have large enough holdings to produce above-poverty household incomes, if fully irrigated. Perhaps another third of the agricultural poor would, with foreseeable technical improvements, produce a significant share of poverty-line incomes from agriculture alone. Labour absorption as the result of transformations in agricultural technology could potentially result in employment for about an additional 250,000 persons in the hills and one million in the terai. It can be assumed that most of these jobs will absorb the poor.
The key factor behind the growth in agricultural production in the past years is the acreage expansion of the cultivated area. Although there is marginal increase in production, brought about by the cultivation in land slopes under compulsion of increasing food supply due to pressure of population growth, cultivation of such lands has increasingly created environmental problems like soil erosion, loss of top soil etc. Apart from this, it has caused considerable decline in the productivity of such crops like maize, millet, barley etc., as the productivity of such lands is remarkably low.

On the other hand, it is necessary to encourage intensive cultivation through optimum utilization of available irrigation facilities, and for this purpose it is essential to make the distribution of fertilizer, seed and agricultural credit simple and reliable. On the other hand, it is also high time to control such kind of expansion of land for cultivation.
On the other hand, it is necessary to encourage intensive cultivation through optimum utilization of available irrigation facilities, and for this purpose it is essential to make the distribution of fertilizer, seed and agricultural credit simple and reliable. On the other hand, it is also high time to control such kind of expansion of land for cultivation.

Regarding expansion of irrigation facilities, in the context of factual evidences pertaining to the efficiency and importance of traditional canals constructed and un by farmers, and of small irrigation projects, it is very important to accommodate more of such projects in irrigation facility extension programmes in the coming years. Similarly, the local water distribution work as well as in the repair and maintenance of the existing canals. Hence, it is felt necessary to encourage the further formation of such groups to have people's participation.

The supply for chemical fertilizer for agricultural production is quite significant. However, the expected result has not been achieved despite grants provided by the
government every year for fertilizer distribution, due to failure in timely supply of fertilizer and in necessary quantity. According to studies related to Nepalese agricultural sector, timely supply of necessary quantities of fertilizer rather than its price provides relief to farmers. Hence, proper attention should be given towards ensuring the timely supply of chemical fertilizer and in necessary quantity rather than entangling in the price setting of agricultural fertilizer.

To increase agricultural production, apart from increasing cropping intensity, it is also essential to use fertilizer and seed in the right proportion. But given the hand-to-mouth existence of the majority of farmers, it has been found quite difficult, nay virtually not possible to manage for the necessary quantity of fertilizer and seed. Under this context, it has become quite essential to streamline agricultural credit distribution system and orient towards poor and small farmers.
Despite substantial investment for the development of the agricultural sector, which is the predominant sector in the Nepalese economy and the main source of employment to the majority of Nepalese people, this sector can neither alleviate its over-reliance on monsoon nor it has been able to achieve reasonable development.

2.4.2 Industry:

A country's level of economic development is reflected in the progress made in the industrial sector. Satisfactory economic prosperity cannot be achieved without industrialisation. The overall industrial development is expected to create a climate conducive for economic development.

Most land-locked developing countries are amongst the poorest of poor countries and the fact of being land-locked has been identified as a special and severe handicap to
development. In general, landlocked countries are handicapped both by high transport costs and problems of transit for their imports and exports. The land-locked countries surrounded by rich neighbours do not have to sacrifice much in terms of gains from trade. Moreover, once developed, these land-locked countries have been able to compensate for any locational handicaps through specialising in a pattern of trade and production which emphasise service, high value, high value-added and skill-intensive items. A landlocked country in the developing world has none of these compensatory advantages. Being part of the Third World, its neighbours are poor though generally not poorer. The disadvantage of being land-locked is hence compounded by inefficient and high cost transportation as well as inefficient and insufficiently diversified production structure of neighbouring countries. Lacking growth impulses from its neighbours, it is extremely difficult to industrialise and create the competitive strength and skills to alter its structure of production towards high value-added and skill-intensive sectors. Moreover, where the poor
neighbours are also large countries many backwash effects will buffet the small, landlocked country and a dependent relationship is created which severely circumscribes the scope for autonomous, commercial, monetary, fiscal and industrial promotion policies.

Nepal suffers from the serious disadvantage of being landlocked country. This problem is exacerbated by the existence of a long and open border with the economically overwhelming neighbour, India. These two factors have very serious and far-reaching consequences for economic policy in Nepal.

