

# A Report on High Growth Trajectory in China and India: Opportunities and Challenges to Harness Development Potentials in Nepal



Institute of Foreign Affairs



Friedrich-Ebert-Stiftung (FES), Nepal

# IFA Publications

1. Report on the National Seminar on Nepal's Foreign Policy – 1993
2. Report of the Seminar on the Uruguay Round of Multilateral Trade Negotiations and their Implications of the Nepalese Economy – 1994
3. Nepal's Participation in the United Nations Peacekeeping Operations (Report of the Seminar Organized in Cooperation with UN Association of Nepal) – 1994
4. Nepal's Foreign Policy: Issues and Options (Report of the National Seminar Organized in Cooperation with FES) – 1999
5. The SAARC Process and Poverty Eradication in South Asia (Report of the Talk Programme Organized in Cooperation with SAPPROS-Nepal) – 1999
6. Policy Study Series-1 (Nepal-India, Nepal-China and U.N., LDC and Nepal) – 1999 – 2001
7. Policy Study Series II (Security in South Asia) – 2001
8. नेपाल-भारत खुल्ला सिमाना : सकारात्मक तथा नकारात्मक पक्षहरु विषयक गोष्ठीहरुको प्रतिवेदन – 2002
9. Report of the Seminar on Follow-up of the Eleventh SAARC Summit – 2003
10. Policy Study Series III (Nepal's Relations with Bangladesh, Pakistan and Sri Lanka) – 2003
11. Future of South Asia: A New Generational Perspective – 2004
12. Policy Study Series IV (Nepal's Relations with United States of America) – 2004
13. Report on Nepal's Foreign Affairs (2002-2003) – 2004
14. Trade Facilitation: Nepal's Priorities – 2005
15. Policy Study Series V: Labour Issues and Foreign Policy – 2005
16. Nepal-China Relations – 2005
17. Nepal and the United Nations in Cooperation with NCWA and UNAN – 2005

**A Report on  
High Growth Trajectory in China and India:  
Opportunities and Challenges to Harness  
Development Potentials in Nepal**

**July 6, 2012**

**Jointly Organized By**

**Institute of Foreign Affairs**

**Friedrich-Ebert-Stiftung**

T.U. Central Library of Nepal Cataloguing - in -  
Publication Data

Seminar on high growth trajectory in China and India :  
opportunities and challenges to harvests development  
potentials Nepal, (2012 : Kathmandu).

Proceeding a report on high growth trajectory... / Institute of  
Foreign Affairs. - Kathmandu : IFA, 2014.

70p.; illus.

Bibliography : p.59-60

ISBN 978-9937-8459-9-1

1. China - foreign relations - India. 2. India - foreign relations  
- China. I. Title

327.51054

Se52p

dc 22

201406617

## Published By

### Institute of Foreign Affairs (IFA)

Kathmandu, Nepal

<b>Phone</b>	977-1-4266954 977-1-4266955
<b>Fax</b>	977-1-4266956
<b>E-mail</b>	ifa@mail.com.np ifa7nepal@gmail.com
<b>URL</b>	www.ifa.org.np
<b>ISBN</b>	978-9937-8459-9-1

### © Institute of Foreign Affairs

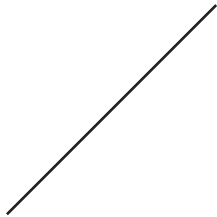
**First Published** IFA, June 2014  
500 pcs

**Printed at** Heidel Press Pvt. Ltd.  
Dillibazar, Kathmandu, Nepal.  
977-1-4439812, 4441712

# Contents

## Foreword

1. Concept of the Seminar..... 1
2. Welcome Remarks by Mr. Khush N. Shrestha,  
Deputy Executive Director, Institute of Foreign Affairs ..... 3
3. Remarks by Yang Houlan, Ambassador of People’s  
Republic of China to Nepal ..... 5
4. Remarks by Mr. Durga Prasad Bhattarai Foreign Secretary,  
Ministry of Foreign Affairs ..... 7
5. Keynote address by chief guest Hon. Deputy Prime Minister  
and Minister for Foreign Affairs Narayan Kaji Shrestha “Prakash” ..... 11
6. Closing remarks by Dr. Rishi Raj Adhikari Executive Director,  
Institute of Foreign Affairs..... 14
7. Paper presentation on “High Growth Trajectory in China and  
India and the Opportunity to Harness Nepal’s Growth Potentials”  
by Dr.Dilli Raj Khanal ..... 16
8. Paper presentation on “Optimizing Investment - Trade Nexus in  
Nepal in Partnership with India and China” by Dr. Ratnakar Adhikari ..... 40
9. Paper presentation on “Booming Tourist Outflows from China  
and India: Prospects of Their Destination to Nepal”  
by Dr. Surbir Paudyal ..... 47
10. Summary of the Seminar..... 61
11. List of Participants in the Seminar ..... 65



## Foreword

The relationship between the three countries – Nepal, India and China, is reaching a new height. Economic ties between India and China are growing rapidly. Nepal needs to revive its historical position as the transit point for trade between India and China. Nepal's geographical position in between the two important members of the BRICS economies, China and India, is able to provide the country with a unique opportunity of becoming the bridge between two friendly neighbors.

India has an economic growth rate of 9 per cent, China has higher. Nepal has a mere 4.5 per cent economic growth. Nepal has so far missed the chance to align its own development with the economic dynamic of its giant neighbors.

The expectations of the people of Nepal have seen a tremendous rise after the paradigm shift in the country's political landscape. There needs to be tangible enhancement in the social and economic conditions of Nepalese people to maintain the gains of the political change, lest it leads to frustration with the government. It is an unfortunate irony that we have not been able to integrate our development with that of our neighbours' in spite of the assets we have. Nepal has a tremendous hydropower potential, the country has diverse ecological belts suitable for different agricultural bio-medical activities, an attractive tourism sector, laws regarding investment are favorable, and Nepal's geographical location itself, that has the prospects of becoming a transit economy between India and China. We have a lot of issues that need to be corrected as well. A divided society with political instability, problems with laws and orders, inadequate infrastructure development, poor management of its lucrative tourism sector and labor unionism, all factors hinder the proper economic growth of our nation. Nepalese government, planners and policy makers must study how the country could 'catch up' with its fast growing neighbors under the given constraints. Mere wishful thinking to integrate our economy with that of our neighbors will not be utilized unless we take significant steps to correct these issues.

With the view of the intertwined relationship of the three countries and Nepal's relevant potential in mind, IFA organized a one-day seminar on the topic "High Growth Trajectory in China and India: Opportunities and Challenges to Harness Development Potentials in Nepal". This was also the title of the paper presented by Dr. Dilli Raj Khanal. Two more papers were presented in the seminar – "Booming Tourist Outflows from China and India:

Prospects of their destination to Nepal” by Dr. Surbir Paudyal and “Optimizing Investment – Trade Nexus in Nepal in Partnership with India and China” by Dr. Ratnakar Adhikari.

This publication covers the proceedings of the seminar organized for the wider dissemination of the issues discussed and views expressed to the general public.

I would like to thank our chief guest of the program Hon. Deputy Prime Minister and Minister for Foreign Affairs Narayan Kaji Shrestha; guest of honor Yang Houlan, Ambassador of People’s Republic of China for gracing the event as well as launching our book “A Report on Emerging Challenges of Nepal’s Foreign Policy”; Dr. Ram Sharan Mahat – Former Finance and Foreign Minister for acting as the chair during the first part of the program; Dr. Prakash Chandra Lohani – Former Foreign and Finance Minister for acting as the Chair during the second part of the program; Leela Mani Paudyal – Secretary at the Prime Minister’s Office for acting as the Chair during the third part of the program; the speakers of the program – Dr. Dilli Raj Khanal, Dr. Ratnakar Adhikari and Dr. Surbir Paudyal; the commentators of the program - Dr. Durgesh Man Singh, Dr. Bhawani Dhungana and Aditya Baral. I would also like to thank Khush Narayan Shrestha, Deputy Executive Director of IFA along with all IFA staff for their valuable contributions towards taking this seminar from concept to realization, and Annie Acharya for her work towards the publication of this book.

**Dr. Rishi Raj Adhikari**  
**Executive Director**

## **1. Concept of the Seminar**

Nepal's northern neighbor China, and India that surround it on three other sides, are emerging as global economic powerhouses. If able to properly utilize its strategic position, Nepal could benefit from their economies and harness its potential for higher growth and economic prosperity. Apart from attracting investment in the areas that it has comparative advantages such as hydropower, tourism, agriculture, medicinal herbs etc., Nepal has ample opportunities to grasp these huge rising markets.

Nepal has rich biodiversity and abundant natural resources, which needs to be managed and exploited for the benefit of our people. This can be done with the massive investments and markets available at our doorsteps. However, we have not yet accessed these markets due to our shortcomings, which need to be addressed through suitable policy changes. One important factor is human resource. Fortunately, Nepal has a relatively large percentage of economically active population. At present, a large percentage of the population has migrated to foreign markets due to the paucity of employment opportunities in Nepal's domestic markets. If we are able to manage our economy properly, these emerging labor forces could be easily absorbed in our own economy.

Connectivity is another important prerequisite in order to realize the enhancement of trade and investment flows among China, Nepal and India. This in turn needs a massive initial injection of capital and technology, which would have to be augmented by FDI from our two neighboring countries, China and India. Another important element for the Nepal's economic development is to build infrastructures such as transport, communication and logistic supports, which can be accomplished by bilateral and multilateral cooperation among the three nations.

The tourism sector is particularly a vital sector of Nepal. It has many comparative advantages in terms of natural endowments such as unique geographical diversity, ecological environment such as mountain peaks with

perennial snow, hills and terai; unique and diversified flora and fauna, lakes and water. We have to develop plans and strategies to tap a certain portion of the massive tourist's outflows from China and India. We need cooperation and collaboration among these countries to take optimum advantage of the travel and tourism trade among us.

The IFA organized a one-day seminar with the objective of disseminating knowledge and provide a platform for initiating discussion on the topic, and coming up with viable recommendations and suggestions.

## 2. Welcome Remarks by **Mr. Khush N. Shrestha, Deputy Executive Director, IFA**

Chairman,  
Chief Guest Hon. Deputy Prime Minister and Minister of Foreign Affairs Mr. Narayan Kaji Shrestha,  
His Excellency Mr. Yang Houlun, Ambassador of the Peoples Republic of China to Nepal,  
Foreign Secretary Mr. Durga Bhattarai,  
Distinguished Participants,  
Ladies and Gentlemen,

It is my privilege to extend a hearty welcome to you all for your kind presence on the inauguration of this important seminar on “High Growth Trajectory in China and India: Opportunities and Challenges to Harness Development Potentials in Nepal” which is being held here today.

China, our northern neighbor and India, our southern neighbor, are emerging as global economic powerhouses with strategic advantages to Nepal for benefiting from their economies and harnessing Nepal’s potentialities for higher growth and economic prosperity. Apart from attracting investment in the areas of comparative advantages such as hydropower, tourism, agriculture, medicinal herbs etc., Nepal has ample opportunities to grasp their rising huge markets.

In this context, the institute is organizing this seminar, which has three sessions covering presentations on Nepal’s overall strategy to take advantage of our neighbors’ economic growth including trade, investment and tourism.

### **Distinguished Guests and Participants,**

This is our first endeavour to address these extremely vital areas through deliberations so that we can come up with viable recommendations and suggestions. I am confident that the conclusions and recommendations made in these sessions will be helpful to the policy makers of Nepal. The institute is

grateful to all distinguished contributors of the papers as well as chairpersons and commentators who have heartily cooperated in our effort to make this seminar a success.

I would once again like to express on behalf of the Institute my heartfelt thanks for all distinguished participants for accepting our humble invitation and attending this morning's august gathering. I thank today's guests of honor H.E. Ambassador of China for his gracious presence. Last but not the least, I thank today's Chief Guest Hon. DPM and Foreign Minister Mr. Narayan Kaji Shrestha for accepting our invitation to inaugurate the seminar.

**Thank you.**

3. Address by  
**H.E. Ambassador Yang Houlan**  
**Ambassador China to Nepal**

Hon'ble Deputy Prime Minister and Minister for Foreign Affairs Mr. Narayan Kaji Shrestha,  
Your Excellency Foreign Secretary Mr. Durga Prasad Bhattarai,  
Your Excellency Executive Director of Institute of Foreign Affairs  
Dr. Rishi Raj Adhikari and Deputy Executive Director Mr. Khush N. Shrestha,  
Ladies and Gentlemen, dear friends,

Good morning! I'm very glad to attend this seminar on "High Growth Trajectory in China and India: Opportunities and Challenges to Harness Development Potentials in Nepal" held by Institute of Foreign Affairs of Nepal, and I hope all of you experts and scholars to take full advantage of this valuable opportunity to exchange your minds and offer advices and suggestions on mutual beneficial cooperation and common development among China, India and Nepal.

China and India are two emerging developing countries with the world's most dynamic and potential, which both have played important roles in the economic development of Asia and the world. In recent years, the contribution made by China and India to world economic growth has weighed more than 50%. Both China and India agreed that there would be broad space and enough field for the two countries to cooperate. In recent years, under the joint efforts of the leaders and people from all walks of life of the two countries, the China-India strategic partnership has been continuously enriched and the bilateral cooperation in various fields has been continuously deepened. Last year, the bilateral trade volume between the two neighbors had reached 73.9 billion US dollars, accounting for 78% of the total trade between China and South Asia.

Nepal is a close neighbor of both China and India linked with mountains and rivers, which has a unique advantage in sharing the results of development of both neighbors. China hopes that Nepal can ride on the momentum and seize opportunities to accelerate the construction of infrastructure and other aspects, and become the transit station of trade, logistics and personnel

between China and India or even the whole South Asian region as soon as possible, and we stand ready to provide support to you within our capacity. Meanwhile, the Chinese side would like to see the development of friendly relations and cooperation in various fields between Nepal and India, and also willing to work with the Indian side to jointly support Nepal in achieving its rapid development as early as possible. Recently, the Government of Nepal officially announced that this year would be Nepal investment year, and welcomed enterprises from various countries, including China and India to invest in Nepal. According to statistics, Nepal has attracted foreign direct investment worth 10 billion rupees in last fiscal year, which is 10.43 percent higher than that of the fiscal year 2009/10. The Chinese side hopes that the Nepalese side could maintain this momentum, and will continue to encourage the competent Chinese enterprises to invest here.

For many years, the Chinese government has established friendly relations of different forms with South Asian countries on the basis of the Five Principles of Peaceful Coexistence. Since China shares nearly 5700-kilometer-long border with South Asia, the bilateral economic and trade enjoy huge advantages including short distance, strong economic complementarities and huge market potential. According to statistics, the bilateral trade volume between China and South Asia, which has shown an over tenfold increase in the last decade, has jumped from 8.3 billion US dollars in 2002 to 97.4 billion US dollars in 2011. In recent years, the two sides have also made active efforts to jointly promote the construction of land, sea and air channels between China and South Asia in order to promote the development of bilateral trade and reduce the costs, which has laid a solid foundation for long-term development of bilateral economic and trade between the two sides. China will continue to expand imports from South Asian countries to resolve the bilateral trade imbalance, and to increase mutual investment, promote the diversification of trade and economic development, and further broaden the channels of cooperation in various fields such as finance, energy, environmental protection and high-tech.

In short, with the deepening of regional and global economic integration, the cooperation among China, India, Nepal and the entire South Asian region is now facing new opportunities. China will adhere to the policy of friendship and partnership with neighboring countries, and make great efforts to develop relations with SAARC and its member countries, and jointly promote our mutual beneficial relations to new heights.

Thank you!

4. Remarks by  
**Mr. Durga Prasad Bhattarai**  
**Foreign Secretary, Ministry of Foreign Affairs**

Chairperson and Executive Director of the Institute of Foreign Affairs,  
Hon'ble Deputy Prime Minister and Minister for Foreign Affairs,  
Your Excellency the Ambassador of China,  
Excellencies, distinguished personalities in the audience, colleagues, friends  
from media,  
Ladies and gentlemen:

It is a pleasure to see the Institute of Foreign Affairs (IFA) coming back to life again. My compliments go to the Institute's leadership on this account.

And it is my particular pleasure to find myself amidst such an august gathering in the auspices of IFA, here, this morning.

Having a special institutional interest in the IFA's existence, activities and possible expansion, the Ministry of Foreign Affairs wishes to see it increasingly seeking to keep all of us intellectually alive, as much as possible, both before and after retirement. And I heartily welcome this opportunity to share some general remarks here. General, because we eagerly wait for the Hon Chief Guest's key-note address which will, of course, set the tone of the Seminar, and also because more specialized deliberations will follow this inaugural session.

