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An economic overview on the Federal Democratic Republic of Nepal

Panorama económico de la República Federal Democrática de Nepal

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ABSTRACT

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The Federal Democratic Republic of Nepal is a landlocked country in South Asia between China and India. Its multiple particularities across different economic sectors and the many challenges that the country has had to face across the years have resulted in a complex economic scenario and challenging conditions for its population. Having faced great political and economical turmoil, Nepal has persisted in its economic recovery, starting with tourism and currently betting on hydroelectricity, as well as trade deals between its key partners, China and India

RESUMEN

Palabras clave:

Nepal
Inestabilidad
Política
Economía
Geografía
Desarrollo económico.

La República Federal Democrática de Nepal es un país sin conexión marítima ubicado en el sur de Asia entre China e India. Sus múltiples particularidades a través de diferentes sectores económicos, y los distintos retos que el país ha tenido que afrontar a través de los años han resultado en un complejo escenario económico y condiciones desafiantes para su población. Habiendo enfrentado gran agitación política y económica, Nepal ha persistido en su recuperación económica, comenzando con turismo y actualmente apostando en hidroelectricidad, al igual que acuerdos comerciales entre sus socios claves, China e India.

METHODOLOGY

The following article employs a descriptive approach as it examines Nepal's multiple factors that have influenced the behavior of its economy by utilizing descriptive economic data from both official Nepalese websites, as well as international ones.

INTRODUCTION

The Federal Democratic Republic of Nepal is a landlocked country in South Asia between China and India. It has a roughly rectangular shape that occupies 147.181 square kilometers of land, and according to the official tourism website for Nepal (Welcome Nepal, n.d.) The Tarai region at the north occupies about 17% of the country's total area, it's there where the Kathmandu and Pokhara valleys lie. The mid-hill region starts at

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3000m up to the alpine pastures, the forests end at 4000m and the snow begins at 5000m. The Himalayan region starts at 3600m in the inner Himalayan valley with two cold deserts “Mustang and Dolpo”.

The unification of Nepal began in the year 1769 in the battle of Kirtipur where Prithvi Narayan Shah of the Gorkha native people, managed to conquer the territories of modern Nepal. Since the establishment of the monarchy, the country was characterized by its constant state of warfare with China, India, and Great Britain. Moreover, civil wars and political instability started from the differences between the many ethnic groups that inhabit the country, which has led to civil unrest (Landon, 1993).

In the 1940s inspired by the Indian independence movement, the people of Nepal started to demand a more democratic government and a parliamentary monarchy, in cooperation with the Nepali Congress and prince Mahendra the old regime was overthrown and Mahendra was crowned king, consequently, the pro-democratic government was set on course. Unfortunately in less than a decade the king scrapped the democratic government and established "the Panchayat, a "partyless" system to govern Nepal. The political parties were banned and politicians imprisoned or exiled” (Hutt, 2004).

This system helped to modernize the country and improve its development, yet it was extremely authoritarian, thus leading to the outburst of the people against the monarchy in 1990. The people's movement forced the king to accept and establish a more constitutional and democratic government. However, in 1996 the Maoist movement demanded the complete removal of the monarchy, which led to a civil war. Moreover, in the year 2001, almost the entire royal family was executed, and in 2006 both parties agreed to finish the 10-year-old civil war (Hutt, 2004).

GEOGRAPHY AND CONNECTIONS

Being a small country, Nepal has enormous geographic diversity. Its terrain rises from less than 100 meters in the Tarai region, in the northern part of the Ganges flatland, to a perpetual

snow line of about 90 peaks over 7,000 meters high, including the highest mountain in the world, Mount Everest, with 8,848 meters high. Besides, the climate ranges from tropical heat to Polar Regions' cold, with a lot of precipitations.

Due to its geographical position, Nepal remains isolated from important land and sea routes. Because of its poorly developed road system, it's a total challenge to access markets, clinics, and schools; in 2016 there was over 16.100 km of unpaved roads and just 11890 km of paved ones. In 2018 all district headquarters had been connected to the road network, nevertheless, most of these roads stop working during the rainy season.

Nepal's hilly terrain is its main issue, hence its lack of infrastructure and the hindrance of building roads and other types of infrastructures. Consequently, this has a huge impact on Nepal's economy, as it depends on China, India, and Japan for expanding its road network. Specifically, they need India's aid, since it's only near the seaport of entry of freight in Kolkata, in India.

The aviation network in Nepal is a whole other story, flights are frequent and there are 47 airports, eleven of which have paved runways. Nonetheless, Nepal Airlines, the national carrier is in penurious conditions due to the corruption that scourge the country and the mismanagement that has been given to it, also it has been blacklisted by the European Union. (CENTRAL INTELLIGENCE AGENCY, n.d.)