Despite various policies and programmes of the government to create industrial awareness in the country, the climate for industrial development has not been congenial. The industrial policy, laws and by-laws have industries which have not created employment or generated income and had no direct relation with the national requirements, were promoted. Industries that can
utilize domestic raw materials and domestic labourers can have more value added in the economy. Vague provisions in the industrial laws and by-laws and nonclassification of industrial incentives have not contributed much to the establishment of new industries.

Initiating reforms in the industrial policy has been duly recognized at the beginning of the current fiscal year. It was realized that this task involves significant consideration to the broader economy of the industrial sector.

2.4.3 Trade:

Nepal's land-locked position and her open border with India are thus likely to have reduced her level of trade and retard her industrialisation. Recent performance in industrialisation and trade show that there are no signs of a rapid relaxation of constraints to these aspects of Nepalese development.
The situation of trade and balance of payment position in the country also does not reflect healthy and satisfactory trends. Due to the production activities and small scale of industrialisation, trade has become a basic necessity for Nepal. Further, its geographical affinities and other ties with adjacent countries have made it quite necessary that good trade relations be maintained as far as possible with neighbours. /22

Foreign trade in Nepal is characterised by slow growth in exports, heavy growth in imports, increasing diversification of trade and mounting unfavourable balance of trade. Exports have virtually stagnated may decline in real price term while

imports are increasing at a whopping rate creating a mammoth disequilibrium in trade. The severe discrepancy in foreign trade has put on great pressure to the economy. Trade diversification has grown, however sharply. Heavy imports of manufactured goods have posed a serious competitive threat to domestic industries making marketing activities much tougher. The development of trade can be made only through radical changes in economy as observed by P.S. Rana.

"The development of both Nepalese civilisation and the Nepalese state were strongly influenced by the cross-currents of trans-Himalayan trade. Only in the last two centuries did trading system undergo a transformation that eroded its channels to north and made Nepal heavily dependent on the southern neighbour. Ironically the attempts in the sixties to break this economic dependence on India ended only in reconfirming these bonds. If she is not to repeat her failures, Nepal must undertake a radical structural change of her economy and produce goods for which permanent markets in
countries other than India can be found. In pursuing this strategy, she must try to use the proximity of Indian economy, so that what appears today to be a liability can in future be turned into an asset.

Nepalese foreign trade is characterized by large trade deficit due to the massive importation of project goods, construction materials and other consumer items and raw materials over the limited exports of one or two items such as woolen carpets and ready made garments etc. Especially on the export front, majority of exports consists of such goods as agricultural primary products besides garments and carpets. The low export base, poor quality of goods, inability to compete in international market and the comparatively high cost of production have been the main issues of concern in harnessing exports in recent years.

Regarding import-substitution, it could be said that the home market is simply too small and fragmented and the required entrepreneurship and skills donot as yet exist.
Despite the government efforts to take some policy measures to contain the level of trade deficit it still shows an increasing trend. Therefore, exports could not keep pace with the increased overall imports due to the escalation in the prices of petroleum products, industrial raw materials, and essential commodities. Towards reducing increasing trade deficit with India and other countries, the government has tried to boost up exports.

2.4.4 **Physical Infrastructure:**

Besides agriculture, industry and trade the other major economic areas are tourism, energy and forest, transport and communication etc.

2.4.4.1 **Tourism:**

Tourism sector has increasingly contributed to foreign exchange earnings in the country. It has also significantly expanded its impact, directly or indirectly on
different sectors of the economy such as in industry, trade, and employment.

Nepal is regarded as an attractive tourism centre since last decade and tourist arrivals in Nepal from different parts of the world have registered steady growth. In 1989, during period of Indo-Nepal trade impasse tourist arrivals decreased by 9.78%. Similarly, the flow of tourist was hampered by the Gulf crises. In mid-December 1990, the total number of tourist arrivals was 255 thousand, registering an increase of 6.23% compared to last year’s tourist arrivals but lower than that of the previous year. Of these, 88.8% had travelled by air, an increase of 2.54% over the previous year. 23/

On the origin of tourists, the tourists arriving from Western Europe was highest followed by those from Asia Region

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and North America. Tourists from Australia and Pacific were recorded fourth followed by Eastern Europe. Compared with the figures of last year, no substantial changes were recorded in case of those from Western European but the tourist arrivals from Asia Region had increased by 7.22%. Arrivals from Indian tourists had contributed to this and Indian tourists during this period of review showed a significant increase.