As to the theme of the Seminar, I must say how pleased I am personally as well as professionally for its relevance-both in terms of time and substance.

We just heard in detail from His Excellency Ambassador Houlan about, among other positive developments, the state of affairs of the rising trade and economic relations between China and India, words of support and assurance for Nepal's economic development and wise words of advice for Nepal out of China's experience and goodwill for Nepal.

We know we are living in a world being rapidly transformed with the radically progressive information technology and the consequent emergence of knowledge economies. We know how far behind we are in making the best use of the gifts of science and technology to make ourselves an active part of the fast advancing global community.

It has been over two decades since we actively embraced policies for market oriented economy, free and fair trade, foreign investment-friendly environment, and also advocated for exploiting our competitive as well as comparative advantages so we could justly integrate our national economy to the global one.

In retrospect, we all know where we stand today. Our efforts have not borne fruits as we had desired, planned and aspired for. The reasons? We have excuses-genuine as well as disguised.

We had to bear the brunt of the war among ourselves for a full decade, with its impacts – positive as well as negative – to be seen for many more years to come. The out-flying labour and worryingly under-attended agricultural sector, which is still the mainstay of our economy, as well as the economic and social costs of the consequent changes that came by in the face of dismal performance are all too conspicuous to be missed. These are not hard to understand but difficult to manage.

I personally believe that we should stop shedding tears for some of our structural challenges such as being land-locked, or a high-cost economy. Rather we should take them as given factors and permanent features that have also presented some of the very unique strengths to our economy and national being. These features, together with the diversity we have, have been integral part of our proud identity, resources and strength, and we should take them as such.

We should be telling the world what we are, what we offer and also what we need, for our development as responsible and sensible member of the international community. We also need to focus more on developing strong home-base and complementarities.

Although we know a country's foreign policy is an extension of its domestic policies, we at the Ministry of Foreign Affairs have tried to enrich the content of our foreign policy in recent years to give it an economic face. We have started modest programmes under the cluster of economic diplomacy projects that we seek to implement abroad, with a view to increasing our export trade, bringing in greater foreign investment and aid, enhancing tourism, and

utilizing available working opportunities for Nepalese nationals abroad.

As we witness the tremendous economic progress made by our two immediate neighbours, India and China, in these past decades, we see reasons to be both happy and disappointed.

Happy, because our neighbours have spurred unprecedented growth and, in the process, made leaps in the welfare of their people dispelling notions that we would not be able to replicate the success seen elsewhere in the west; and disappointed, however, that despite our own tremendous potentials, Nepal hasn't been able to make the same advancement. But most of all, I am confident that, under the guiding growth and development hand of China and India, the time we have lost will be irrelevant compared to what we will gain as we make headway into prosperity.

We are here today with two crucial things to aid us to that end. Of course, we possess the lessons learned by India and China in their rise to vast economic powers, and we can learn much from that. More important, we have the full understanding and support of these two partners of development.

To realize our ambitions, one of the first things Nepal requires is growth. We have made progress, but there's room for much more. Crucially, we must take advantage of the resources our nation is endowed with in abundance.

Among areas that deserve our full attention – and this repeated often – is Nepal's enormous, unexploited, and even unexplored hydropower resources. Until now, Nepal has used only a miniscule of its total potential, and there's long way to go to build the infrastructure required. But to get anywhere close to our official goal of producing 22000 MW of energy by 2022, we need much greater cooperation with India. Large projects involving the cooperation of Nepal and India have not budged and, with time, we need to rectify any weaknesses of the past and be able to move ahead.

Similarly, we need to do something about our 48% unemployment rate, and for this we can draw lessons from China's exceptional success in streamlining its labor force, creating a manufacturing industry that's become the envy of the world over. Replicating that success in the fields of our need will take time and sustained tailor-made efforts.

Not least, tourism is an area where we need to focus. The beauty, the diversity-demographic, topographic, or in flora and fauna that we possess are without parallel. And the sources of tourists are right with us, adjacently located. We need to open up our eyes and minds and get going to make full use of all possibilities.

Lessons should also be drawn to harness whatever growth we achieve into development as we move on. Public sector reform throughout, and massive infrastructure development campaign are a must.

In fact we need to be moving beyond words and rhetoric and clichés, to action, and there may appear elements of worry when we see things moving rather slowly or not at all, as in some fronts of economic development. Perhaps the deliberations need to be guided in such a way that sharper focus and greater attention is given to concrete actions needed to utilize the opportunities and face challenges as well as changing any challenges and threats there may be into strengths and opportunities.

I believe there have been several efforts with some progresses in the past. However, there are still a number of challenges on the way to enhancing our national capacities to take greater advantages of economic progress being achieved in our neighbourhood. Needless to say, there are both opportunities and challenges. I am confident that the deliberations in today's Seminar will provide valuable suggestions and inputs for consideration to design our approaches as to how we can best benefit from the current economic phenomena in both the neighbours.

We all know, at the moment, we are passing through a difficult time in terms of financial crisis plaguing different parts of the world, including our own region. We need to be cautious of adverse impacts likely to be on our economy, which we have already noticed in the decline of investment and economic growth in many other developing countries like ours. Let us hope it is only a temporary phenomenon and the global resilience is strong enough to take care of it.

Last but not the least, I am confident that all your active participation and valuable contributions will, indeed, be very crucial for a meaningful outcome of the seminar to be of help to the country's future course of development.

**I thank you all.**

5. Key Note Address by  
**Chief Guest Hon'ble Deputy Prime Minister  
and Minister for Foreign Affairs  
Narayan Kaji Shrestha "Prakash"**

Chairperson and Executive Director of the Institute of Foreign Affairs,  
Your Excellency Ambassador Yang Houlun of China,  
Friends from media,  
Ladies and Gentlemen,

I am pleased to join you this morning and to share with you few words on the theme of today's seminar. I would like to thank the Institute of Foreign Affairs for organizing the seminar with the theme "High Growth Trajectory in China and India: Opportunities and Challenges to Harness Development Potentials in Nepal," which is timely and has much more relevance today.

Nepal lies between the two big countries-China and India-which represent the world's two largest and fastest emerging economies. Their bilateral trade has continuously grown over the past two decades. Both countries have committed to strengthening their relations and increasing bilateral trade from US \$ 60 billion at present to US\$ 100 billion by 2015.

It is an acknowledged fact that we cannot afford to ignore the developments taking place in the region, while our own system is evolving with adaptation and innovation. The two emerging economies in our neighbourhood would be both opportunity and challenge to us. For this, we need to ponder over linkages of growing economies with our national economy. Failure to manage national economy will lead to its gradual marginalization and exclusion from the mainstream of the process of regional economic integration. Therefore, it will be imperative for us to explore appropriately the ways and means for ensuring mutual benefits of integration of regional economies.

On the other hand, deepened economic relations between China and India, I am sure, would have considerable impacts on Nepalese economy, in view of our open borders on the south and increasing infrastructure developments

on the north. As experts of development, trade and investment policies, your deliberations here today should focus on how Nepal can benefit from its linkages with both China and India in general and particularly with their growing economies.

We can identify infrastructural linkage, economic linkage and linkage in ideas and thoughts that will further strengthen our relations with neighbours, propelled by, no doubt, interdependence and technology. I think this will perfectly suit with new concept that Nepal's geographical "land linked" position would serve not only her own interests but also those of her both neighbours. Thus, such a strategic location of Nepal can be beneficial to investors, manufacturers and businessmen locating their investments, manufacturing plants and businesses in Nepal and they may access to markets in our both sides. Therefore, India and China will also benefit from such interdependence, in terms of opportunities that will be available for their trade and investment as well.

It is a matter of great satisfaction that the Government of Nepal has maintained close and cordial relations with her both immediate neighbours – China and India. Our bilateral relations are time-tested and have grown from strength to strength. There are ample opportunities for further strengthening our relations in the days ahead.

I am confident that diversity in our population, society and culture has provided a solid foundation for enhancing trade, investment and economic co-operation among three countries- China, India and Nepal. These countries are endowed with vast natural resources for development potentials.

We are aware that we are living in an era of globalization, marked by sweeping technological changes and information revolution. It is certain that more changes will undergo at a rapid pace forcing us to readjust our social and economic policies. I believe that such readjustment will generate new added momentum and boost our national economies.

In this context, let us look into some fundamentals of our national economies. For Nepal, agriculture, water and human resources provide comparative advantage for generating economic growth through sufficient investment in these sectors as well as education and health. The Government of Nepal has made its efforts towards making investment friendly environment. As you already know, pursuant to the previous announcement, the Government of Nepal is going to launch the "Investment Year 2012/13" later in the current month of July. The Government has identified a number of big investment

projects of national pride that will contribute to Nepal's overall socio-economic development.

I also wish to mention that cultural affinity among China, India and Nepal is marked by exchange of scholars, pilgrims and ordinary folks since time immemorial. In this regard, the Visit Lumbini Year 2012 would be a fitting opportunity for pilgrims and other tourists to visit Nepal.

Likewise, I would like to highlight some other potential sectors for investment such as tourism, agriculture, communication, roads and infrastructure development. The investors from our immediate neighbouring countries may bring their capitals, technology and knowledge to create economic opportunities for this region. Our development partners can extend their hands to Nepal, as least developed country, for complementing her efforts for socio-economic development.

Last but not least, the Government of Nepal is fully committed to mobilizing national resources in order to accelerate economic growth by increasing investment in infrastructure and thus generating employment. I am confident that your participation and valuable contributions to deliberations on the pertinent issues will be useful for future course of action.

I wish you all every success in your deliberation and thank you for your kind attention.

**Thank you all.**

6. Closing remarks by  
**Dr. Rishi Raj Adhikari Executive Director,  
Institute of Foreign Affairs**

**Chairperson and Executive Director of the Institute of Foreign Affairs,  
Your Excellency Ambassador Yang Houlan of China,  
Friends from media,  
Ladies and Gentlemen,**

A very good morning to all of you.

- Hon. DPM and Foreign Minister, Mr. Narayan Kaji Shrestha
- His Excellency Chinese Ambassador, Yang Houlan
- Secretary, Foreign Ministry, Mr. Durga Prasad Bhattarai
- Eminent Economists, Business personalities, diplomats and Academicians
- Paper presenters, Chairpersons and Commentators
- Friends from media
- Colleagues from Ministry of Foreign Affairs, other Ministries, All other invited guests and my co-workers from the Institute of Foreign Affairs

I am thankful to all of you to have come to participate in this important seminar inspite of your busy schedule. I thank all of the distinguished speakers this morning for their valuable and thought provoking ideas on the theme of the seminar.

Nepal has undergone a massive paradigm shift in her political, social and cultural life of the people, from Monarchy to Federal Democratic Republican set up. This has tremendously enhanced the expectations of the Nepalese people towards better socio-economy in their lives.

In the past, after every political change in the country we could not translate it to socio-economic achievements. Frustrated expectations of the masses may create negative massive social upheavals in the country. So, the new political dispensation is bound to match the expectations of the people in general. Now at this crucial juncture of our country's history we have a chance to compensate for whatever we could not do in the past. China and India, our giant countries are world's fastest growing economies and both are our immediate neighbors and luckily friendly to us. They have supported us in our development endeavors for a long time. The time has come now to reflect how we can prepare ourselves and how our two neighbors can take us with them in this great quest for enhanced and sustained development efforts.

We do have great potentials that can be utilized in our cooperation with the two neighbors:

Such as Hydro Power, Tourism, Labour, Eco and Bio-diversity, our Geo-positions, positive attitude changes amongst us etc.

We no more talk about us being "Yam Between Two Boulders". We now talk of "Bridge Between Two Neighbors", and our attitude has changed from being "India Locked" to "India Open".

I would mention few issues that we need to keep in mind for enhancing our economy along with our neighbors:

Transit Links, Communication Links, manufacturing in Nepal, Constructions for the links, Using Comparative Advantages that we have, Catching up, and Integration etc. However, we have to keep our house in order especially in the areas of: Political stability and Political Commitment, Rule of law, Better investment environment etc. I am confident that the outcome of this seminar will show us the **"Way Forward"** as the light at the end of the dark tunnel of our under development and lead us to Win:Win: Win for all three of us. Once again I extend my sincere thanks to all of you and I declare this inaugural session closed and invite you all over a tea.

**Thank You!!**

7. Paper presentation on  
**“High Growth Trajectory in China and India  
and the Opportunity to Harness Nepal’s  
Growth Potentials” by Dr. Dilli Raj Khanal**

**1. Introduction**

China, a close neighbour of Nepal, has now emerged the second largest economy of the world as a result of its successes to accomplish very high growth rate since long. Similarly, India, another close neighbour, is also becoming one of the star performers of high growth rate in recent years. Consequently, as studies show, out of one percent growth in the global economy, almost fifty percent of that growth has been contributed by the economies of China and India. This has occurred largely due to spillover effects of these economies. But when Nepal's growth trend is observed, it is found that it is one of the lowest in South Asia, apparently showing, among others, negligible or no spillover effect of close neighbour's high growth rates amidst Nepal's comparative and competitive advantages in many areas added by huge opportunities of harnessing growth potentials. This raises number of questions. Is this due to unequal or less favorable trade and economic relations with these countries? Is this due to domestic reasons? Or are both responsible? These questions and related issues are very pertinent especially at a time when Nepal in the changed political milieu is trying to embark on the path to double digit growth for bringing about economic prosperity in the country within shortest possible timeframe.

In the paper below, at first, China and India’s growth performance has been analyzed examining the main contributory factors to be instructive for Nepal. This is followed by quick review of Nepal’s growth performance in which potential sources of higher growth and economic prosperity has been assessed after looking into major contributing and constraining factors based on, among others, findings of a recent quantitative study on sources of growth. Subsequently, likely channels of spillover effects, expectations from

close neighbours to enable Nepal to reap benefits from China and India's high growth trajectory and necessary steps and measures required on the domestic front for ensuring higher growth are discussed in the paper. In this respect, the importance of economic diplomacy is also highlighted briefly. In the end, some concluding remarks are presented.

## **2. Growth Performances in China and India, Spillovers and Some Important Lessons**

- **China's Growth Performance and Contributory Factors**

The growth trend shows that after the introduction of four modernizations drive in 1978, China's growth rate jumped up from 5.6 percent during the period 1950 to 1979 to as high as 11.9 percent during the period 2005 to 2008. During the period 1980 to 1989 also the growth rate was about 10.62 percent on the average. The resilience capacity of the Chinese economy was very evident in 2009 when despite massive slowdown in global economy in the aftermath of great financial crisis of 2008; the growth rate stood at 9.2 percent with further pick up in 2010 at 10.4 percent. Although some slowdown has taken place in this year 2012 as a result of both internal and external factors driven by among others, bust of property bubbles and European crisis, a very growth rate for such a long period has hardly been registered by other countries (Herd and Dougherty, 2007 and UN, 2012). The massive expansion in the economy resulted into big jump in the share of China in world GDP reaching at 13 percent in 2010 from just 2 percent in 1980.

A quick review of policy developments and major outcome indicators show that, unlike many countries pursuing liberalization and open up policies in an isolated way, a massive drive toward broad based reform was carried out by launching four modernization programs in an integrated or complementary way. In terms sequencing of economic reforms also, a very well thought and mature strategy was adopted. In the beginning, a massive agrarian reform was launched by introducing household responsible system by replacing the commune system that could enhance incentive structure in the production, exchange and market system aimed at higher growth, productivity and diversification in the agriculture. This was accompanied by launching of village and township enterprises development program for rural industrialization and reforms in state owned enterprises that indeed ensured both backward and forward linkages and contributed to boost rural, semi-urban and urban economies in tandem, apparently prerequisite for sustained broad based growth. This was followed by massive drive toward export led reform during 1990 to 2000 in which creation of regional, global supply chains and

production networks received highest priority. During the period 2000 to 2010 the priority shifted to granting private property rights and rebalancing of income distribution between rural/ urban and developed and lagging regions. Since 2010 the trust has moved away from export led to internal demand led growth in which raising of wages of the workers and boosting of domestic consumption added by augmenting of investment in the lagging or backward region has been the policy priority. The new policy orientation, thus, is driven by the aim of, among others, insulating the economy from the present crisis prone global economic system.

