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The Limits of Globalization:

Injustice, Inequality and the
Progressive Response





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By: Kamal Dev Bhattarai

Globalization and Nepal

During the 104-year autocratic rule of the Rana regime, from 1846 to 1950, Nepal adopted an inward-looking and isolationist approach. The Rana rulers only engaged with external powers to garner support for their regime's sustainability.

With the establishment of democracy in 1950, Nepal opened itself to the outside world. Subsequently, Nepal became a member of the United Nations in 1955 which provided an opportunity to engage and interact with the wide international community. Similarly, Nepal started establishing diplomatic relationship with big countries which paved the way for bringing foreign assistance.

After ascending as monarch in 1955, King Mahendra adopted a policy of diversifying Nepal's foreign and economic policy beyond India and China. But his move to dismantle multi-party democracy and replace it with the party-less Panchayat regime was a stumbling block to liberal policies both on the political and economic fronts.

During the 30 years of the Panchayat regime, there was stagnation in economic activities, although Nepal was interacting with the wider world and some sort of developmental activities were on the move. Yet the policies of the government, then, were not liberal to the extent that it could not become part of the global economy. This could have been the strategic approach of the regime precisely because a liberal economy also requires a liberal political order for which the regime was not really prepared for.

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Image: www.thestatesman.com



The consequences of such policies was that Nepal's economy had suffered from a prolonged state of stagnation. During 1960-1985, the per capita growth rate was only 0.1 percent, argues Krishna Hachhethu – a political scientist at the Tribhuvan University. He further argues that industrial development was held back because the pattern of investment was highly concentrated in the trade sector.

Ganesh Kumar Shrestha (former executive director of Nepal Rastra Bank) states that after the 1980s, Nepal started liberalizing its economy under the structural adjustment program which ultimately opened the country to economic liberalization. Structural adjustment is one component of globalization. This first phase of that globalization could well be seen in the reform of the financial sector, which was initiated in mid-1980. Following this policy, Nepal secured foreign investment in the banking sector, Shrestha argues. The Nepal Indosuez Bank Limited and Nepal Grindlays Bank Limited were established in 1985 and 1987 respectively as joint venture commercial banks.

Shrestha observes:

Under the Structural Adjustment Program of the IMF, the financial sector was further liberalized in 1987. The focus of NRB was placed on indirect monetary control. The emphasis was laid on increased financial intermediation, deepening of financial markets and increase in the role of market forces in the financial system. The auction mechanism was introduced for the first time to sell treasury bills (NRB 1996).

As stated by Shrestha, measures taken mainly after the 1980s was the beginning of Nepal's embrace of globalization. After the restoration of multi-party democracy in 1990, Nepal adopted a policy of liberalization, privatization and marketization. Shrestha is of the view that after the restoration of democracy, the succeeding democratic governments under its open and liberal economic policy gave more emphasis on the liberalization of the financial sector. As a result, the Nepalese financial sector has grown very rapidly since 1990s, he argues.

Like other small countries, globalization came with both opportunities as well as challenges. First and foremost, it helped to strengthen democratic norms and values, human rights, rule of law, inclusion, and pluralism among others. On the economic front, Nepal adopted a policy of economic liberalization, increased foreign direct investment, expansion of the market and alleviate poverty. Similarly, there has been rapid developments in the areas of Information Technology.

At the same time, globalization generated a lot of challenges and there are various perspectives on its positive and negative implications in Nepali society. The liberalization policy adopted by the first government after the restoration of democracy in 1990 had drawn criticisms from political parties, mainly from left-leaning politicians and experts. They are of the view that the policy of liberalization and privatization led to the closure and collapse of government-owned industries, it led to rising inequality between rich and poor, and contributed to ballooning trade-imbalance.

Communist parties highlight the negative consequences of globalization. For instance, Nepal's Maoist party, which launched 10-year long insurgency, is critical of liberal economic policy. The political document presented in the party's plenum in 2021 by Pushpa Kamal Dahal states that through liberalization and privatization, big countries are exploiting the resources and manpower of poorer countries. The party is of the view that the anti-human effects of global imperialism and financial capitalism must be exposed. The party does not subscribe to the view that national boundaries are broken.

There is an intense debate within the Nepali Congress, the grand old democratic party, over liberalization and privatization. The party's senior leader Ram Chandra Poudel, who is critical of neo-liberal economic policy and is advocating for democratic socialism, has proposed new measures to bridge the growing inequality in Nepal. His opinion piece published in Kantipur Daily in 2020 talks about the growing inequality in health, education and agriculture due to the wave of globalization. He has proposed the implementation of a progressive tax system which means imposing more taxes on the income of rich people and waiving tax for poor people.

Globalization provided a lot of employment opportunities. The free flow of goods, services, labor, investment and technology has helped millions of people get out of the poverty. But it has also created inequality in Nepal after the rapid growth of economic globalization.

At the same time, like elsewhere, globalization has led Nepal towards more inequality between rich and poor. A report published by the World Bank reveals trends in income and wealth that shows the clear gap between the rich and poor: economic inequality is extreme and growing. In 2010/11, Nepal had one of the highest income Gini coefficients in the world, at 49.42, and the level of income disparity had increased considerably in the preceding fifteen years, the report says. The Palma



Image: www.nepal.ion.int

“Globalization provided a lot of employment opportunities. The free flow of goods, services, labor, investment and technology has helped millions of people get out of poverty. But it has also created inequality in Nepal after the rapid growth of economic globalization.

ratio, which compares the income share of the top 10 % and the bottom 40 %, shows a similar trend. Today, the income of the richest 10% of Nepalese is more than three times that of the poorest 40%.