The tourism sector has significantly contributed in foreign exchange, and to creating employment opportunities. In the year 1990-91, the government received Rs. 7.268 million in the form of royalties from 120 mountaineering groups and 12179 people got temporary employment. Payment in royalties received by HMG this year was 0.6% higher than the amount received last year.

Since tourism is one of the major foreign earning sector in Nepal a sound tourism sector programme should be launched to strengthen them. Efforts should be directed in making the
average stay of rich tourists longer. New tourist attraction centres should be developed in a planned manner and information on such centres should be disseminated to tourists. Nepal should also learn from other SAARC countries on how to attract tourists in our country.

2.4.4. **Energy & Forest:**

Energy source has occupied an important role for the all round economic development of the country. Energy consumption increased together with the growth of population as well as economic development. The consumption of energy is increasing even though the per-capita energy consumption is very low in the country.

The consumption of fuel-wood and electricity increased drastically, particularly in the urban domestic sectors because of shortage of cooking gas and kerosene oil during the fiscal year 1989/90 as compared to past years. The total consumption of energy was registered at 8 million 800
thousand metric tons of coal energy equivalent during the fiscal year 1988/89. By the end of the fiscal year 1988/90, the energy consumption increased by reaching a total energy consumption of 8 million 877 thousand metric tons of coal energy equivalent. Thus the annual per capita energy consumption is expected to reach an equivalent of 477 kilograms of coal energy during the fiscal year 1989/90.

Out of the total energy sources, 96.00 percent energy was acquired from traditional sources and remaining 4% was derived from commercial sources in the fiscal year 1988/90. Of the traditional sources, 76.44% came from fuelwood, 11.14% from agricultural products and 8.435 from animal wastage. Among the commercial sources, petroleum products contribute 3%, coal 0.24% and electricity 0.75%. Due to the trade and transist impasse with India, the consumption of petroleum products decreased by 11.63% and coal by 70% in the
year 1989/90 as compared to the preceding year 1988/89. The consumption of electricity increased by 15.5% during the year. /24

It is proved from the data mentioned above that the consumption of energy from commercial sources is still negligible as compared to the total energy consumption in the country. The forest has remained the main source amongst the sources of energy since the people in the rural areas have free access to the forest to bring fuel-wood. There is also inadequate supply of other types of energy sources in those areas, and that the rural households have low purchasing power to be able to buy commercial energy sources. Forest is a dominant source of energy supply in the country in the form fuel-wood.

24. ibid
In the recent years, the total-energy consumption has been increasing very steadily, although, the destruction of a vast area under the forest was carried out recklessly due to the increasing dependency on traditional energy sources. This has brought about a sharp decline in the ecological balance and adverse effects in the production and productivity of agriculture. In absence of cheap and easily available energy sources and low level of income of the majority of the people, dependency on the traditional energy sources, including the forest, cannot immediately be minimized. Hence, there is need for developing the forests systematically.

Due to lack of financial resources as well as development of technical capabilities in a slow pace, the solar power and hydro power, alternative sources of energy, that are available in abundance, could not be developed in a desired scale.
2.4.4.3 Transport & Communication:

The development of transport and communication plays a vital role in the all round development of the country. However, roads and means of communication built only from political or administrative considerations do not truly reflect a genuine commitment for development of a country.

Nepal is a mountainous country. In many parts of the country, the only means of transport is still the trail ways. Roads and civil aviation are only secondary to transport network so far been developed.

The main road consists of the East-West and North-South highways. Apart from these, feeder roads connecting highways to district headquarters and roads built in urban areas also deserve importance in the road development process in Nepal.
The longest highway in Nepal with maximum facility is the Mahendra Highway. Its total length is 1028 km, out of which 942 km has been completed and 86 km is yet to be constructed. Some of the major completed highways that are in use are the Tribhuvan Rajpath, Prithivi Rajmarg and Siddhartha Rajmarg, which covers the East-West routes. Similarly, Kodari Rajmarg, Chitwan-Itahari, Gorkha-Naryanghat, Kohalpur-Surkhet, Dhading-Dadeldhura, Bardibas-Sidhuli, Ilam-Phidim are the main North-South highways, some of which have been completed.