It is found that, along with wide-ranging reforms, the domestic saving rate went up massively. In 1995 the rate was 43 percent of GDP which reached 55 percent in 2007 with average rate at 45 percent during the period 1997-2009. In addition to this, a massive rise in foreign direct investment (FDI) took place in China one year after another and today it tops the list of countries which attract higher level of FDI (UNCTAD, 2012). Interestingly, the ratio of average gross fixed investment remained low compared to savings at 38 percent of GDP during 1997-2009 indicating no resource constraint problem as such at the aggregate level.

Along with these positive developments from the standpoint of pushing growth at the higher level, the reforms contributed immensely to enhance total factor productivity growth and bring about drastic structural transformation in the Chinese economy. The total productivity of labor which was 2.95 during 1950 to 1979 reached 8.66 during 1990-1999. Despite some deceleration in recent years it is still very high. As a result, the output per worker (in US dollar) in agriculture, industry and services reached 478, 3405 and 1630 respectively in 2000 from 188, 738 and 760 in 1970 (Maddison, 2007 and Herd and Dougherty, 2007). This was accompanied by rapid structural shift and transformation. The share of agricultural output was 20 percent in 1995 followed by services at 33 percent and industry at 47 percent. Their contribution changed drastically in one and half decade with share of agriculture reducing to 9.6 percent in 2010 with only marginal decline of industry at 46.7. The share of services went up to 43.6 percent during the same period. In the areas of employment also, a big change occurred. In 1970, employment in agriculture was 74 percent which went down to 39.5 percent in 2008. On the other hand, the share of employment in industry rose to 27.2 percent in 2008 from 11 percent in 1970. The services sector employment went up more sharply from 23.4 to 33.2 percent during 1970 to 2008. Correspondingly, the export growth was much more phenomenal with foreign reserve of US \$ 3.20 trillion in 2011. Another phenomenon is that investment in education, health and poverty

programs added by topmost priority on the development of a class physical infrastructure which is the key enhancing competitiveness through reducing production and transaction cost. It is also well known that the rate of decline in poverty in China has been one of the fastest in the contemporary history (Lin, 2011).

Amidst such a performance, a number of organizations have predicted that the Chinese economy will be the largest in near future surpassing the economy of USA. Among the forecasters, the IMF predicts that it will surpass the US economy by 2016. The projection of Goldman Sachs and World Bank show that Chinese economy will be bigger than US by 2020 and 2030 respectively. Nonetheless, it is broadly accepted that if China succeeds to augment internal demand led growth at the same time balancing the external front added by minimizing structural imbalances at different levels including rural-urban, rich and poor and developed and lagging region gaps, China will be able to surpass the US economy by 2020. Nonetheless, these are very challenging.

- **India's Growth Performance and Contributory Factors**

Up to 1990, India was epitomized as a country of very low growth rate, often terming it as a Hindu growth rate. As evident from the trend, during 1950-1979, the growth rate was 3.54 percent with some improvement during 1980-1989 at 4.94 percent. After the massive reform that India perused in 1991 amidst severe foreign exchange crisis, growth momentum started in India. During the period 1990 -1999 and 1999-2005, the average growth rate was 6 and 6.47 percent respectively. Thereafter, acceleration in growth rate augmented with 9 percent growth during the period 2005-2008. Like China, India was also able to nullify the adverse effect of financial crisis of 2008. In 2009 and 2010 the growth rate stood at 7 and 9 percent respectively with some deceleration in 2011 at 7.6 percent (UN, 2012). The share of India's GDP in global GDP as now exceeded 2 percent.

Some piecemeal and hesitant reforms were started in the mid-1980 in India that relaxed the import and investment licensing system and also allowed the real effective exchange rate to depreciate. But massive liberalization program was introduced in 1991. At first, the rupee was devalued in a big way which was immediately followed by bringing down of tariff barriers from dizzy heights. The deregulation was intensified added by abolition of quantitative restrictions on imports in 2001 (Srinivasan, 2009). The ongoing reform now focuses financial sector, labor and land markets, and electricity and infrastructure sectors. More recently, India is seriously considering further opening up of Indian economy by scaling up of the foreign equity

participation in different sectors and FDI even in retail trade. Amidst these, the young demography, hard working people and growing consumption added by an attractive entry point with strong and vibrant corporate sector, political stability driven by liberal democracy etc contributed to augment growth in India. Similarly, high quality manpower and entrepreneurial capability added by enhancement of quality infrastructure also worked positively to push up growth.

Higher domestic savings, augmented labor productivity and rise in FDI contributed more distinctly in way to accelerate growth process. The domestic saving at 27 percent in 1995 rose to 30 percent in 2004 and reached 37.9 percent in 2008. Similarly, the gross fixed investment reached 39.3 percent in 2008 from 27 percent in 1995. A steady rise in FDI also took place during that period but the growth in FDI inflow was not that high as in case of China. For instance, the FDI rose to \$37.18 billion in 2010 from \$8.9 billion in 2006. Now the portfolio inflows have also started rising from \$12.49 billion in 2006 to \$35 billion in 2011 (RIS, 2012, Srinivasan, 2009 and UNCTAD, 2012).

As in case of China, the major contributory factor to growth was the labor productivity. It was 1.25 during the 1950-1979 and reached 2.76 during the period 1980 to 1989 with further jump during 1990-1999 at 4.36. During these sub periods, total factor productivity growth stood at 0.49, 1.83 and 2.44 respectively. The output per worker (in US \$) rose to 424, 1806 and 2216 in agriculture, industry and services in 2000 from 264, 924 and 1402 in 1970 in the same corresponding sectors in 1970 (Maddison, 2007 and Herd and Dougherty, 2007).

Some of the predictions made at the global level show that in between 2015 to 25, India will surpass Italy, France and Germany and Japan by 2032. A study undertaken in RIS seems to be more logical and realistic. It shows that if growth stabilizes at 7 percent together with 1 percent population growth over the longer period, the PPP per capita of US \$3600 in 2010 will go up to \$37600 of today's developed countries by the end of 2050 (RIS, 2012). Based on incremental capital output ratio and other indicators, it demonstrates that the mobilization of resources for required investment will not be a problem.

But as the recent developments in the economic front indicate, there are also big challenges ahead. Today after almost two decades of successes to accelerate growth, India is facing the problem of crony capitalism accompanied by market failures in different areas added by rising inequality and exclusions amidst many deep rooted structural problems. Therefore, unlike the past, India's successes to transform its economy into an economic giant of the

world like China in few decades will very much depend on its future course of action on these emerging problems. Major indicators show that China is ahead of India by about 10 years in terms of economic advancement.

### **3. Higher Growth and Spillovers: Some Important Lessons**

First, based on the empirical data, it is clear that more broad based reforms, together with very well thought sequencing contributing to enhance total factor productivity in general and labor productivity in particular that enabled to enhance sustained higher growth in both countries, was carried out. But one distinction is that in China it was primarily the export led growth in which manufacturing played a major role in the process. In case of India, however, it was primarily internal demand driven growth supported by services export, particularly IT. However, if recent developments in both countries are any guide, they indicate that in the changed and more competitive global environment amidst uncertainty and frequent crisis, an internal demand led growth strategy which compels enhancing of domestic production and remove supply constraint and thereby raising of exports capacity in tandem would be essential for high and sustained growth to a country like Nepal which, at the same time, possess tremendous potentials internally. This means that growth strategy should adopt a development course that encourages both national and foreign investment in productive sectors and areas and thus should discourage rental system grounded on failed neo-liberalism led mercantilism and financialism.

Second, from the standpoint of spillovers of high growth in China and India, it is evidently clear that this has not be the case in the context of Nepal which indeed is a matter of concern amidst some studies showing very high spillover effects of China's growth globally and some moderate spillover effects of India's growth in other SAARC countries. For instance, one of the IMF studies (2010) shows that one percent growth in China would have 0.5 percent growth at the global level. Similarly, a recent study (IMF, 2012) shows that one percent growth in India would have around 0.37 percent growth effect to SARRC countries. A quick quantitative analysis of two decades growth between India and Nepal shows that it is below 0.15 in the context of Nepal despite high trade integration. A crude analysis in relation to China also shows that it would be even lower. Thus, the trend is rather disappointing.

Third and most important lesson from the standpoint of enhancing growth through, among others, increased spillovers is that there is a need of

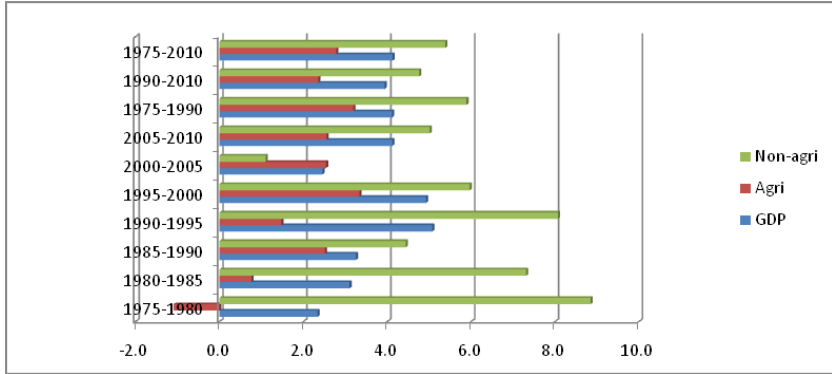
reviewing of our overall economic policies including policies shaping trade and economic relations with these countries to ensure that compared to others Nepal could be more advantageous of higher growth and economic transformation in these countries.

Lastly, with the continuous rise in growth in these countries, the demand for consumption, tourism, energy, infrastructure etc will be high with opportunities to take benefits by countries like Nepal due to comparative advantages in many areas added by geographical closeness. As RIS (2011) study in case of India shows, by 2050, India's urban population could be around 80 percent with bigger ramifications from both demand and supply point of view. These may need consideration by Nepal while devising future growth and development strategy.

#### **4. Growth Performance and Potential Sources of Growth**

The long term growth rate of the economy for the period 1975 to 2010 shows that Nepal's growth performance has been very poor at 4 percent (Figure 1) which is low even in the context of least developed countries. In this, the contribution of agricultural and non-agricultural GDP has been about 2.5 and 5.6 percent respectively. When the growth rate is bifurcated between the entire pre (1975-1990) and post liberalization period (1990-2010), no noticeable improvement in the later period is also found. It was during the period immediately after liberalization (1990 to 1995), the growth rate was relatively high at 5 percent. The improved performance in the manufacturing and trade as well as expansion in transportation and other services activities made this possible. But immature liberalization policies lacking comprehensiveness and overlooking of structural and institutional constraints and negligence to policy coordination amidst deep rooted structural conflict together with increased political instability had heavy toll on the economy (Khanal et al, 2005 and Khanal and Kanel, 2005). The deterioration in economic performance that started during the second half of the 1990s continued and sharpened during the period 2000 to 2005 with growth rate at about 2 percent coupled with just 1.5 percent growth rate in the non-agriculture sector. Although after 2005 a gradual improvement is taking place with average growth rate reaching at 4.0 percent (MOF, 2012), this is still very low simply catching the long term historical growth rate.

Figure 1: Average Growth Rate



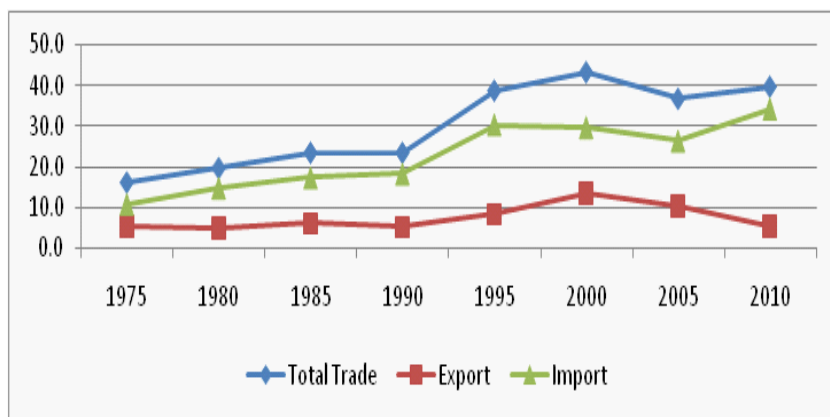
Source: Economic Survey (Various Issues)

However, along with inter-sectoral growth differences, some changes in the structure of the economy have taken place. The share of primary sector which was 71.6 percent in 1975 reduced to 60.9 percent in 1990. The reduction in its share has been albeit sharper since 1990 at 39.7 percent in 2010. The share of services sector went up to 47 percent in 2010 from 26.4 percent in 1990. In the services sector, sub-sectors like financial intermediation, transportation and education sectors grew albeit rapidly and hence these were the principle growth contributing sectors in recent years. Most disappointing trend is that the secondary sector has expanded only marginally from 12.6 percent in 1990 to 13.6 percent in 2010. In that also, if manufacturing sector is considered separately, its contribution has gone down sharply in recent years which contradicts with the historical transformation course of not only developed countries of today but also of emerging economies like those of China and India as pointed out above.

In the literature it is argued that free trade by enhancing efficiency in resource allocation and uses, discouraging rent seeking practices, facilitating to introduce new technology, increasing managerial capability in the firms and above all raising competitiveness leads to higher total factor productivity, a prerequisite to sustained high growth. Creation of trade is regarded to be a part and parcel of the gains from the trade. In Nepal's context, this has not been the case.

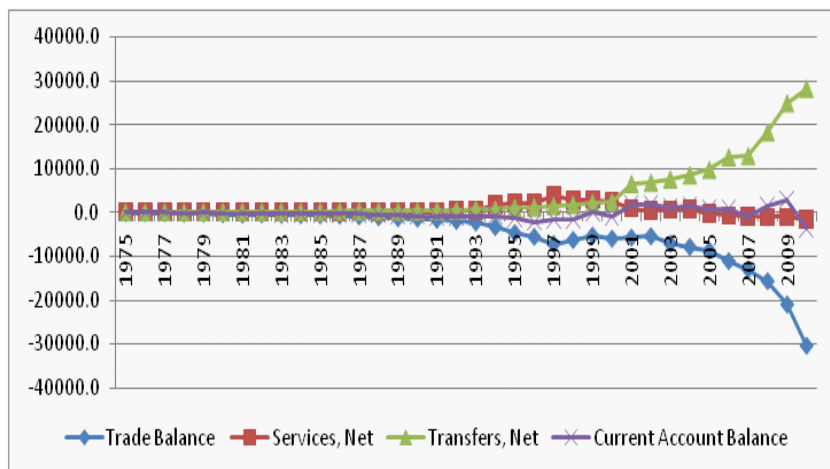
In Figure 2, the trend in total trade, exports and imports since 1975 to 2010 is presented. Although a continued rise in commodity trade has taken place from little over than 15 percent of GDP in 1975 to about 40 percent of GDP in 2010, it is primarily due to imports. In deed, the exports which were 15 percent of GDP in 2000 have gone down to 5 percent of GDP to be at par with the share recorded in 1975. As a result, the trade deficit has increased immensely overtime. Combining goods and services, the share of trade deficit has reached as high as 23 percent of GDP. In 2011/012, the total commodity trade deficit with India alone was in the order of RS 250 billion out of total deficit of Rs 387 billion. Had not been the massive increase in the remittances inflow, how Nepal could have managed to meet such deficits is anybody's guess. It is interesting to note that in the same year such an inflow was in the neighbourhood of Rs. 360 billion. The trend in the balance of commodity and services trade, transfers and current account is presented in Figure 3. An exhaustive quantitative simulation based study examining the direction of causality from investment to trade and exports and vice versa shows that in terms of sequencing it is trade not investment in the Nepalese context which has been the major cause of policy concern from the standpoint of trade often said to be the engine of growth (Khanal and Shreshtha, 2008).

