

Abstract

Economic Development and Reform in Nepal with Reference to Reform Process in India

Along with the changes in development aid strategy of donors, Nepal embarked upon new economic policy regime in mid 1980s. In 1990, Nepal intensified the process of economic reform. Accordingly, Nepal changed the economic policy regime from inward looking and import substituting industrialization policy to outward and export-orientation. The focus of the shift in policy regime was on economic liberalization and privatization. Nepal has carried out various components of economic reform policies during the last more than one decade.

In the beginning, the emphasis of economic reform was on the fiscal side. Nepal has also pursued more open up and free trade policy since early 1990s. Quantitative restrictions on imports have been fully removed. Customs duties have been rationalized and brought down substantially. Reforms have also been executed in foreign exchange front. There are no foreign exchange controls on the current account. Nepal has also made some relaxation on capital account. Drastic changes have also been made in industrial, foreign investment and technology transfer policies. With a view to making them compatible with the liberal commercial policies, industrial licensing system has been abolished. Foreign investment in the form of both direct and portfolio is allowed.

Along with the external sector reforms, Nepal has also intensified financial sector reforms in recent years. Removal of entry barrier, establishment of prudential norms of Basle Accord, enactment of NRB Act 2002 granting more autonomy to the central bank is the key reform measures introduced in this sector. In order to enhance the reform process, various forms of subsidy granted to the farmers have been abolished. In many areas the cost recovery principal has been applied. Thus, in many instances, Nepal, in the hope of rapid development, has been far ahead of other South Asian countries in augmenting economic reform program. This stands true in comparison to India also despite open border and free movement of goods and services inhibiting major policy shift that from India. Nepal's economic reform program has been principally guided by the aim of accelerating economic development and raising living conditions of the Nepali people.

It was hoped that with the fast integration with the global economy, Nepal would be in a position to take advantages of new opportunities. When a quick evaluation based on trend analysis is made; it is found that the first phase of reform of mid 1980s was helpful to bring the economy in the right track despite some social cost. Similarly, the initial outcome and impact of second phase of reform of 1990s was satisfactory to a greater extent. This, however, could not be maintained for long. Although, global events together with internal security problems contributed for such a state of affairs to some extent, the origin and manifestation of crisis is linked to the performance of the reform program. Unlike many other countries Nepal's economic reform and its outcome cannot be judged without examining simultaneously the policies pursued by India in this area.

Nepal's economic relation with India is quite unique and closer. More importantly, the nonrestrictive open border of a small economy with a big economy leads, in many instances, to nullify the positive outcome of the reform if the discrepancy in

the policies is too large. Thus, the unwarranted developments in the Nepali economy demand for the necessity of reviewing the whole gamut of reform policies and accompanying processes for ascertaining the linkages between Nepal's economic developments and undergoing reform programs. The delineation of strengths and weaknesses may be incomplete without some comparative assessment of reform policies of Nepal and India simultaneously. In this backdrop the study aims to:

- Analyze the various components of reforms in the light of speed and direction of reform in India
- Assess the outcome of reforms and ascertain linkages between economic development and reform
- Examine the issues pertaining to the sustainability of outcome of reforms, and
- Suggest future form of reform including speed and sequencing.

To fulfill the study objectives, five methodological approaches will be followed. At first, a thorough review of the various components of the reform policies and programs will be examined based on secondary information and published documents. After a thorough review, small survey among the stakeholders will be carried out based on random sampling technique to identify the discrepancy between the stated policies and their applications at the practical. As a third step, some empirical analysis using statistical and econometric tools will be made to ascertain the linkage between economic development and reforms.

Using real and proxy variables representing the economic reform indicators of different sectors, an attempt will be made to delineate the underlying reasons inhibiting sustained growth and development in Nepal. Effort will also be made to examine trickle downing and spillover effect of the reform. For this two-pronged approach will be followed.

Also, the effect in the relative prices of goods and services and subsequent impact on different income strata including farmers will be examined to gauge the overall impact of subsidy withdrawals and cost recovery-pricing policies. A separate analysis employing both direct and indirect techniques wherever applicable will be done to examine the influence of non-economic factors on the speed and outcome of the reforms.