Civil aviation in Nepal is very important not only because of the difficult transport and high cost of road construction in the mountain areas but also because of high rate of road damage during the rainy season.

There are 43 airports in Nepal, including the Tribhuvan International Airport. The types of airports are as follows:
a. Jet Status 1
b. Avro Status 8
c. Twin Otter Status 30
d. Pilatus Porter Status 4

Out of these, 30 airports have the communication facilities and 21 have the solar power communication instrument installed in them.

The Janakpur-Jayanagar Railway (51 km, 2’6” gauge) is the only rail transport in Nepal. It started operating in 1935, rendering services for transport of passengers and goods. Due to lack of proper repair and maintenance, it has not been able to provide services as expected.

The Katmandu-Hetauda Ropeway (42 km, 42000 m.t. annual capacity) has been providing facility for transportation of goods. But, due to lack of proper repair and maintenance, annual utilization of its capacity has been less than 25%. Ropeway transport carried 28,120 metric tons of
goods in the year 1989/90. The cost of transportation in ropeway is 34.5 paisa per kg, whereas the cost of other means of transport is 47 paisa per kg. In connection with the strengthening of the ropeway services in Nepal, actions are in the pipeline for government assistance.

The Tripureswor-Suyavinayak (13 KM) Trolley bus service has been providing transportation facility especially in the Eastern part of Katmandu valley. These trolley buses badly need proper repair and maintenance, as it has been rendering services to the people for more than a decade now.

In the year 1989/90, there were 2,232 post offices in the country, of which 75 were district post offices, 478 area post offices and 1678 additional post offices. Although many additional post offices were targeted the achievement so far has not been very satisfactory.

There are about 57320 telephone lines distributed in 36 urban areas, including the distribution of 5,209 automatic
(Crossbar) telephone lines in two urban areas. Similarly 51,297 digital automatic telephone lines have been provided to 30 urban areas of the country. Moreover, telex services in Nepal is automatic, and it can facilitate communication all over the world through telex subscriber without the help of an operator.

Nepal Television which was established during 1984/85 has been transmitting regular programmes since December 1985. The transmission of Nepal Television has extended reaching southeast Terai by installing 1 KW transmitter in Phulchowki. On extending television coverage a separate transmitting station was established in Pokhara in January 1990. At present, only about 18% of the people are estimated to have been reached by television programmes transmitted through different stations and sub-stations.

In the process of expanding radio broadcasting services, by the end of year 1989/90, studios in different parts were constructed and broadcasting was also started.
Although during the previous years, progress on road construction was satisfactory, road construction is more centred in highways; as less attention is paid on the development of the road linking it with the headquarters of a district and other feeder roads, it has not helped to increase economic activities in the neighbouring districts of the roads constructed, and thus expected cinnamic benefits has not been achieved. In this context, it has become essential to pay attention to the construction of feeder roads in the years to come.

2.4 Conclusion:

An analysis of key economic indicators clearly reflects that there has been a remarkable stability in the economic situation of the country compared to that of previous years. In the current year, economic activities enhanced for agriculture and non-agriculture sector and this has enabled positive contribution towards production. But the country's
economy is still weak in view of the absence of drive towards stability. Inconsistencies are found in the investment and savings of the past Government, revenue versus expenditure including commodity and service. Similarly, the gap between exports and imports and basic problems have not been exports and imports and basic problem shave not been resolved. Consequences of such gap and inconsistencies have affected the overall economy.

In the recent years, Government expenditures increased in large scale and the total budget deficit also increased substantially resulting to fast growth of both internal and external loans. The economy is unable to cope with the extent of Government expenditures where consumption expenditure is expanding by way of negative savings. Moreover, high liquidity in the economy have had increased in imports, deficit swelled in the current account, money supply increased and inflation rate rose. In view of the declining trend in
gross domestic savings, Nepal is one of the countries in the SAARC region that have the lowest gross domestic savings. Hence, medium term consideration reflects drastic reduction in expenditures as applicable. It is also crucial to expand domestic resource mobilization.

There have been several lessons learned from the economic systems that have been affecting the all round development in other parts of the world. Our own experience shows that the economy should not be controlled more than required otherwise unnecessary bureaucracies created, ill defined and misdirected policies and regulations, and cumbersome procedures will directly affect the economic development of the country. With this background, the economy should be geared towards market, while unnecessary prescribed control should give way for simple operational procedures as essential.