**Figure 2: Share of Trade in GDP**



Source: Economic Survey (Various Issues)

**Figure 3: Balance of Trade and Current Account**

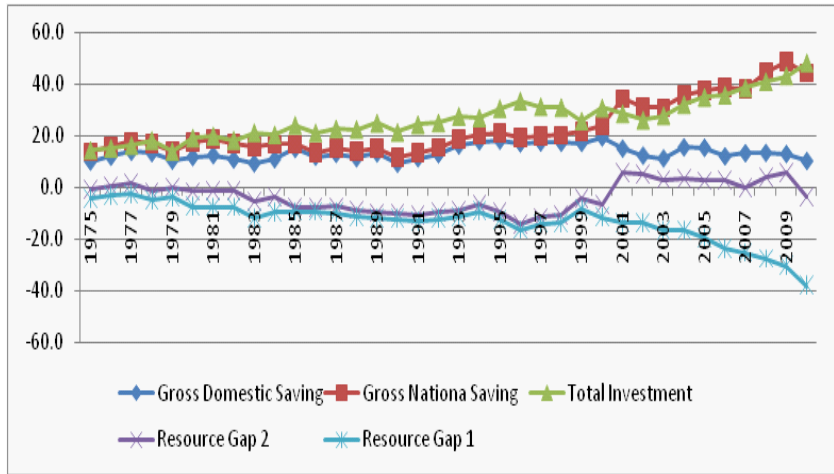


Source: Economic Survey (Various Issues)

Despite some structural shift, the labour market is also highly vulnerable with increased challenges to raise labour productivity and enhance productive employment, the key for again higher but sustained growth. The labour force survey of 2008 shows that still 86.4 percent of the total non-agriculture employment is informal. Out of this, 39.7 percent are paid employees, 36.5 percent are self-employed without regular pay, 19.8 percent are family members and the remaining are employers and others (CBS, 2009). The most worrisome situation of Nepalese labour market is high under and disguised unemployment. Among the employed persons, 32 percent workers worked less than 40 hours in a week in 2008, compared to 27 percent in 1999. As obvious, the pressures in the labour market have reduced due to massive outflow of working labour force to a greater extent. In 2002, total outflow outside India was about 0.024 million. In 2010 it reached about 1.75 million (MOF, 2012).

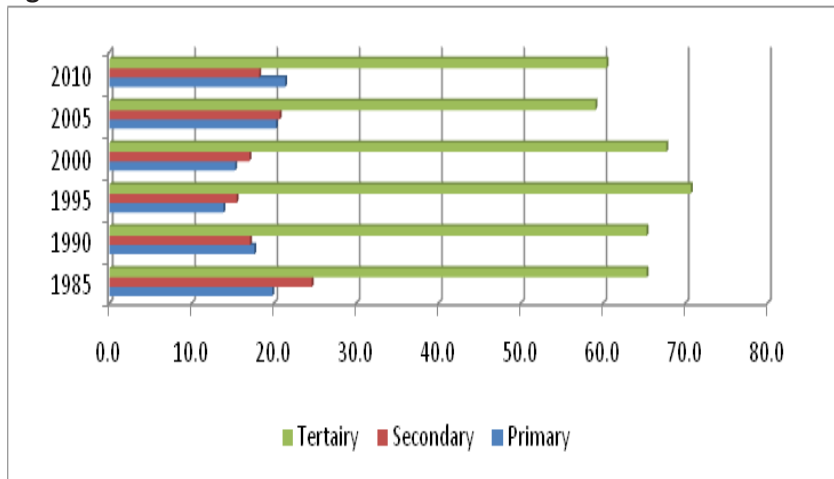
From the growth perspectives, neither over all saving and investment nor government resource allocation pattern are conducive or in the right direction. Despite financial deepening over the years markedly, financial investment is dominant in unproductive areas. In terms of financial inclusiveness or access to pattern and access to credit also no breakthrough in commensurate with financial deepening has taken place so far. This becomes clear from the figures presented below.

**Figure 4: Share of Domestic Saving and Gross Capital Formation in GDP**



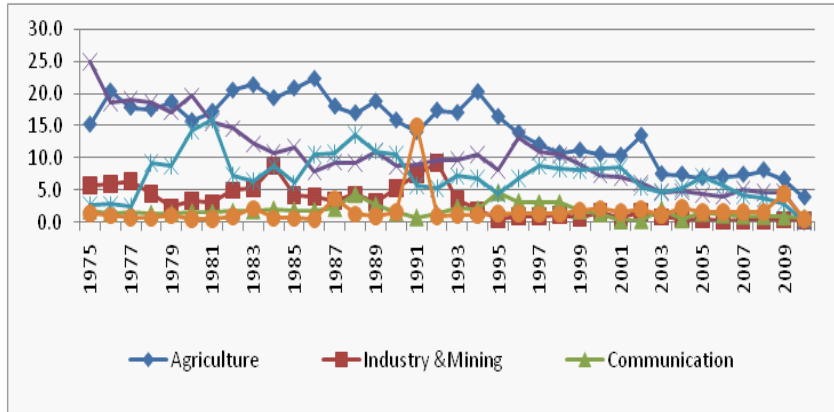
Source: Economic Survey (Various Issues)

**Figure 5: Share of Sectorwise Investment in GDP**



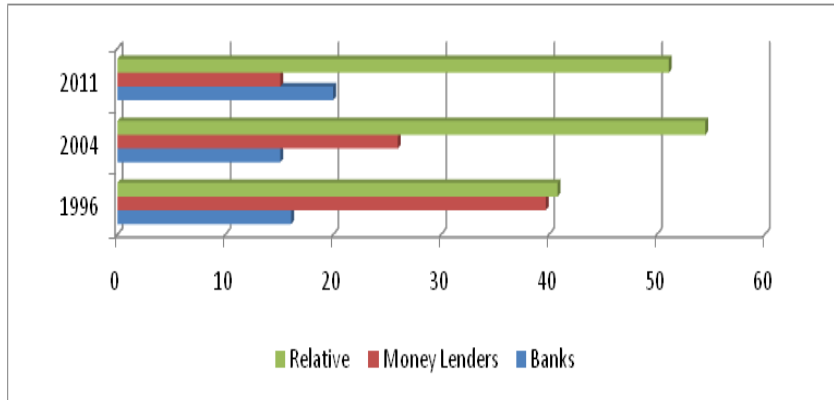
Source: Economic Survey (Various Issues)

**Figure 6: Sectoral Allocation of Government Expenditure<sup>1</sup>**



Source: Economic Survey (Various Issues)

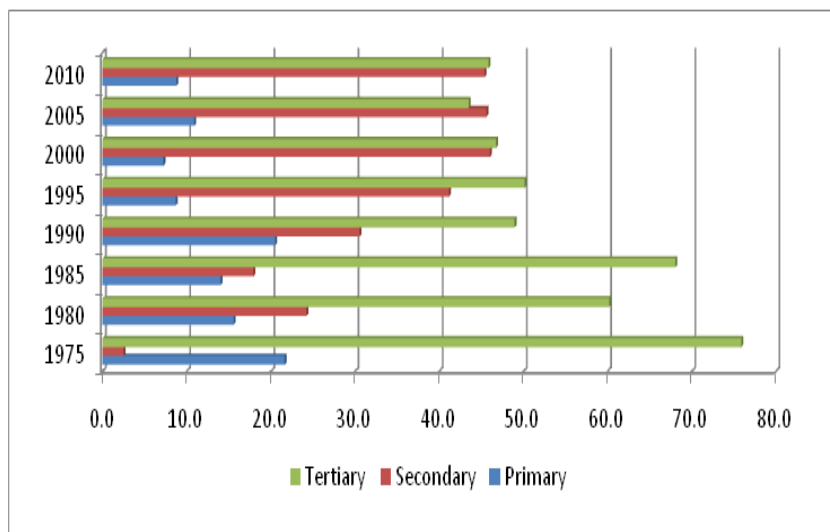
**Figure 7: Sources of Household Loans (Share)**



Source: NLSS 1995/96, 2003/04 and 2010/11

<sup>1</sup> Others expenditure include constitutional organization, administration expenses, defence, foreign services, loan and investment, principal repayment and miscellaneous expenses

**Figure 8: Share of Sectoral Credit in Total Credit of Banks**



Source: Economic Survey (Various Issues)

More interestingly, a rigorous quantitative exercise carried out by Khanal, Thapa and Banjade (2012)<sup>2</sup> to find out the sources of growth and their policy linkages shows that almost 86 per cent of the variation in the growth is explained by the labor input for the period 1975 to 2010 (Table 1). If the period before liberalization and after liberalization is separated, slightly a different picture emerges. For the period 1975 to 1990, the labor share is estimated to be 82 percent. It is 92 percent for the period 1990 to 2010. It was generally assumed that in the post liberalization period the share of capital would have risen at a faster pace compared to labor. This did not happen as the results suggests.

<sup>2</sup> The entire critical analysis on sources of growth and policy gaps or constraining factors in a way to enhance higher growth is based on a study by Khanal, Thapa and Banjade (2012) for the ESCAP/ARTNeT.

**Table.1: Share of Inputs in GDP /Production**

	(1)	(2)	(3)	(4)
VARIABLES (In logarithm)	1975-2010 GDP/ Capital	1975-1990 GDP/ Capital	1990-2010 GDP/ Capital	1975-2010 GDP/ Capital
Labor/Capital	0.859*** (0.095)	0.817*** (0.161)	0.923*** (0.100)	0.812*** (0.102)
Policy Dummy				-0.0600 (0.0471)
Constant	1.210*** (0.145)	1.391*** (0.162)	0.916*** (0.0948)	1.255*** (0.132)
Observations	36	16	21	36
R-squared	0.847	0.895	0.964	0.861

Standard Errors in Parentheses; \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

The contribution of capital, labor and total factor productivity in the growth for the 1997 to 2010 and for the period before and after liberalization also show unexpected results (table 2). As shown in the table, for the entire period at 4 percent growth rate, the contribution of labor is high. The contribution of productivity is also positive and significant. But during the post liberalization period, the contribution of total factor productivity is low compared to the pre-liberalization period. This contradicts the argument that liberalized regime alone with not be sufficient to enhance productivity and thereby growth unless this interlinked with other backups including reforms in structural and institutional fronts. This is corroborated by the sectoral growth analysis.

**Table 2: Contribution of labor, capital and Total Factor Productivity (For Longer Period)**

Sample	$\alpha^3$	Growth Rate of GDP	Contribution from Capital	Contribution from Labor	TFP Growth Rate
1975-2010	0.141	4.01671	0.77817 (0.19%)	2.54774 (0.63%)	0.69080 (0.17%)
1975-1990	0.183	3.85821	0.99322 (0.26%)	1.88228 (0.49%)	0.98270 (0.25%)
1990-2010	0.077	3.94253	0.39442 (0.10%)	3.08946 (0.78%)	0.45865 (0.12%)

3 This indicates the share of capital in relation to GDP.

The results of the separate estimates for three sectors by different sub-periods show that in the primary sector, the major drivers of growth have been traditional inputs even at a low rate (table 3). In the secondary sector, however, the role of capital is high although in the second half the total factor productivity is positive. In the services sector, the role of the labor has been predominant. In the overall growth rate, the contribution of total factor productivity is negative during the entire period despite some positive role exemplified by the two sub-periods.

**Table 3: Contribution of Capital, Labor and Total Factor Productivity in Primary, Secondary and Tertiary Sector**

Secoets	Sample	Growth Rate of GDP	Contribution from Capital	Contribution from Labor	TFPGrowth Rate
Primary Sector Value Add ( $\alpha=0.085$ )	1990-2000	2.3791	0.9672	1.1819	0.2299
			0.41	0.50	0.10
	2000-2010	2.2170	0.9252	0.6188	0.6729
			0.42	0.28	0.30
	1990-2010	2.3224	0.9167	1.6398	-0.2340
			0.39	0.71	-0.10
Secondary Sector Value Add ( $\alpha=0.277$ )	1990-2000	3.0585	2.7534	0.3088	-0.0037
			0.90	0.10	0.00
	2000-2010	7.3720	3.3904	0.4365	3.5451
			0.46	0.06	0.48
	1990-2010	-1.3522	1.8735	0.1572	-3.3830
			-1.39	-0.12	2.50
Tertiary sector value add ( $\alpha=0.034$ )	1990-2000	5.4072	0.3088	4.9107	0.1877
			0.06	0.91	0.03
	2000-2010	5.8703	0.4365	6.1069	-0.6731
			0.07	1.04	-0.11
	1990-2010	4.4450	0.1572	3.2772	1.0105
			0.04	0.74	0.23
Gross Value Add ( $\alpha=0.114$ )	1990-2000	3.6873	1.1956	2.3004	0.1913
			0.32	0.62	0.05
	2000-2010	4.4536	1.3433	2.2154	0.8948
			0.30	0.50	0.20
	1990-2010	2.5883	0.9372	2.1737	-0.5226
			0.36	0.84	-0.20

In the background of total factor productivity playing the key role in China and India's high growth, it will be interesting to know the underlying reasons of low or negative total factor productivity. In this respect, the estimated total factor productivity equations with major determinants presented in the table 4 are self explanatory. In the aggregate total factor productivity equation, variables like investment in social services, trade openness, and inflation and interest variables are significant with expected signs. As reported in the study, variables like governance index and policy dummy representing the WTO membership were found not significant with opposite sign. The financial deepening variable showed incorrect sign and was dropped. The results thus suggest that there is a need of policy corrections in the fiscal, trade and financial areas added by institutional reforms for enhancing productivity and thereby growth. The results also showed that efficiency in the banking system through reduction in higher interest rate spread together with containing of inflation rate would have positive effect on total factor productivity growth. The sector specific results shown below also reveal that the ongoing policy reforms in different areas have also not been guided by linking policies with high growth and productivity.

Based on the performance indices and study findings, following major conclusions can be derived especially from the point of view of enhancing growth potentials:

- Raising of total factor productivity driven by labor productivity would be key as both Chinese and Indian experience also suggest. For high value addition and enhancement of export competitiveness, labor productivity is essential. The reform should be based on comprehensive approach rather than on isolated deregulation, free market and open up policies. For this:
  - Thrust on productive investment with priority on infrastructure and energy sectors having comparative advantages for enhancing of productive capacity of the economy and efficiency in resource use
  - Rapid enhancement of human resources development
  - Linking of trade with production sectors including reduction of transaction cost through trade facilitation and other trade supporting measures.
  - Institutional and governance reforms including strengthening of market institutions to prevent unfair and monopolistic practices

**Table 4: Determinants of TFP**

Independent Variables ( <i>First Eight variable in log form</i> )	Total Factor Productivity Growth			
	All Sectors	Primary Sector	Secondary Sector	Tertiary Sector
Investment in Social services	7.101*** (2.315)			
Trade Openness	12.71*** (3.516)			
Financial Deepening			3.12* (0.53)	
Investment in Infrastructure				3.640 ** (1.473)
Investment in Education				2.793** (1.039)
Agriculture Credit		-3.390*** (0.959)		
Agriculture Investment		1.866* (0.909)		
Per Hector Fertilizer Used ( <i>Metric Ton</i> )		0.819 (2.285)		
Lending Rate (Primary)		-1.260** (0.458)		
Policy Dummy (2005)	0.379 (2.748)		8.75* (5.01)	1.821** (0.914)
Governance Index	-0.139 (0.129)		-0.31** (0.041)	
Lending Rate (Secondary)			2.05* (.862)	
Lending Rate (Tertiary)				-0.500* (0.053)
Inflation Rate	-0.353** (0.155)			
Interest Rate ( 12 months)	-1.084** (0.366)			
Constant	-24.15* (12.58)	27.96* (14.37)	20.14 (5.88)	-24.95** (10.758)
Observations	20	20	20	20
R-squared	0.535	0.537	0.34	0.35

Standard errors in parentheses; \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

## **5. Opportunities to Harness Growth Potentials**

As already discussed above, at present growth spillover effect of two countries is very low which is again constrained by domestic factors. Therefore, for harnessing the potentials, two pronged approach considering both demand and supply related factors will be essential.

### **5.1 Likely Demand led Spillovers of Growth in China and India**

- Increased market for some critical inputs and also rising/changed consumption demand along with massive expansion in urbanization and fast growth on the size of affluent class
- Spillovers of internal demand induced growth strategy by China with increased demand for imports
- Possibility of outsourcing and hence scope of establishing cost effective goods and services industries
- Massive tourist outflow from both China and India with huge potentials of tapping such a market
- Likely increased demand for general and semi skilled workers
- Big scope of trade specialization and diversification as per Nepal's comparative /competitive advantages in key areas in terms of both static and dynamic settings
- Further liberalization and opening up of Indian economy as recent initiatives indicate raising greater scope of establishing/strengthening supply chain and market networking

### **5.2 Enhancing of Production and Supply Capacity by Attracting Two Country's Huge Investment Potentials**

- Attracting investment in infrastructure /energy /tourism and other export oriented industries and services having comparative advantages broadly in line with Ministry of Commerce and Supplies study 2010 identified areas but additional consideration/analysis required especially aiming at two digit growth in which unlike static a dynamic approach will be needed in which the spillovers of likely static gains in the long run have to be additionally considered in the light of added opportunities. Creation of enabling environment through further policy incentive and effective institutional arrangement is the key. The establishment of Investment Broad and many new initiatives thereafter to attract domestic as well as foreign investment is a positive development which needs further

enhancement. In this process, apart from coordinated approach involving government agencies and private sector and involvement of Nepal's embassies abroad focusing on economic diplomacy will also be essential, unlike in the past, in a more effective way.