ECONOMIC DEVELOPMENT

Nepal's economy has been recovering since the devastating earthquakes in 2015, which destroyed the country's infrastructure. Agriculture, construction, and tourism have rebounded, improving the revenue of the country. Moreover, the political and civil stability in the government, the electric sector rapidly improving and with a more developed road infrastructure for the old rural roads, there's a light of hope in the forecast of moderate growth of the country's GDP.

Around one-quarter of Nepal's population lives below the poverty line, which places it on the list of the least developed countries in the world. Over 30% of Nepal's GDP comes from

remittances, making the country dependent on them. Its economy is predominant on agriculture, rice and wheat are the most cultivated, it represents less than a third of the GDP and provides a live hood for about two-thirds of the population. Whilst Industrial activity focuses on processing agricultural products, including jute, tobacco, pulse, sugarcane, and grain. According to the CIA World Factbook, (CENTRAL INTELLIGENCE AGENCY, n.d.)

Nepal has signed trade and investment agreements with India, China and, other countries, however, these agreements have been deeply affected by political uncertainty and a difficult business climate, which have hampered foreign investment. Also, Nepal has considerable scope for its hydropower potential, with an estimated commercial capacity of 42000 MW; this has been very attractive to the United States since both of them signed a \$500 million Millennium Challenge Corporation Compact in September which will expand Nepal's electricity infrastructure and help maintain transport infrastructure.

Nepal's GDP Purchasing Power Parity which refers to the sum value of all goods and services produced in the country valued at prices prevailing in the USA in the year noted, in 2015 the estimate was \$72.96 billion dollars, in 2016 the estimate was \$73.39 billion dollars, stating a difference of 1.43 billion, compared to the year 2017 in which the estimate was of \$79.19 billion, thus the difference generated between 2017 and 2016 is of 5.8 billion, and the difference between 2017 and 2015 is of 6.23 billion dollars.

Nepal's GDP Official exchange rate, which according to the CIA is "A nation's GDP at official exchange rates (OER) is the home-currency-denominated annual GDP figure divided by the bilateral average US exchange rate with that country in that year", in 2017 was of \$24.88 billion dollars. The GDP real growth rate, which is the GDP growth on annual basis adjusted for inflation and expressed as a percent, in the year 2015 was an estimate of 3.3%, in 2016 was an estimate of 0.6%, the difference stated between the GDP Real growth rate of 2015 and 2016 is of 2.7%, in 2017 the GDP Real growth rate was of 7.9%, generating a difference between 2017 and 2016 of 7.3%, while in 2018 the GDP Real growth

rate was of 6.7% the difference stated between 2018 and 2017 is of 1.2%, and in 2019 the GDP Real growth rate was of 7.1% creating differences between 2019 and 2018 of 0.4%.

The GDP per capita of the year 2015 was \$792.553 dollars, in 2016 it was \$777.148, the GDP per capita grew \$134.296 dollars from 2016 to 2017 as in 2017 was \$911.444 dollars, in 2018 the GDP per capita was \$1033.91 dollars stating a difference of \$122.468 dollars between 2018 and 2017, and in 2019 was of \$860.5 dollars, generating a difference of \$173 dollars between 2018 and 2019.

The GDP composition by end-use refers to who does the spending in an economy, in the year 2017 the investment in fixed capital represented 33.8% percent, household consumption corresponded to 78%, government consumption, investment in inventories, and exports of goods and services represented respectively the 11.8%, 8.7%, and 9.8%, while the imports of goods and services represented -42% of the GDP composition by end-use.

On the other hand, the GDP composition by sector of origin in 2017 was mainly constituted by the sector of services which represented 59.5%, the agriculture sector represented 27% and industry corresponded to 13.5% of the GDP composition by sector of origin. The most important products from the Agriculture sector are pulses, rice, corn, wheat, sugarcane, jute, root crops, milk, and water buffalo meat. From the Industry sector, the most important was tourism, and products like carpets, textiles; small rice, jute, sugar, and oilseed mills; cigarettes, cement, and brick production.

Nepal's Industrial Production growth rate of 2017 was 12.4%, in 2018 it rose 7.9%. (CEIC, n.d.) Nepal's Labor force in 2017 was \$15,853,018 million people, while in 2018 it was \$16,359,487 million people, and in 2019 the Labor Force is of \$16,885,870 million people, which states a difference between 2018 and 2017 of \$506,469 million people and between 2018 and 2019 the difference was of \$526,383 millions of people (World Bank, 2020).