The richest person in Nepal saw his net worth rise by US\$200 million in 2018. This represented a 14.5% rise from 2017, taking his total net worth to US\$1.5 billion. The rise in this person's wealth

could pay for more than half of Nepal's spending on social protection. It would also take a poor Nepali more than 100,000 years to earn this amount, according to the report.

According to Nepal's Human Development Report 2020, Nepal's overall human development loss due to inequality is below the loss experienced by most South Asian countries, except Bangladesh, the Maldives and Sri Lanka. Nepal is behind all South Asian countries in terms of inequality in income, however, having among the highest disparities in the region despite relatively lower inequality in health and education, the report says.

There are scholars who are of the view that globalization has internationalized Nepal's economic life, increasing its interactions and engagement with many countries of the world (Dahal 2020). But the benefits of globalization particularly that of economic globalization has not really been reaped by all. The capital it has generated has not been spent on the productive sectors of the economy. In contrast, it has only increased the culture of consumerism in the country.

This, perhaps, is the main reason why Nepal has not been able to generate its own internal economic market. The country depended too much on the services provided by globalization. Similarly, market-centered economic globalization is also responsible for destroying internal capacity, skills, knowledge, internal characteristics, production and labor markets.

Alongside globalization is the global aid regime which, in the name of assistance, tried to intervene in domestic affairs. Such an approach tried to impose some of the global agenda, either through social engineering which is not well taken in Nepal and has reverse results. In fact, globalization and marketization are two edges of the same sword and they need to be contextualized. In the absence of that they can have serious consequences for the internal production capacity of the state. Nepal's increased dependency on the outside world for everything is part of that phenomenon. Today, Nepali producers are struggling to get access in the international market but there is uncontrolled flow of international goods which is crippling local production.

To our dismay, economic liberalization has barely offered anything concrete to Nepal other than making it an appendage of the global market. Under the garb of liberalization and privatization – two important pillars of globalization – Nepal has

privatized public utilities such as education and health and as a result the people at large are not able to enjoy the democratic dividend. In hindsight, the two indicators of economic globalization, trade and investment sectors (import and export) have evolved disappointingly in Nepal. Instead of narrowing the gap between export and import transactions, liberalization widened it to an alarming level. While imports have skyrocketed, exports have dropped exponentially (Shakya 2019). Globalization has merely focused on trade and not on production and as a result the internal market was flooded with external goods and services.

This has reduced national productivity to the extent that Nepal has become a full importer of agricultural products. The remittance that constitutes a large part of Nepal's GDP (around 26 percent) is spent largely on importing day-to-day goods and services. This has a huge impact on the balance of payment. The financial sector that has boomed in the cities does not necessarily create employment for Nepal. In contrast, the money that is generated by the financial sector is reinvested again to make money not necessarily to create employment. What has happened in Nepal is jobless economic growth and not development which otherwise could have benefitted all. The ultimate result of such a state of affairs could be witnessed in politics – the rise of populism and nationalism are part and parcel of this sort of economic globalization.

Nepal became a member of World Trade Organization(WTO) in 2004 which further accelerated Nepal's globalization process. Countries like Nepal have not been able to reap the benefits from globalization. Presenting Nepal's position during the Ministerial Conference of WTO in 2022, Minister for Commerce and Supplies Dilendra Badu argued that the challenges faced by developing economies, mainly supply-side constraints, weak productive capacity, insufficient trade infrastructures, and non-tariff barrier, have constrained them in getting the benefits from the multilateral trading system.

Nepal's government is of the view that medium, small and micro enterprises (MSMEs) are the backbone of the economy in providing jobs, reducing poverty, and contributing to inclusive development. Minister Badu in WTO meeting said: “However, they have been least benefited from the international trade regime. Development partners, therefore, need to give high priorities in capacity development and technology transfer to MSMEs of (LDCs).

To minimize the negative effects of globalization, Nepal, since 1990 is implementing short-term and long-term visions in order to address the problem of inequality and poverty. The 10th Plan (2002 to 2007) has developed a policy of creating infrastructures to assist poverty alleviation and achieve high and sustainable economic growth by minimizing regional imbalance and social inequality through proper mobilization, allocation, and utilization of available resources.

The 15th plan unveiled by NPC states that Nepal's overall poverty and human development indicators have improved significantly. According to the document, the population below the poverty line is 18.7 percent, the multidimensional poverty index is 28.6 percent and the human development index is 0.579. Despite this, many of the targets set in the areas of poverty alleviation and reduction of economic inequality are yet to be met.

Nepal's progressive constitution adopted in 2015 has progressive provisions which aims to minimize the negative effects of globalization. The constitution states about developing a socialism-oriented independent and prosperous economy while making the national economy independent, self-reliant and progressive through the equitable distribution of achievements made in order to build an exploitation-free society by abolishing economic inequality.

As per the constitution, Nepal's government has ensured the right to get compulsory and free education up to the basic level and free education up to the secondary level from the state. The constitution further states that every citizen shall have the right to free basic health services from the state, and no one shall be deprived of emergency health services. The Nepali government has already adopted various social security and specific employment programs in order to minimize the effects of globalization. In this sense, Nepal's political parties have realized the negative consequences of liberalization and privatization and are taking measures to address the problems brought by globalization. ■

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