- For the productive investment and enhancement of production and productivity, it is essential to recognize that only after productive investment sustainable trade having both high forward and backward linkages is possible. The deepening systemic crisis and crony capitalism type problems in number of countries indicate on such a necessity.
- As data suggests in 2007/08, private direct investment from India was Rs 17.98 billion. The approval data of Department of Industry show that it reached Rs. 32.2 billion in 2010/11. Therefore, there is a big scope.
- The FDI from China was in the order of Rs. 3.76 billion in 2007/08 and based on approval data of Department of Industry it was Rs. 32.2 billion in 2010/11. This means, massive investment by Chinese investors is possible as their increased lending in Africa and Latin America indicates. As known, today China is rescuing debt crisis prone European countries by huge investment. In Nepal's context, a very big scope of China's investment is there.

### **5.3 Scope of Aid for Supply Capacity Enhancement**

- India's aid commitment for this fiscal year is Rs 11.66 billion as reflected in the budget besides support for human resources development. Similarly, China's aid was \$12800 (Rs. 10 million) in 2005/06. In August 2011, apart from aid of \$ 32.5 million (Rs. 2.55 billion), Rs. 10 billion as soft loans and grant was offered by China through mutual agreement. As shown in the budget, aid commitment by China for this fiscal year is Rs. 2.9 billion added by support to the human resources development.
- There is a big scope of increased support from both countries but there is also need of making aid much more result oriented from the standpoint of removing infrastructural bottlenecks and enhancing supply capacity of Nepalese economy. More broadly, there is a need of streamlining of aid policy for enhancing aid effectiveness in line with the spirit of Paris Declaration 2005.
- There is also need of linking trade with aid.

#### **5.4 Revamping of Trade Relations for Nepal's Gains**

- Data show that Nepal has huge but increased and unsustainable trade deficit with both countries undermining positive spillovers effect on Nepal unlike in the context of many other countries. This is a serious issue. Therefore, a review and reorientation of trade policy with these countries linking with removal of supply side constraints and reducing of transaction cost will be essential.
- There is a need of reviewing of trade treaty between Nepal and India to make compatible with the treaty of 1996 with added provisions that discourage informal trade and other manipulating type practices. Transit facility is also an area needing due consideration in the light of very open up policy pursued by India with rest of the countries.
- Review of problems in existing trade preferential arrangements with China is also needed for ensuring extended facilities to Nepal.
- Mutual steps to remove non-tariff barriers and other practices of trade distortions hurting less competitive countries like Nepal is also required.
- Exploration of India and china trade via Nepal should also be equally a priority area of consideration among the three countries. For this, Nepal needs new initiatives. As studies show, development of basic infrastructure will be very helpful for promoting trade via Nepal which will add gains to both India and China.
- Special measures/mechanism to minimize transit cost and a mechanism to compensate the additional cost for Nepalese traders for ensuring competitiveness of both exports and imports is also necessary.

#### **6. Expectations from Close Neighbours-Global Economic Power Houses**

For the enhancement of investment in the areas of comparative and competitive advantages and augment Nepal's supply capacity for exports and facilitate sustainable growth and development which also help to minimize certain internal bottlenecks of China and India, both countries will need review of trade and economic relations. Among the areas to be seriously considered include:

- Removal of non-tariff barriers and trade obstructions practices giving new shape to the trade relations accompanied by assurance of

preferential treatment to the Nepalese products in both countries' market that ensure preferential gains vis a vis other countries at the practical level is needed.

- Similarly, entire economic relation has to be revitalized in a way that aid, trade and direct investment work complementarily that lead to enhancing of high growth internally by Nepal added by spillover positive effects. In this respect, initiatives to establish tripartite mechanism for building trust and facilitating coordinated approach in these areas will be a positive step.
- An approach of generous support and mutual benefits by discouraging a tendency of imposing unequal terms will be required at a time when both countries are converting into global economic super powers. Concerted efforts at removing traditional bureaucratic mind set will be required that create bottlenecks, prevent Nepal reaping benefits of increased opportunities and also add cost or loss to Nepal.
- More generous support for human resource development and increasing technical capacity in different areas including enhancement of or trade capacity
- More positive attitude is also needed by both countries to promote their trade via Nepal by supporting Nepal create necessary infrastructure and fulfill logistics.

## **7. Major Challenges**

- Undertaking of policy reforms to enhance productive investment, raise productivity and augment competitiveness is a serious challenge which requires changes in economic policy course accompanied by comprehensive reform for removing structural and institutional bottlenecks<sup>4</sup>. Such a new orientation will require very bold step which may need political consensus but the different perception on the underlying reasons may make the task very difficult.
- Devolving of coherent investment policy balancing micro to big enterprises and removal of supply side bottlenecks through among others encouraging value chain system is equally challenging as

<sup>4</sup> For examining the nature of constraints emanating from political economy angle see Khanal et al (2005) and from the technical side on infrastructural and supply side constraints see SAWTEE (2011).

mercantilism and financialism type tendencies grounded on neo-liberalism indicate.

- Trade capacity enhancement of private sector institutions and strengthening of supply chain is also a big challenge.
- Strengthening of integrated one window facility is also a problem due to lack of policy coordination among different agencies.
- Economic diplomacy specially to ensure obtaining of duty free and quota free preferential facilities is also a problem amidst very distortion type practices including various non-tariff barriers imposed in different pretext.
- Strengthening of regulatory system for fairness and competition has increasingly been a serious concern amidst weak governance, transparent and accountable system.
- Enhancement of labor productivity and amicable solution to the labor law market policy is also perpetuating uncertainty and investment confidence. In a much politicized environment, the solution also may not be that easy.
- Above all, in the changed political milieu, the future shape of economic and trade relations with two close neighbours will be, among others, key to push double digit growth agenda ahead by Nepal which if past experience is any guide poses a serious challenge. This is more so due to sometime political interest undermining the national interest. This has to be changed which is increasingly at stake.

## **8. Concluding Remarks**

Nepal is positioned in an advantageous location with added opportunities as two close neighbours have already been the economic power houses of the world. Therefore, to reap the benefits and harness growth potentials, there is a need to articulate a new comprehensive and integrated investment, aid and trade policy. For this, identification of channels and mechanism considering from both demand and supply side will be essential taking dynamic perspective into account for maximizing benefits or ensuring gains. At the same time, a more generous support and special preferential treatment at the practical level by the close global giants is also expected and for this Nepal's move driven by mature diplomacy including economic diplomacy will also be required.

In parallel, a new research will be required in the above line together with reviewing of Ministry of Commerce and Supply study (2010) which has overlooked dynamic aspect and also study recommendations are hardly driven by double digit growth objectives.

Above all, there is an urgency of political consensus to resolve contentious issues linked to constitution and giving equal priority to economic agenda. Unless this is done by realizing the past weaknesses, not only our desire to ensure double digit growth will be impossible to materialize in near future but also the cost of overlook or delay will be very high.

## References

- Agarwala, R. (2012). **India 2050: Can We Celebrate the Centenary of the Republic as a Developed Country** (RIS Discussion Paper 178)? New Delhi: Research and Information System for Developing Countries (RIS).
- CBS (2009), Nepal Labor Force Survey, Kathmandu: Central Bureau of Statistics.
- Herd R., Dougherty S. (2007). "Growth Prospects in China and India compared", *European Journal of Comparative Economics*, 4(1), 65-89.
- IMF (2012). India's Growth Spillovers to South Asia, *IMF Working Paper* WP /12/56 (Washington: International Monetary Fund).
- IMF (2010). China's Economic Growth: International Spillovers, *IMF Working Paper* WP/10/165 (Washington: International Monetary Fund).
- Khanal, D. R., Thapa, Resham and Belbase, Anil (2012). **Sources of Growth, Factor Returns and Sustained Growth: A Comparative Study of Primary, Secondary and Tertiary Sectors in Nepal**, A Draft Study Report Submitted to ESCAP/ARTNeT (Institute for Development Policy Research (IDPR), Kathmandu.
- Khanal, D.R. and Kanel, Kanel, Nav Raj (2005). **Macroeconomic Policies, Shocks and Poverty Reduction in Nepal Simulation Based Quantitative Analysis, Kathmandu**: Institute for Policy Research and Development (IPRAD).
- Khanal, D.R. and Shreshtha, P. (2008). Trade and Investment Linkages in Nepal: Impact on Productivity and Exports and Need for Policy co-ordination, **ARTNeT Working Paper Series No. 52**, ESCAP, Bangkok.
- Khanal, D.R. et al (2005). **Understanding Reforms in Nepal: Political Economy and Institutional Perspective**, Kathmandu: Institute for Policy Research and Development (IPRAD).
- Khanal, D.R. et al (2008). **Aid Effectiveness under PRSP in Nepal**, Kathmandu: Action Aid and Institute for Policy Research and Development (IPRAD).
- Lin, Justin Yifu (2011). **From Flying Geese to Leading Dragons: New Opportunities and Strategies for Structural Transformation in Developing Countries** (WIDER Annual Lecture 15), Helsinki: United Nations University, World Institute for

Development Economics Research (UNU-WIDER).

Maddison, Angus (2007). **Contours of the World Economy**, London, Oxford University Press.

MOF (2012). **Economic Survey of 2011/12**, Kathmandu: Ministry of Finance (MOF).

SAWTEE (2011). **Supply-Side Constraints Facing South Asian LDCs: Frontiers and Dynamics**, Kathmandu: South Asia Watch on Trade, Economics and Environment (SAWTEE).

Srinivasan, T.N. (2009). **China and India in the Global Economy-Development Strategies, Economic Reforms and Responses to the Global Economic Crisis and Recession**, A paper Presented in a Conference on Institutions and Economic Development, Shanghai: 11-12, August 2009.

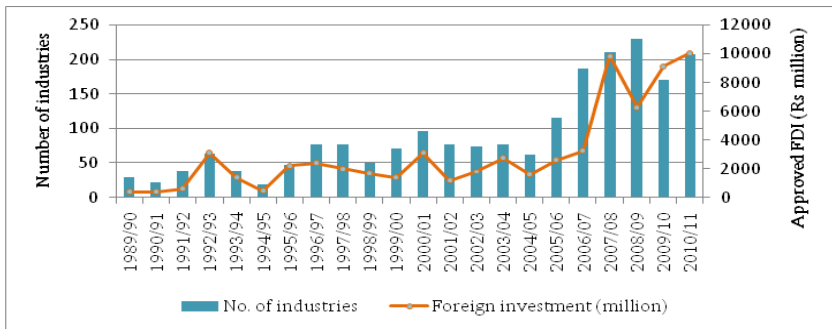
UNCTAD (2012), **Global Investment Monitor**, Geneva: UNCTAD.

8. Paper presentation on  
**“Optimizing Investment-Trade Nexus in Nepal in Partnership with China and India”** Dr. Ratnakar Adhikari, Chief Executive Director, SAWTEE.

Investment and trade have a deep rooted connection. Investments can be both market-seeking as well as resource-seeking. When tariff protection is high, Foreign Direct Investment (FDI) may take the form of "tariff jumping" investments. When trade liberalization occurs FDI may take the advantage of market enlargement and vertical specialization. On the whole, trade liberalization tends to be a relatively strong pull factor for an increase in FDI. Such nexus tends to be strong in the context of Nepal and India due to Nepal-India Trade Treaty rather than between Nepal and China, as discussed in this paper.

In terms of FDI, Nepal is the worst performer in South Asia and one of the worst in the world. According to World Investment Report of 2011 that ranked 141 countries, Nepal ranked 134th in terms of inward FDI performance index and 139th in inward FDI potential index.

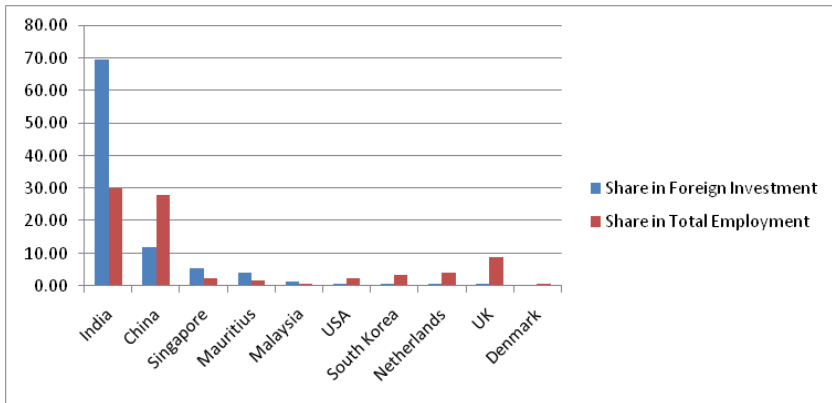
**Figure 1: Number of approved industries and amount of FDI from fiscal year 1989/90 to 2010/11**



Source: Department of Industry, various issues.

As can be seen in the above figure, Nepal managed to receive decent amount of foreign investment after the initiation of economic reform in 1991/92. However, it remained erratic during the period of armed conflict, which ended in 2006. Since 2006/07, FDI figures exhibited robust growth, barring 2008/09, during which it was affected by global financial crisis. By 2010/2011, FDI industries from India and China registered with the Department of Industry (DOI) were 501 and 401 respectively. Volumewise, FDI from India had reached NPR 32 billion, 4.6 times higher than Chinese FDI of NPR 7 billion. The same year, India and China accounted for 82% of all FDI commitments to Nepal, with India accounting for a lion's share of 70%, and China accounting for 12%. Also, Indian FDIs were expected to provide 30% employment during that time, which was comparable to Chinese FDIs at 28% - China's major investments in labour intensive sectors led to the high number even though its investment is at a much lower percent compared to India.

**Figure 2: Percentage share of top ten investment origin countries and their share in investment and employment in fiscal year 2010/11**



Source: Department of Industry, 2011

The major contributor country to FDI in Nepal is India. Indian investment can be divided into four major categories:

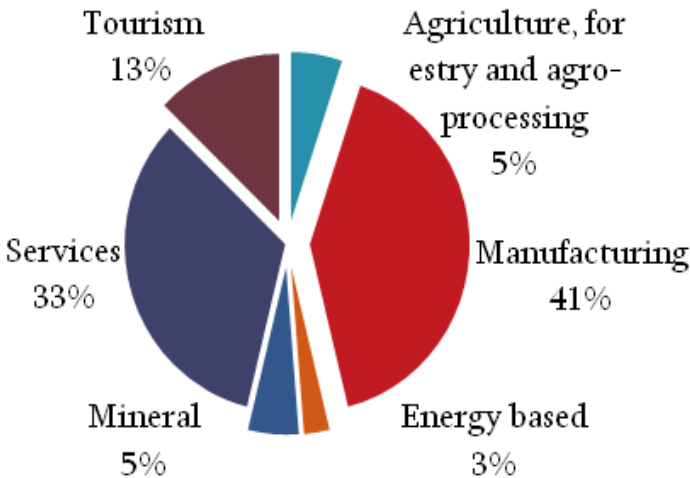
- Export oriented – mainly targeting Indian market e.g. Dabur Nepal Ltd., Unilever Nepal Ltd. and Colgate Palmolive (previously)
- Domestic market oriented – mainly targeting Nepalese market e.g. Asian Paints, Surya Nepal (after ceasing to import) and McDowell's
- Services Sector – e.g. Nepal SBI bank, Oriental Insurance, Everest

Hotel, United Telecom Ltd. and Manipal Medical College

- Infrastructure related – e.g. GMR Infrastructure Ltd. and Sutlej.

While the above mentioned categories of investment can contribute to trade expansion, the first type of investment, Export oriented, has the highest linkage with trade due to guaranteed market, limited non-tariff barriers and limited bureaucratic hassles, among other things. Based on the data published by Department of Industry in 2011, Indian investments made during the fiscal year 2010/2011 can be divided into six sectors. Out of the six sectors, manufacturing, agro-related and mineral based sectors that have export prospects account for 51% of Indian FDIs. It is demonstrated in the following figure.