The country's labor force is constituted by agriculture (69%), services (19%), and industry (12%). Nepal's unemployment rate was 1,396% in 2017, in 2018 it was 1, 35% and in 2019 it was

1,407%, making Nepal the 36th country in the world's list of unemployment. The population living below poverty line percentage in 2011 which is the latest report found, was 25.2% of the total population. The inflation in Nepal has fluctuated since 2017 when it was a 3.627% rate, then in 2018 it rose to 4.061%, and finally, in the year 2019, it rose to 5.569% stating a difference between 2018 and 2019 of 1.508%.

Regarding international trade, it is important to talk about the Balance of Trade, which is the difference between a country's exports and imports over a period of time. In 2019 Nepal's Balance of Trade was -6.5% as its imports of \$12185,4 million dollars exceeded its exports of \$1098,7 million dollars. Nepal's main trade partners are India, the United States of America, Germany, Turkey, and the United Kingdom. India's imports from Nepal are 64% of this country's exports, the USA's imports from Nepal represents 11.2% of this Asian country's total exports, Germany comprehends 3.3% of Nepal's total exports, and Turkey constitutes 3% of Nepal's total exports while the United Kingdom contributes to the 2.7% of Nepal's total exports. On the other hand, 64.7% of the total of Nepal's imports came from India, which is Nepal's main supplier, 14.5% came from China, 2.5% of the total imports came from the United Arab Emirates, the 1.4% came from France while the 1.2% came from Indonesia.

The 10.6% of the most exported products by Nepal in 2019 were palm oil and its derivatives, 7.6% were rugs and other textile covers, 3.9% were yarn of polyester fibers and other artificial fibers and 3.5% were synthetic textiles. While the most imported products by Nepal were: Diesel, which contributed to 8.5%, Steel and Iron represented 4.6%, oil was the third most imported product, it represented 2.5% while liquefied petroleum gas contributed to 2.5% (Oficina de Información Diplomática, 2020).

The tourism sector in Nepal used to be described on many occasions as its backbone because of the revenue that brings to the country, the exchange of international currencies, and the indirect support to the construction sector of the economy. In the last decade, however, the country's focus has been more inclined towards energy production.

Back when the country's tourism was beginning to bloom, Nepal was an incredibly isolationist country that did not allow any foreigners to visit. It has been recorded that between 1881 and 1925 only 125 foreigners were allowed to visit the country, but they weren't allowed to do it freely, the Nepalese were extremely restrictive on what the foreigners could do. In addition to this, many of these foreigners were Nepalese's workers of British descendants such as envoys, electric workers usually hired for the royal court, and white people from the British Raj.

However, in the 1950s with the beginning of a more democratic government and open system, the tourism sector was allowed to take off. The first policy implemented was a tourism plan of the country made in collaboration with the French national government. In this first plan, important recommendations were addressed important to boost this sector, unfortunately, such directions are not available for the public. By the 1970s there was a full committee to improve tourism in the country and it was about that time that the first doctorate work about tourism in the country was made, aiming to analyze the direct and indirect impacts of tourism in the economy. The result obtained from the study was that the tourist sector had become one of the most fundamentals parts of this country's economy.

Unfortunately, by the 1990s the tourist situation in Nepal had become worse, many of the tourist places decayed while other tourist places in Asia took off much faster. The main problem of tourism in Nepal is their competition and their poor development. The development of the infrastructure of Nepal has two main problems, the first being the instability of the country for the last 30 years and the second one is the small budget for tourism given by the government. Although Nepal is stable right now, its instability caused the loss of a golden opportunity when the world's tourism boom occurred in the '90s with cheap flights and eye-catching tourist spots for every kind of tourist.

Nepal has been letting itself behind the other Asian countries on tourism. This is due to its lack of attractions for all kinds of public, as its main attraction is climbing Mount Everest, also the poor state of the hotels and roads is something that

isn't attractive for families and people in general (Nanda, 1997).

CONCLUSIONS

Nepal is a beautiful country that has gone through different rough patches along with its histories, such as the devastating earthquakes in 2015, its political instability, civil wars, and corruption.

Although the tourism sector, which once was its cornerstone, has now been forgotten because of the lack of budget and infrastructure. Tourism needs immediate reform due to its big potential.

These unfortunate situations have had a great impact on the Nepali economy, as it's shown in the data exposed. Nowadays Nepal has a growing economic development with economic indicators increasing year after year, such as the Industrial Production growth rate which in 2018 rose 7.9% and with a promising future in the energy sector, it could be said that Nepal is slowly restructuring itself.

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