**Figure 3: Sector-wise Indian investment in Nepal, 2010/2011**



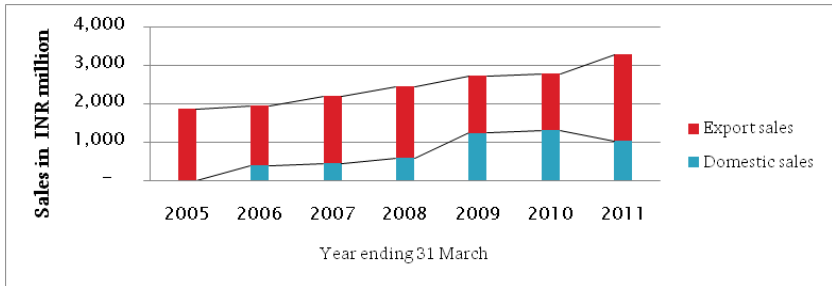
### **Dabur Nepal Limited: A Case Study**

Dabur Nepal Ltd. was established in 1992 on an 82:18 joint venture basis. The company produces and exports 39 varieties of products and uses 28 different varieties of herbs and medicinal plants. They are engaged in contract farming in Nepal and conduct Green House projects to share expertise and provide modern technology and practices to farmers engaged in cultivation of medicinal and aromatic plants (The Kathmandu Post, 2012). Estimates put its direct employment figure in farms at 5,000 and indirect at 25,000 according to the magazine Nepali Times of 2008 and 1,000 direct employment in the

factory according to Indian Express, 2011. The company created backward linkages, particularly with the rural economy and helped in commercialization of biological resources.

The company was predominantly established for catering to the Indian market, which is shown by the fact that in 2005 all the sales were in the form of exports. Domestic sales started picking up from 2006 to reach a record INR 1.3 billion in 2010, but marginally declined to INR 1.024 billion in 2011. However, overall sales have been steadily increasing

**Figure 4: Export, domestic sales and total sales (in INR million) from 2005 to 2011**



Source: Dabur Nepal's Annual Reports (2006-2011)

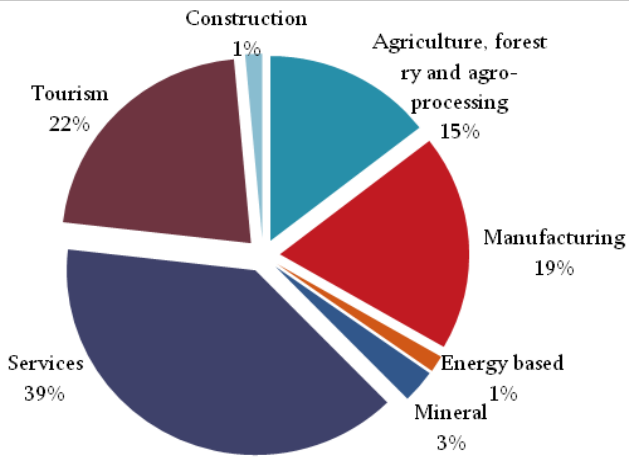
There have been some criticisms as well relating to Dabur Nepal. There are concerns that the company has not renewed license with the Department of Forestry for the collection of certain biological resources from Nepal (Pro Public 2007). In the recent past, it was accused neglecting consumers' interests by post-dating stamps of manufacturing dates on its produce (juice) as reported by Indian Express in 2011 and was also accused of not maintaining the quality of its juice as worms were allegedly found in juice packs (Hindustan Times 2010).

### Chinese Investment in Nepal

Chinese investment mostly caters to their domestic market and its contribution to enhancing Nepalese exports to China is limited because of various reasons. Nepal does not have a bilateral trade agreement with China that would provide preferential market access at par with India, China has permitted duty-free access to 4,721 products for the LDCs including Nepal that have largely been unutilized, there is an accessibility problem beyond Tibet Autonomous Region, which in itself is a rather small market.

Based on data published by Department of Industry in 2011, Chinese investments made in the fiscal year 2010/2011 can be divided into seven sectors, of which services sector (services as per DOI classification – tourism and construction) account for about 62 percent, some of which are not even tradable.

**Figure 5: Sector-wise Chinese Investment in Nepal in the fiscal year 2010/2011**



### Prospects

- All sectors identified by Nepal Trade Integration Strategy have the potential to enhance investment-trade linkage.
- Export potentials of some goods and services are confined not only to India and China but beyond. For example, Indian or Chinese FDIs can exploit preferential market access provided to LDCs; Indian or Chinese FDIs in Information Technology and Business Process Outsourcing can help tap the lower-end of global market after India's move towards higher value exports; tremendous prospects in education, health and tourism sectors; value addition in cardamom, ginger, tea and herbs could be a boon for the Nepalese economy. Environment in Nepal is favorable for investment in hydro-electricity.
- According to a World Bank/International Finance Corporation, dealing with regulations, paying taxes, and obtaining business

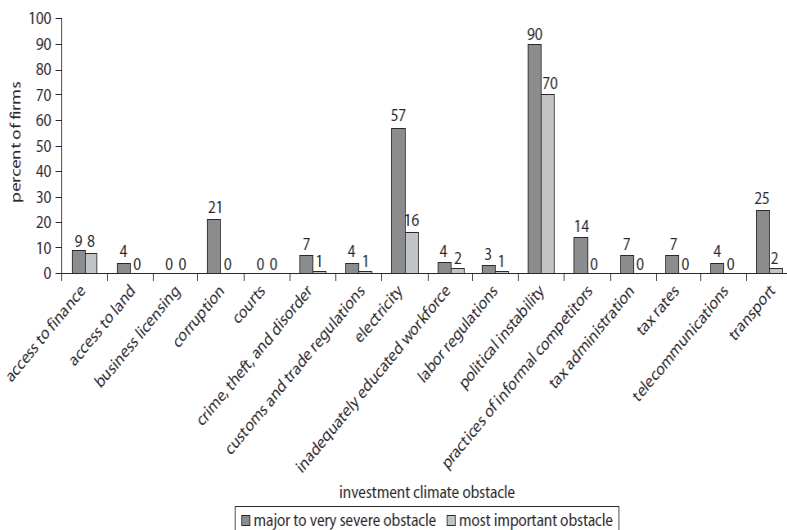
permits are becoming less complex (Afram and Del Pero 2012)

- Signing of Bilateral Investment Protection and Promotion Agreement (BIPPA) and Double Tax Avoidance Agreement (DTAA) may be used to provide assurance to potential investors, although they would not be decisive factors.

## Challenges

- Trade preferences provided by China are hardly useful to stimulate FDI
- Chinese FDI is currently catering predominantly to our domestic market and may make some headway in exporting to India and other preference granting countries
- Bordering Indian states now offer more hospitable climate including incentives for investment
- On the domestic front, contradictory legal provisions in various legislations create difficulty in implementation; despite some progress, investment climate is a major issue for foreign, and indeed domestic as well, investors, according to a World Bank and IFC report.

Figure 6: Perception of Obstacles Constraining Investment Climate



Source: Afram and Del Pero (2012) based on IFC 2009

## **Way Forward**

It is important to conduct negotiation with China for obtaining greater market access and possible signing of Bilateral Investment Promotion and Protection Agreement (BIPPA) and Double Taxation Avoidance Agreement (DTAA). Major binding constraints on investment climate need to be addressed. Some of the ways in which this can be achieved is by addressing political climate in Nepal, law and order situation and policy related problems and by the government coming forward for the provisioning of public goods. Expediting the passage of relevant laws and operation of Special Economic Zones (SEZ), and matching the incentives offered by Indian states bordering Nepal would also help in increasing FDIs in Nepal.

**Note:** *This report was drafted purely based on Dr. Ratnakar Adhikari's Power Point presentation delivered in the seminar organized by IFA on 6 July 2012 on the topic "High Growth Trajectory in China and India: Opportunities and Challenges to Harness Development Potentials in Nepal". It was converted into a document form for the purpose of publication. All efforts have been made to preserve original content.*

9. Paper presentation on  
**“Booming Tourist Outflows from China and India: Prospects of their destination to Nepal”**  
**by Dr. Surbir Paudyal**

**1. Background**

Tourism is largely linked to economic growth of a country. A number of studies in majority countries showed that the relationship between tourism and economic growth was found to be bi-directional. Even in the case of Nepal it is found to be so (Paudyal, 2012). In other words, tourism development leads to economic growth and economic growth promotes the tourism development. Tourism is now widely recognized as a driver of jobs, growth and economic recovery by many countries including the member states of G20 (WTTC, 2012). Besides, it is now well established fact that one of the major generators of the tourism demand is per capita income of the people which, other things remaining the same, moves up with a rise in economic growth or vice versa (Paudyal, 1993, 1998, 2012, NRB, 1989). Thus, a higher economic growth rate of a country generates a larger number of outbound tourists in the global tourism. China and India turned into a rising economic power by recent years. China replaced Japan and became number two largest economy in the world and further heading to hold number one position surpassing the USA. On the other hand, India is trying hard to follow China in the economic growth and prosperity. Thus, it is said that centre of world economic growth is apparently shifting toward Asia from America and Europe. Great recession beginning in early 2008 has affected these Asian giants the least in the beginning. However, the growth rates in these countries are witnessed to be slowed down recently following the economic crisis in the European Union. It was forecasted that Asian countries including China and India would have an economic slowdown if a set of appropriate measures were not launched beforehand (The Economic Times, 2012). The recent news about economic growth of China and India enforced that these economies started facing a slackened growth rate in their respective economies. However, this is expected to be a short run fluctuation

from the long run equilibrium growth path. In the long run, Asian giants such as China and India will lead the world economy and Nepal as a neighbour of both countries has already turned into a fortunate country pushing it to the position of full of opportunities for the development including the tourism.

Aforementioned several empirical studies and statistics show that an increase in economic growth in a country encourages the outflow of tourists. It is also evidenced from the booming number of outbound tourist flows from China and India in recent years. As mentioned above both countries have witnessed robust economic growth rates over the years. As a consequence, the number of outbound visitors from China increased sharply reshaping the world tourism landscape. Total number of Chinese outbound was 57.6 million for 2010 and predicted that of 80 million for 2012. It is predicted by WTO that total number of outbound tourists will be 100 million by 2013. Similarly, the same source shows that India generated 15.7 million outbound tourists in 2010 against 4.57 million in 2000. On the other hand, Bhutan, Sri Lanka and the Maldives recorded one of the highest growth rates in world tourism in 2011. Major reason was the increased number of outbound tourists from Indian and Chinese markets. The predicted number of outbound tourists from India is 50 million for 2020 (WTO, 2012).

WTO predicted a strong tourism growth leading to one billion international tourist arrivals by 2012. In 2011, world tourism witnessed 983 million international visitors crossing their borders by purpose of travel and tour, while world tourism receipts accounted for over \$1030 billion. Of these China received 57.6 million tourists accounting for 5.9% of the world arrivals and \$73 billion tourism receipts in 2011 and placed in third and fourth place respectively in world tourism. India ranked 9th position in international tourist arrivals numbering 6.29 million and earned \$18 billion in 2011(WTO, 2012).

The aim of this paper is how to attract the increased number of visitors to Nepal from booming tourism markets in China and India. As aforementioned that both markets are not only booming in terms of source markets of tourism but also are flourishing in terms of tourism destination. In this backdrop, Nepal should have two targets to increase inbound tourists with respect to India and China. First, Nepal should strategically direct its tourism marketing policy toward increasing the number of Indian and Chinese visitors by air and by land. Second, Nepal needs to have a marketing strategy which can attract the overseas visitors visiting India and China. However, the subject of this paper is the first one and so will focus on it.

## **2. Context of Tourism Development in Nepal**

Nepal today is one of the known destinations in the world tourism map where it occupies a distinct position. She remained close for many years but opened her door to the rest of world visitors especially only after early 1950s. Juxtaposed Mt. Everest was conquered by two young boys Tenzing Norgay Sherpa and Sir Edmond Hillary that drew the world attention toward Nepal. The fame of Nepal, thus went up with men conquered Everest, the highest place on earth and this country became one of the popular destinations and began to known as a naturally beautiful Shangri-la destination among world class travelers. Further Nepal is introduced as a birth place of Lord Buddha and homeland of Nepalese (Gurkha) who are known for their bravery in the historical wars, WWI and WWII. The real opening of Nepal for international visitors began in the summer of 1949. The coronation of the late King Mahendra in 1956 was one of the major events in Nepalese tourism (Gurung, 1989:149). However, the beginning of the organized tourism activities in the country can be trace back to early 1950s with the set up of Royal Hotel by a pioneering Russian businessman Boris, total number of hotel beds was only 88 by 1959(Gurung,1989:134).

A study shows that tourism demand in Nepal depends on words of mouth, political and social stabilities, income, and price (Paudyal, 2012). The word of mouth remained a great source of marketing and promotion of Nepalese tourism in international tourism markets. The rising percentage share of repeated visitors reveals the fact that the word of mouth is a strong and an influential factor in affecting the demand for Nepalese tourism. This enforces that the image of Nepal as a destination to date is not damage badly. Further, it equally highlights that Nepal as a destination must have a better and further improved image in terms of host-guest relationship, quality of products catered to tourists, value of money, infrastructure they used, activities they prefer to be involve and so on, so as to attract more and more number of quality international visitors.

Tourism in Nepal has been recognized as one of the major sources of foreign exchange earnings. The primary objective of tourism development in Nepal, thus from the beginning has become how to increase in foreign exchange earnings. Major objectives of tourism development in many other countries generally include an increment in income and employment opportunities through generating multiplier effects in an economy, thus, are largely neglected in practice. The new money injected by tourism activities can have a greater significance in an economy beyond foreign exchange earnings, which can drive an economy as whole to the higher growth trajectory. The

government of Nepal, in practice, has shown so far the least concern over the retention of earnings; and backward and forward linkages of the tourism activities in the rest of the economy. Major concern of the industry and policy makers seems to be an increase in gross earnings from tourism. Social problem such as prostitution (including others) and environmental problem such as pollution and land degradation can cause an irreversible damage to the economy are the areas that are the least heard and talked in this country. Another issue in tourism development is related with spatial and vertical concentration of tourism earnings in Kathmandu and a few other areas and in big hotels but this never became an issue in this country. The next issue is that we in Nepal seem to have satisfied with counting an increasing number of inbound tourists rather than to be effortful in increasing the value of tourism through an increase in per capita tourist expenditure by ways of up-gradation of quality of products and activities and by an increase in length of stay days. One of the major impacts of promoting volume tourism in this country is that economic value of tourism in our case is minimal in spite of a large development potentialities for which Nepal is paying the high social and environmental price, which is largely associated with the question of sustainability of tourism industry in particular and future economic growth in general. Should it be major concern of policy makers of our country?

Currently tourism in Nepal generated income and its direct contribution on GDP was 4%, while total contribution (direct, indirect and induce) 8.8% to GDP in 2011(WTTC, 2012). Historical data shows that tourism's contribution directly on government revenue is on rise (MoTCA, 2010). Similarly its direct contribution to the employment accounted for 3.3% and that of total 7.7% to total employment i.e., 952,500 jobs were created by tourism in 2011 which has expected to create 988,000 jobs in 2012(WTTC, 2012). Several studies revealed that Nepal catered lower end of the world tourism markets, which is further evidenced by the lower average per capita expenditure of tourists in Nepal which amounted to only \$547.4 while that of per capita per day expenditure \$43.2 in 2010 (MoTCA, 2010). However, it has contributed foreign trade i.e., 24.5% of total exports in 2011. Its contribution to capital investment accounted for 4.9% of total capital investment for the same year (WTTC, 2012).

Tourism in Nepal is thus emerging as one of the major economic activities in the economy. It is taken as a great source of generating gainful employment for young people entering every year in the job market. However, tourism

can provide seasonal employment to many people and full employment to relatively lower number of people. Still tourism is one of the major earners of foreign exchange, the second after earnings from international remittance (MoF, 2012).

### **3. Places of India and China in Nepalese Tourism**

Indian tourists occupied an important place in Nepalese tourism since it is largely associated with trade and investment. For the reason, the cases of repeated visits are higher for Indian market (Paudyal 2012). The visitors from this category generate are high tourism receipts in Nepal (NTB, 2000, 2005). Further, a majority number of tourists use to come to Nepal in the tourist lean season such as June-July which, to some extent, helps largely the tourism in the country to sustain via smoothing out the seasonality fluctuations in between various months in a year. Furthermore, India is geographically and culturally close market surrounded by open border from three sides not requiring visa and foreign currency has also been encouraging the inflow of visitors from India. The people from the southern part of Nepal have cross border marriage relation with those from India. Significance of Indian market further heightened because of tourism being one of the major sources of Indian currency earnings that can be used for ailing Nepal's trade deficit with India (Paudyal, 1998).

**Table 1: Historical growth of tourist arrivals in Nepal from India and China, 2011 and 2012**

Country	1975	1985	1995	2005	2010
India	17,881	53,880	117,260	95,685	116,321
China	na	na	na	21,092	44,694
Overall/total	92,440	180,989	363,395	375,398	602,855

*Source: Ministry of Tourism and Civil Aviation, Nepal Tourism Statistics (various issues).*

Table 1 reveals that the historical growth of international tourist arrivals is festinating in the case of Nepal in which India occupied an important place. The number of visitors from China has sharply increased which placed in third position following India and Sri Lanka in 2010 over recent years.

**Table 2: The number of tourist arrivals in Nepal from India and China, 2011 and 2012**

Country	April		% Change	% Share '12 April Inc	Total ( Jan-Apr)		% Change	% Share '12 Jan-Apr
	2011	2012			2011	2012		
India	11,183	16,159	44.5%	27.2%	37,327	53,702	43.9%	25.8%
China	2,590	3,701	42.9%	6.2%	12,883	17,818	38.3%	8.6%

Source: Website of Ministry of Tourism and Civil Aviation, Kathmandu

Table 2 provides an account of tourist arrivals from India and China in recent years. As per table, the number of tourist arrivals from India and China has increased by 44.5% and about 43% respectively during one year period, i.e., April 2011 to April 2012 indicating a robust growth in demand for Nepalese tourism in these markets indicating a robust growth rate for both markets. India occupied number one place among tourism markets (over 25% share) for Nepal over long period of time while China has emerged as a newly promising market with a greater prospect to grow in the near future. Aforesaid as higher economic growth of China and India resulted in a rising per capita incomes of their people and thereby pushing their standard of living up coupled with government policies in both markets encouraging job holders to go for tour/travel through provisioning for the tourism leave, the number of outbound tourists from these markets to varied global destinations has been booming over the recent years.

It is necessary to analyze the activities of tourists in which they involved while they are in Nepal. Major activities of Indian visitors involved in Nepal are business such as, trade and investment, contract, and official. It is said that for this purpose, over 50% Indian visitors (by air only) come to Nepal for this purpose (NTB, 2005). Majority of Indian visitors like to go for visiting temples and other religious places, shopping endogenous products and modern products, and visiting casino and museum. It is said that every Indian visiting Kathmandu compulsorily visit Pashupati temple no matter what is his/her purpose of visit. Cultural factor appears to be the common factor for the visitors from India and China. However, Indian youths were found to be motivated to trekking activities in recent years. A study (Tuladhar, 2000:8) reveals that main factor of attraction in trekking is natural beauty followed by cultural attractions. Another study shows that Indian visitors are concerned

80% visits temples and other religious places, 60% engaged in wildlife safari, 40% each go for trekking and rafting (TRPAP/NTB, 2004:17).

Indian stayed only 5.4 nights, used star hotels mostly (51%) five star hotels (NTB, 2005:21). This category of tourists is higher spender tourists. Most Indian visitors like to visit Bhaktapur, Patan, and Nagarkot. Only 5.8% goes to Pokhara. Since Nepal is cheap destination high value of money for visitors is one of major reasons for pulling lower end tourists from all over the world. Indian and Chinese visitors to Nepal are not the exception to this rule. Majority Chinese came to visit Nepal by package tour while that of Indian visitors by independent tour managed by himself/themselves even they came in a group or couples. The pilgrims and visiting friends/relatives were the low spenders and thus, the economy was least benefitted while the visitors for investment and business were found to be higher spenders (NTB 2000, 2005). Major activities of Indian visitors while in Nepal are pilgrimage, business/official/conference, sight-seeing and rafting, and trekking. There is a need of in-depth research study to investigate and explore the Chinese and Indian markets in general and the changing tastes of the visitors from these markets in particular.

Institutional setting (laws and regulations, government policy) and others (infrastructures, products) are the supply side of tourism in any country. On this front, Nepal has adopted tourism friendly policy and engaged in infrastructure development including open air policy and privatization in civil aviation sector. As a consequence, a number of private airline companies came up to business and some of them disappeared and some of successful airlines companies from private sector extended their services to cross border cities. Besides, the quality of road transportation in terms of luxury bus service targeting for international visitors, has improved in recent years. The air access to the local destinations from Kathmandu has been upgraded in terms of number of aircrafts or flights. However, air linkages (access to markets) and other infrastructures development in tourist spots outside Kathmandu valley still need to be improved so as to disperse the number of tourists to the new tourism destinations to be developed or to outstations. Tourism facilities and products are limited to a few destinations in the country which can constrain the further development of tourism through limiting its carrying capacity.

So far Chinese visitors from Nepal is concerned, the government recorded statistics show that the number of tourists from China has increased sharply in recent days. Chinese tourists are more inclined to cultural activities and city tour. Major activities of Chinese visitors while in Nepal are city tour/

pleasure, shopping, curio/pilgrims and trekking/rafting (Koirala/Thapa, 2012). But according to some tour operators in Kathmandu, their interest is slowly moving towards soft adventure activities like trekking, hiking and rafting from the traditional attractions of cultural, shopping and sight-seeing tours. For instance, the Ghankruk, Ghorepani and Punam Hill trek in the Annapurna region is the most popular trail and rafting in Trishuli mostly liked ones among Chinese visitors (Thapa, 2012). So far major reasons for the visitors from China coming to Nepal are physical reason such as relaxation and pleasure followed by cultural reason. Prospects of trade and investment determine the future of Chinese tourism in Nepal.

As aforementioned Chinese come for relaxation and thus material comfort lists value high in their consideration. Food culture of Chinese is very rich and they love to take a variety of Chinese food dishes (Pradhan, 2012). They are found fade off by Kathmandu's daunting traffic and pollution. Another issue that constrained the number of Chinese visitors is that flights to Nepal from China are very expensive; sometimes it is cheaper to fly to Europe from China than to Nepal. However, there are increasingly more flights organized from China to Nepal so as to meeting demand for it in China. The spending and length of stay of Chinese visitors have also been increasing gradually (Kone, 2012). Nepal is getting more Chinese tourists but has been unable to bring high-end travelers. It has become urgent to produce Chinese speaking guides, which is the major concern of Chinese visitors these days (Kone, 2012).

Major air carriers Chinese visitors used are Air China, China southern and China Eastern and now these operate almost daily flights from Chinese cities such Kunming, Lhasa, Guangzhou and Chengdu to Kathmandu. Chinese carriers China Southern, China Eastern and Air China operate on the Guangzhou-Kathmandu, Kunming-Kathmandu, and Lhasa-Kathmandu sectors respectively while Dragon Air operates connecting 17 cities of mainland China to Kathmandu via Hong Kong.

Chinese tourist flows to Nepal has increased especially after the government listed Nepal one among the seven major destinations for Chinese outbound visitors. There is a big rush of Chinese tourists during Chinese New Year in February and the Moon Cake Festival in October; tickets have to be booked way in advance (Pradhan, 2012). Travel trade entrepreneurs said that although Chinese tour packages were limited to seven-nine days, their rising interest in trekking and other adventure activities had led to an increase in their length of stay. They added that swelling arrivals from China had kept Nepal's tourism sector busy even during the off season (Pradhan, 2012). Chinese visitors enjoyed ultra-light aircraft take off from Pokhara which offer spectacular

views of the lakes, mountains and villages. Some groups of Chinese visitors prefer to go for mountain flights and Chitwan. There is a rise in number of Chinese visitors going to soft trekking up to Ghandruk, Pun Hill,

The Chinese tour operation are of view that the rise in Chinese travelers is largely attributed to the improved flight connectivity and because of proximity Nepal becoming a short-haul and cheaper destination for most of them. Major activities of Chinese visitors while in Nepal are city tour/pleasure, curio/pilgrims, soft trekking/rafting, mountain flights and ultra-light aircrafts.

#### **4. Prospects for Nepal**

So far as future prospect of tourism growth from these countries is concerned Nepal's geopolitics seems to have dictated both of them to have their political and economic interests in this country. Both of them, thus will show their mounting motivation to increase their economic ties *vis-a-vis* trade, tourism and investment with Nepal in coming days, which can prove to be instrumental to economic growth and overall development of the country. However, only a successful balancing economic diplomacy of the government of Nepal can reap the harvest of friendship with our neighbours. Nepal seems to have a higher prospect in attracting a large number of tourists from China and India in the future. However, it is necessary to develop necessary infrastructures such as national or Nepali airlines for international air service so that it can have a wider coverage of market promotion and marketing and to capture and retain a larger share in the tourists' expenditure so as to get more economic benefits from inbound tourists from these countries. Moreover, an increased access to international tourism markets by Nepali airlines is indispensable for the promotion and marketing of Nepali tourism in the global tourism markets. Given this scenario Nepal seems to have a high prospect of capturing increasing share of booming outbound visitors from India and China with the increased economic tie up, economic growth and development in Nepal. The hypothesis is that Nepal can pull relatively more visitors from India and China when economy of Nepal will improve. It is based on the assumption that higher level of economic development leads to improvement in carrying capacity and quality of services and thereby pulling an increased number of visitors. Another interesting point to make is that increased volume of investment and trade will lead to the frequent visits of business class (high value) tourists from these promising markets because of augmented flow of FDI and trade in Nepal. Bilateral Investment Protection and Promotion Agreement (BIPPA) with India can be helpful to increase flow of FDI from India. Since this category of tourists falls under high spending

tourists staying in star hotels and involve in short haul pleasure activities such as sight-seeing, city tour, mountain flights and so on, an increase in the number of visits or visitors from this category has significantly high impact on the tourism earnings. This has apparently two consequences, first it helps to improve the contribution of tourism to the economy of Nepal vis-à-vis an increase in value of tourism revenue. This, in turn, can lead to an enhancement of quality of tourism products and thereby further boost up in the flow of visitors and thereby an improvement in the image of tourism of country as a whole among the international visitors. However, the objectives of tourism development should be as follows: 1) increase the net earnings from tourism b) increase in the retention of earnings c) increase in dispersion of earnings d) emphasis on value rather than volume e) increase in length of stay days f) emphasize on the linkage between the tourism and other sectors of economy. These points obviously do not need any elaboration.

## **5. Major constraints**

The efforts of government and private sector to develop the tourism have been diffused by major constraints such as political instabilities including for Indian visitors. So it is imperative to address this key issue not only for the tourism development but also for the overall economic development of the country. It is obvious that FDI and domestic investment cannot be attracted in the absence of security of life and property and consistency in government policy. Further, the underdevelopment of tourism infrastructures, products and facilities is also largely responsible for the slower growth tourism sector in the country despite its huge potentialities. Besides, high frequency of band/general strikes (though largely linked with political instability) has constrained the tourist inflows and affected the image of the country as a tourist destination among the world class visitors. Unlike others Chinese and Indian tourists are said to have confined their visits to Kathmandu, Bhaktapur, Nagarkot, Chitwan, Pokhara and Lumbini (with limited activities). One of the features of the Chinese tourists is that they prefer to eat Chinese food in its original flavor. There are many newly opened good Chinese restaurants owned by Chinese entrepreneurs in Thamel areas. However, there is a severe shortage of such Chinese restaurants catering Chinese food outside Kathmandu valley. Chinese speaking local guides are almost non-existence in outstations. Another major constraint is the absence of national or Nepali airline flying to China market.

So far Air China, China Southern and China Eastern airlines are operating from mainland China to Nepal destination. Air China operates daily for the months of August, September and October on Chengdu to Lhasa to Kathmandu

sector, which takes about 3.30 hrs and airfare costs about \$820 (plus \$189 taxes). Only it operates for five days or less in a week for the rest of months. China Southern operates from Guangzhou to Kathmandu route which costs \$712 (plus tax), while China Eastern now operates almost daily flights from Kunming and costs \$230 (plus tax). Even the tourists from Shanghai used to enter into Nepal by this route. The tourists coming from this route has partly an alternative route via Hong Kong. One of the reasons why airfare is competitive in Kunming route may be because of existence of an alternative route such as Hong Kong for it.

It is clear from above that only Chinese airlines have been used so far to bring visitors from different parts of China monopolizing each route by either airline. The airfare charged by the airlines flying directly from the cities of mainland China to Kathmandu of which, thus, has been notoriously high for the visitors as compared to other destinations in Asia and Europe. However, the late entry of private airlines such as, China Southern and China Eastern which have been selling tickets at relatively lower price gave some positive signals in reshaping the arrivals of China market to Nepal. Besides, Dragon air offers a relatively cheaper and competitive airfare for those visitors from mainland China who travel via Hong Kong and so they are much benefitted. It is necessary to break down such monopoly pricing through competition in other routes to Nepal. In absence of a Nepali airline operating in Chinese markets, it has many implications. One of the major implications is the limited inflows of Chinese visitors in Nepal. National air carrier not only transports the tourists from the markets to a destination but works as an agent of tourism marketing and promotion in connecting markets. Nepalese tourism has missed that part in the case of Chinese market. As international airfare accounts for more than one-third of the total package cost in case of Nepal (NTB, 2005), another implication is that Nepal failed to capture that share of expenditure of the Chinese tourists on the airfares (international airlines). However, because of bad condition of national air carrier such as NAC in Nepal, a few flights connecting Kathmandu to Indian cities has used for trafficking the visitors from India. Obviously, it is critical to have own well managed national or Nepali airlines to capture a lion's share of the tourists expenditures visiting Nepal. Thus supply side bottleneck such as absence of national carrier connecting global tourism market and others is a major constraint in the tourism development in Nepal.

## **6. Conclusions and policy implications**

From the above discussion, it is clear that some of the constraints/issues mentioned above are serious from the perspectives of tourism growth and

its contribution to domestic economy. Although there is a great prospect to increase the flow of Chinese and Indian tourists, it is equally important to address issues raised above for the growth of inbound tourists from these markets in particular and from the rest of world markets in general. As the total volume of outbound tourists from these markets is a huge as compared to Nepal's tourism carrying capacity, even a natural growth of tourism demand from China and India markets can shade off a large number of visitors to Nepal. As there is a greater prospect of increasing flow of trade and investment from these countries in near future, that only may lead to an increase in the influx of quality tourists from these markets. However, it is equally imperative to analyze the dynamics of tourism sector. One of the major constraints in relation to tourism development in Nepal can be noticed in supply side bottlenecks. Limited carrying capacity can constrain growth in future growth of tourism as a whole in the country. However, the experiences from other countries show that carrying capacity (environmentally or catering capacity) increases with a rise in the level of economic development of a country. One of the major concerns of the policy makers should be directed toward how to increase net tourism earnings and distribute tourist arrivals and earnings between potential local destinations since the country has already entered into the federalism. Another major policy drive is that tourism can be translated as a main driver of growth and poverty alleviation in the country. There is a greater prospect and potentiality in Lumbini to be a major tourist hub for a large number of international visitors including Chinese and Indian. Kerung road (Rasuwa), which is under construction and can reshape the landscape of Chinese demand for Nepalese tourism, which is supposed to be cheaper for the visitors to go to Lumbini, Chitwan, Pokhara and Kathmandu. Many Chinese visitors can use this road to go to India. Further, if the dream of connecting Kathmandu to Lhasa by railway came true, that will bring a dramatic growth of Chinese visitors to Nepal, which further can accelerate not only investment and trade between Nepal and China but also between China and India.

Developing Muktinath (Damodar kund) and other religious places for Hindu pilgrimage circuit targeting Indian visitors can be an attractive policy drive to increase Indian visitors. Even with these pilgrimages Nepal can be economically benefitted. The government should encourage the small business activities by providing some financial and other policy incentives. Besides, a master plan for greater Janakpur will help to increase in the number of Indians from Patan. The direct air linkage between Janakpur and Patna is highly desirable. Janakpur can be sold with trekking in Eastern Nepal among the young Indian visitors. Star and tourist standard hotels in Janakpur needs to be planned in

an integrated ways. However, marketing and promotion of Janakpur is urgent on the one hand, while renovation of old Janakpur town focusing Janaki temple and preserving and renovating archaeological and religious sites and temples and places is imperative on the other hand. Further, Nepal can sell many tourism products such as honey moon tourism, marriage tourism, conference/meeting tourism, health education tourism and other types of tourism packages.

## References:

- Gurung, Harka (1989): **Nepal: Dimensions of Development**. Mrs. Saroj Gurung, Kathmandu.
- Koirala, D.B. (2012): Personal interview with **Mr. D. B. Thapa**, proprietor of Nepal Association of Rafting Agents (NARA).
- Kone R. K. (2012): views of **Mr. Ram Kazi Kone**, proprietor of Gandaki tours and travel, Kathmandu.
- MoF(2012): **Economic Survey Fiscal Year 2011/12**. Government of Nepal, Ministry of Finance, Kathmandu.
- MoTCA: **Nepal Tourism Statistics (various issues)**. Government of Nepal, Ministry of Tourism and Civil Aviation, Kathmandu.
- MoTCA (2010): Nepal Tourism Statistics 2010. Government of Nepal, Ministry of Tourism and Civil Aviation, Kathmandu.
- (2012): **website of Ministry of Tourism and Civil Aviation**. Kathmandu.
- Nepal Rastra Bank (1989): Income and employment generation from tourism in Nepal. Nepal Rastra Bank, Kathmandu, Nepal.
- NTB (2005): **Expenditure Survey Summer 2005**. Nepal Tourism Board, Kathmandu.
- Thapa, N. K. (2012): Personal interview with **Mr. Nani Kazi Thapa**, president, Nepal Association of Rafting Agents (NARA).
- Paudyal, Shoora Beer (2012): **Tourism in Nepal: Economic Perspectives**. Buddha Academic Enterprises Pvt. Ltd.
- (1998): 'Prospects of selling Nepal's tourism in India' in **The economic Journal of Nepal**. The Central Department of Economics, Tribhuvan Univesity, Kathmandu pp76-86.

- Pradhan, N. (2012): Interviews with Chinese language tour guide Nishan Pradhan, Kathmandu
- TRPAP/NTB (2004): **Online International Tour Operators Survey 2004.** Tourism for Rural Poverty Alleviation Program and Nepal Tourism Board, Kathmandu.
- Thapa, A. (2012): Personal interview with **Mr. Arun Thapa**, an official of Dragon Air, Kathmandu.
- Tuladhar, G. (2000): **National Tourism Demand Survey Among Trekking Agency.** Nepal Tourism Board/SNV Nepal, Kathmandu.
- WTTC (2012): **Travel and Tourism Economic Impact 2012: Nepal.** World Travel and Tourism Council.

## **10. Summary of the Seminar**

Institute of Foreign Affairs (IFA) with support from Friedrich-Ebert-Stiftung (FES-Nepal) organised a one-day seminar titled High Growth Trajectory in China and India: Opportunities and Challenges to Harness Development Potentials in Nepal.

Three working papers - “High Growth Trajectory in China and India and the Opportunity to Harness Nepal’s Growth Potentials” by Dr. Dilli Raj Khanal, “Optimizing Investment-Trade Nexus in Nepal in Partnership with India and China” by Dr. Ratnakar Adhikari, and “Booming Tourist Outflows from China and India: Prospects of their Destination to Nepal” by Dr. Surbir Poudyal were presented in the seminar.

The program started with an inaugural ceremony. Deputy Director of IFA Khush Narayan Shrestha delivered his welcome remarks. Hon. Deputy Prime Minister and Foreign Minister of Nepal Narayan Kaji Shrestha released a book published by IFA titled “Emerging Challenge of Nepal’s Foreign Policy” (June 2012). Ambassador of China to Nepal Yang Houlan delivered his speech. He talked about the economic contributions of China and India, which have played an important role in Asian economic development and has accounted for more than 50 per cent of the world’s economic growth. He said that Nepal could ride on this momentum and work towards becoming a transit of trade, logistics and personnel between India and China. He further added that China was ready to support Nepal in achieving this goal.

Stating that the FDI was pouring into Nepal in the recent days, he said that the Chinese investment would also increase significantly in the days to come. Houlan said that China, Nepal, India and the entire South Asian region now has even more opportunities due to regional and global economic integration. China, he said, would adhere to the policy of friendship and partnership with neighboring countries, and make efforts to develop relations with the member countries of SAARC to promote mutual benefits.

DPM Shrestha said that Nepal could no longer afford to ignore the development taking place in the region. He said that the deliberations should focus on how Nepal could benefit from its linkages with China and India, and their growing economies. He said that Nepal's geographical "land-linked" position would help serve the interests of all three countries involved. In an era of globalization and technological changes, we would need to readjust our social and economic policies that would help generate new momentum and boost our national economy. He highlighted several potential sectors for investment such as tourism, agriculture, communication, roads and infrastructure development. Shrestha said that Nepal was fully committed towards mobilizing national resources in order to accelerate economic growth by increasing investment in infrastructure and thus generating employment.

Foreign Secretary Durga Prasad Bhattarai and Dr. Rishi Raj Adhikari, Executive Director of IFA said a few words on the subject as well. Dr. Adhikari said that Nepal's paradigm shift in its political, social and cultural aspects have tremendously enhanced people's expectations towards better socio-economy in their lives. Nepal's neighbors China and India, he said, were the world's fastest growing economies and luckily had a friendly relations with Nepal. He said that Nepal had great potentials that could be utilized in cooperation with the two neighbors.

Next, Dr. Dilli Raj Khanal started his presentation titled "High Growth Trajectory in China and India and the Opportunity to Harness Nepal's Growth Potentials". The presentation covered China and India's high growth trajectory; having close neighbors as global economic giants, Nepal's growth performance – the major contributing and constraining factors; potential sources of higher growth and economic prosperity; opportunities and challenges available to harness higher growth potentials etc. Dr. Khanal said that Nepal could experience positive externalities from these two growing economies by virtue of the spillover effect. With increasing demands for labor etc, it could help accelerate growth in Nepal and the supply for the demanded things could increase the supply side capacity. The negative externality could be a problem in policy sequencing. He mentioned that past studies have shown that there have been serious lapses in the readiness to maximize the net positive externalities. He said that Nepal urgently needs robust economic diplomacy.

Members of the audience then commented on the presentation. Dr. Shambhu Ram Simkhada, former UN representative, said that there was a conceptual dilemma to deal with opportunity and challenges regarding the two growing economies. Dr. R.K. Dahal, economist, commented that the presentation was missing the structural aspect of Nepalese economy, the problems of

the Washington consensus and Beijing consensus etc. Dr. Madhuraman Acharya, former permanent representative to UN, said that the opportunity cost was present and asked if there were any evidences to support outward investment of these economies. Anil Giri of The Kathmandu Post talked about BRICS economies; Kosh Raj Niraula from Republica Daily said that power balance was shifting in the world and it should be closely watched. Former Ambassador Tanka Karki said that socio-political stability was needed in the country to harness any opportunity. Dr. Dinesh Bhattarai, representative to UN, said that long term human resource investment, as well as correct and timely information was needed. A MoFA employee commented that the economies of India and China shared more than 50 per cent global growth and that each country had a fundamentally different growth strategy.

The second session was chaired by former Minister for Foreign Affairs Dr. Prakash Chandra Lohani. In this session, a working paper on “Optimizing Investment –Trade Nexus in Nepal in partnership with India and China” was presented by Dr. Ratnakar Adhikari, Chief Executive Director, SAWTEE. The main theme of the presentation was promoting investment through trade. The topics he covered were the investment-trade nexus, situation of FDI in Nepal, Indian investment in Nepal, opportunities and challenges for Nepal and the way forward. He gave data showing that there were more Indian FDIs in Nepal compared to China. Similarly, the Indian FDIs employed more people. The bilateral agreement with India also seemed to be more favorable than that of China. Some of the challenges that he mentioned for Nepalese investors were that there were still a lot of contradictory legal provisions. He said that Nepal could attract more FDIs if it provided matching incentive packages like that of neighboring countries and ensured good governance system.

Eminent economist Dr. Bhawani Dhungana, as well as several members from the audience commented on the paper. It was said that trade could bring Nepal out of the vicious cycle of low level equilibrium trap and could be instrumental in national growth; there was a great trade potential with India; Nepal ought to catch up with the speed of neighboring countries; young entrepreneurs should be promoted; and technological infrastructure and experience from neighboring countries would also be helpful.

The title of the last paper was “Booming Tourist Outflows from China and India: Prospects of their Destination to Nepal”. The paper was presented by Dr. Surbir Paudyal. The presentation covered topics such as the world tourism scenario; Indian and Chinese tourists in Nepal, the total employment provided by the tourism sector in Nepal – 3.3 per cent direct and 7.7 per cent total employment; supply side tourism in Nepal; activities of Indian and Chinese

visitors; prospects of increasing tourists and the constraints and issues in the industry. Overall, his presentation concluded that there were high prospects in the tourism industry.

Aditya Baral, director at the Nepal Tourism Board (NTB), commented that in today's world, geographical proximity would not matter much for tourism. He agreed that political stability was of the uttermost importance in order to increase tourism. Also, Nepal should pay attention to branding to attract more tourists. Former ambassador Dr. Bishnu Hari Nepal, former ambassador Dr. Durgesh Man Singh and MoFA staff also commented on the paper.

## **Participants Name List**

- 1 Mr. Narayan Kaji Shrestha  
Hon'ble Deputy Prime Minister and  
Minister of Foreign Affairs, MoFA.
- 2 Dr. Ram Sharan Mahat  
Former Finance and Foreign Minister
- 3 Dr. Prakash Chandra Lohani  
Former Foreign and Finance Minister
- 4 Mr. Leela Mani Paudyal  
Chief Secretary  
Prime Minister's Office
- 5 Dr. Dilli Raj Khanal  
Former Member  
National Planning Commission  
Former Member of Parliament
- 6 Mr. Arjun Bahadur Thapa  
Secretary General, SAARC
- 7 Mr. Durga Prasad Bhattarai  
Foreign Secretary  
MoFA
- 8 Ms. Ambika Devi Luintel  
Joint Secretary  
MoFA
- 9 H.E. Mr. Yang Houlan  
Ambassador of China
- 10 Mr. Nishchal Nath Pandey  
Former Executive Director of IFA

- 11 Mr. Narayan Das Shrestha  
Former Officiating Executive Director of IFA
- 12 Dr. Ratnakar Adhikari  
Chief Executive Director, SAWTEE
- 13 Dr. Bhawani Dhungana  
Eminent Economist
- 14 Mr. Kush Kumar Joshi  
Former President, FNCCI
- 15 Dr. Surbir Poudyal  
Associate Professor, TU
- 16 Mr. Aditya Baral  
Director, Nepal Tourism Board
- 17 Mr. Jhabinra Aryal  
Joint Secretary, MoFA
- 18 Mr. Yagya Bahadur Hamal  
Joint Secretary, MoFA
- 19 Mr. Kali Prasad Pokharel  
Chief of Protocol, MoFA
- 20 Mr. Narayan Dev Panta  
Under Secretary, MoFA
- 21 Mr. Ram Babu Dhakal  
Under Secretary, MoFA
- 22 Ms. Rita Dhital  
Under Secretary, MoFA
- 23 Mr. Netra Bahadur Tandan  
Section Officer, MoFA

- 24 Mr. Sunder Nath Bhattarai  
Former Ambassador, AFCAN
- 25 Dr. Shambu Ram Simkhada  
Former Ambassador to EU  
Zeneva, UN
- 26 Mr. Kedar Bhakta Mathema  
Former Ambassador to Japan
- 27 Mr. Tanka Karki  
Former Ambassador to China
- 28 Mr. Madhu Raman Acharya  
Former Ambassador, UN Newyork
- 29 Dr. Durgesh Man Singh  
Former Ambassador to India & Belgium
- 30 Mr. Dinesh Bhattarai  
Former Ambassador to UN Geneva
- 31 Mr. Madhavji Shrestha  
Former Joint Secretary of MoFA
- 32 Mr. Kamal Raj Lamshal  
MWU
- 33 Mr. Dev Raj Dahal  
Head  
FES Nepal
- 34 Mr. Bhavani Dhungana  
ICCRS
- 35 Mr. Upendra Gautam  
China Study Centre
- 36 Mr. Binod Nepal  
TEPC

- 37 Mr. Suyash Khanal  
TEPC
- 38 Mr. Sriram Lacol  
WECS
- 39 Dr. Ganesh Gurung  
Chairman  
Nepal Institute of Development Studies (NIDS)
- 40 Mr. Resham Thapa  
Lecturer, Central Dept. of Economics  
TU
- 41 Mr. Pradeep Chapagain  
NTV
- 42 Mr. Ravi Pyakurel  
Nepal 1 TV
- 43 Mr. Sasin Maharjan  
Nepal 1 TV
- 44 Mr. Anil Giri  
The Kathmandu Post
- 45 Mr. Niran Raj Bana  
Avenues TV
- 46 Mr. Nabin Dhungana  
Avenues TV
- 47 Mr. J P Shrestha  
ABC TV
- 48 Mr. Nabin Sthapit  
Image TV
- 49 Mr. Chandra Shekhar Adhakari  
The Annarpurna Post

- 50 Mr. Lekh Nath Pandey  
The Himalayan Times
- 51 Mr. Kosh Raj Koirala  
The Republica
- 52 Mr. Sitaram Baral  
Kutniti
- 53 Mr. Shankar Khanal  
Image TV
- 54 Mr. Madhav Nepal  
News 24 TV
- 55 Mr. Navaraj Shrestha  
News 24 TV
- 56 Mr. Santosh Ghimire  
Naya Patrica
- 57 Mr. Harahari Upadhyaya  
KTV
- 58 Mr. Anish Regmi  
Abhayan
- 59 Mr. Nanda Lal Tiwari  
The Rising Nepal
- 60 Mr. Modnath Dhakal  
Senior Reporter  
Abhayan Daily
- 61 Mr. Ananda Gurung  
ABC TV
- 62 Mr. Bikash Lohani  
RSS

- 63 Mr. Binod Raj Paudel  
Republica
- 64 Dr. Rishi Raj Adhikari  
Executive Director, IFA
- 65 Mr. Khush Narayan Shrestha  
Deputy Executive Director, IFA
- 66 Mr. Mahendra Joshi  
IFA
- 67 Mr. Subhash Lohani  
IFA
- 68 Ms. Binita Shrestha  
IFA
- 69 Mr. Sanuraja Puri  
IFA
- 70 Mr. Rajendra Magar  
IFA
- 71 Mr. Nish Magar  
IFA
- 72 Ms. Mina Magar  
IFA.

## IFA Publications

- |  |   |      |
|--|---|------|
| 18. New Life within SAARC in Cooperation with FES  | – | 2005 |
| 19. Comprehensive Security in South Asia in Cooperation with FES   | – | 2005 |
| 20. Nepal as a Transit State: Emerging Possibilities   | – | 2006 |
| 21. Nepal-Japan Relations  | – | 2006 |
| 22. Report on Special Orientation Programme for Nepalese Foreign Service Officials (Deputed) working in different missions abroad                            | – | 2007 |
| 23. Different Dimensions of Bhutanese Refugee Problem: Its Implications and Lasting Solutions-   | – | 2007 |
| 24. Water Resource Management of Nepal: A Strong Means for Sustainable National Development  | – | 2007 |
| 25. A Report on Briefing-Cum-Interaction Programme for the Nepalese Ambassadors (Designate) to Different Missions Abroad.                                    | – | 2007 |
| 26. Nepal: A Generic Guideline for Development through Economic Diplomacy  | – | 2008 |
| 27. Expansion of SAARC: Challenges and Opportunities   | – | 2008 |
| 28. Nepal-German Relations   | – | 2009 |
| 29. Course Design for Ambassador Designate and Officials of Ministry of Foreign Affairs  | – | 2009 |
| 30. A Compilation of Joint communiqués and Press Statements Issues by Governments of Nepal and India during Prime Minister's Officials Visits (1990 to 2009) | – | 2009 |
| 31. Foreign Policy of Nepal: "Challenges and Opportunities"  | – | 2009 |
| 32. Statements and Declarations of SAARC Summits of the Heads of State or Government (1985-2010)   | – | 2010 |
| 33. Speeches of Heads of the Nepalese Delegation to the United Nations General Assembly 1990-2009  | – | 2010 |
| 34. Summit Declarations of Non-Aligned Movement (1961-2009)  | – | 2011 |

*Continue*

## IFA Publications

- |  |   |      |
|--|---|------|
| 35. Speeches of Heads of the Nepalese Delegation to the Non-Aligned Movement (1961-2009)   | – | 2011 |
| 36. Translating Commitments, Accountability and Partnership into Actions: A case of Nepal.   | – | 2011 |
| 37. A Report on Emerging Challenges of Nepal’s Foreign Policy – National Level Seminar.  | – | 2012 |
| 38. Institutionalization of Nepal’s Foreign Policy   | – | 2013 |
| 39. Foreign Policy of Nepal: Enhancing Effective Participation of Nepal in Regional and International Systems & Risk of Climate Change in South Asia | – | 2013 |
| 40. From a buffer towards a bridge: Nepal’s new foreign policy agenda  | – | 2013 |
| 41. Role of NRN in Effective Mobilization of Economic Diplomacy in Nepal   | – | 2014 |
| 42. “International Cooperation in Commercialization & Industrialization of Nepalese Agriculture: From Policy to Practice”                            | – | 2014 |
| 43. Principles and Strategies of Nepal’s Foreign Policy and Protocol   | – | 2014 |
| 44. Bringing SAARC Closer to the People: A Nepalese Perspective  | – | 2014 |

