



# Nepal Walking in The Footsteps Of Sri Lanka

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## ABSTRACT

There is growing speculation that Nepal's economy will disintegrate like Sri Lanka's as the country's foreign exchange reserves have shrunk and inflation has soared with rising fuel prices. For the first time since the 2000s, foreign exchange reserves have dropped to around \$9 billion, which is barely enough to fund imports for six months, down from 11 months. Economic Forum shows that, like Nepal, Sri Lanka depends excessively on a handful of export products such as tea, rubber, and readymade garments. Nepal's increasing external imbalances would be of less concern had growing credit growth raised alongside economic growth. Nepal government and firms have been borrowing wildly. In this paper, the cost-effective performance of both countries (NEPAL and SRI LANKA) and the reason behind the inclination of Nepal from India to China has been explained.

**Keywords:** India Nepal China relationship, Sri Lanka, Economic performance, GDP and Allegiance

## 1. INTRODUCTION

Nepal is located in South Asia and shares territorial borders with India and China with an area of 147,181 square kilometers and a population of approximately 30 million [1]. Never before has Nepal, a Himalayan country with a population of 29 million people, faced such a serious economic crisis as it does today. On the external front, the country is in a crisis due to dwindling remittances and dwindling foreign exchange reserves [2]. Because of some of these economic woes, many people in Nepal are worried if Nepal is heading in the same direction as Sri Lanka where the indication of the pre-economic crisis was as distinct as it is prevailing in Nepal today [3]. At the point of the situation, the question arises that "whether Nepal walking in Sri Lanka's footsteps". Nepal might soon become the second South-East Asian country after Sri Lanka to find it staring down the barrel of economic doom [4].

Another key challenge now facing political elites is that of constitutional reform. But, long-standing central-peripheral tensions threaten to resurface in constitutional debates and shape contentious politics in both countries [5]. The economic and political crisis in Sri Lanka has increased realization in Nepal [6]. The economy is heavily dependent on imports of basic materials and on foreign markets for its forest and agricultural products. There are some of the development issues and challenges of economic development in Nepal [7]

- ❖ Low income
- ❖ Illiteracy
- ❖ Dependency on agriculture
- ❖ Lack of proper knowledge
- ❖ Lack of employment opportunities

The main aim of the study is to analyze Nepal's similarities with Sri Lanka prior to its economic collapse of 2022. The structure of the presented study is organized as follows: in section 2, the economic performance of Nepal is explained; section 3 focuses on Nepal's shift of allegiance from India to china; section 4 explains the economic performance of Sri Lanka; section 5 evaluates a comparative study of the GDP of Nepal an Sri Lanka and finally section 6 presents conclusion with the future direction enhancement of the study is also explained.

## 2. ECONOMIC PERFORMANCE OF NEPAL

Nepal is one of the least developed but high remittances recipient countries in the world. Nepal received a remittance of US\$ 8.1 billion in 2016 and it is ranked 23rd among the remittance-receiving countries in the world. Remittance income is one of the major sources of capital formation in the context of Nepal. The economy of Nepal has been characterized by a high level of public debt coinciding with a higher level of resource gap and deficit balance of payment for a long period of time, which is indicative of debt overhang. There are some of the following main common indicators that describe the economic performance of Nepal [8]:

- ❖ Real Gross Domestic Product (GDP) Growth rates (%)
- ❖ Gross Domestic Savings Rates (% of the GDP)
- ❖ Growth Domestic Investment Rates (% of the GDP)
- ❖ Inflation rates (%)
- ❖ Budget balance (% of the GDP)
- ❖ Current account balance (% of the GDP)
- ❖ Merchandise export growth rate (%)
- ❖ Merchandise import growth rate (%)

### ð Real Gross Domestic Product (GDP) Growth rates (%)

Real GDP is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year. The real economic growth rate measures economic growth, as expressed by GDP, from one period to another, adjusted for inflation or deflation.

GDP Annual Growth Rate in Nepal is expected to reach 2.50 percent by the end of 2022, according to Trading Economics global macro models and analysts' expectations.

### ð Gross Domestic Savings Rates (% of the GDP)

It is expressed as a percentage of GDP. Description: Gross Domestic Saving consists of savings from the household sector, private corporate sector, and public sector. It is denoted by the formulae

Gross domestic savings (% of GDP) in Nepal was reported at 7.7081 % in 2021, according to the World Bank collection of development indicators, compiled from officially recognized sources.

### ð Growth Domestic Investment Rates (% of the GDP)

Growth domestic investment is the measure of the amount of money that domestic businesses invest within their own country. It constitutes one component of GDP, which politicians and economists use to gauge a country's overall economic activity. It is denoted by the formulae

Where, denotes the business expenditures for things like machines, tools, land, and buildings; denotes the expenditures by landlords and denotes the changes in inventories that are held by businesses

The average value for Nepal during that period was 21.25 percent with a minimum of 4.83 percent in 1966 and a maximum of 41.38 percent in 2019. The latest value from 2020 is 28.4 percent.

### ð Inflation rates (%)

The inflation rate is the rate at which prices increase over time, resulting in a fall in the purchasing value of money. For example, if someone needs to evaluate the inflation rates (%) of Nepal in 2021, it is denoted by the formulae The inflation rate for consumer prices in Nepal moved over the past 56 years between -3.1% and 19.8%. For 2021, an inflation rate of 4.1% was calculated. During the observation period from 1965 to 2021, the average inflation rate was 8.0% per year. Overall, the price increase was 6,849.74 %.

### ð Budget balance (% of the GDP)

Balanced budgets occur when revenues are equal to or greater than total expenses. A budget can be considered balanced after a full year of revenues and expenses have been incurred and recorded. The statistic shows Nepal's budget balance from 2017 to 2020, with projections up until 2027. A positive value indicates a state surplus, while a negative value indicates a state deficit. In 2020, the state deficit of Nepal was around 5.33 percent of GDP.

### ð Current account balance (% of the GDP)

The current account balance (CAB) is part of a country's financial inflow and outflow record. It is part of the balance of payments, the statement of all transactions made between one country and another. It is calculated by formulae Where, denotes the export of goods, is the import of goods; denotes the net income, and denotes the net current transfers. Nepal Current Account recorded a deficit of 1.7 USD bn in Jan 2022, compared with a deficit of 1.3 USD bn in the previous quarter.

### δ Merchandise export growth rate (%)

Merchandise exports are goods leaving the statistical territory of a country. Merchandise imports are goods that add to a country's stock of material resources by entering its statistical territory. Merchandise exports (current US\$) in Nepal were reported at 1979000000 USD in 2021, according to the World Bank collection of development indicators, compiled from officially recognized sources.

### δ Merchandise import growth rate (%)

Merchandise imports are goods that add to a country's stock of material resources by entering its statistical territory. The statistical territory of a country coincides with its economic territory in the general trade system. Nepal's merchandise imports increased by 14.6% on average during 2012-2017 and recorded an increase of 17.5% between 2016 and 2017. In 2017, Nepal's commercial services' shares of total exports and imports were 65.2% and 13.2%.

## 3. SHIFT OF NEPAL'S ALLEGIANCE FROM INDIA TO CHINA

Nepal is sandwiched between two giant economic and politically powerful nations - China and India. In the previous section, economic performance of Nepal has been discussed. Further, the reason behind Nepal's change of allegiance from India to China is being discussed in this section. For India, Nepal is geo-strategically the most important country, the crown jewel of the Indian subcontinent, and the buffer between India and China through which passes the main avenues to the strategic Indo-Gangetic plains — India's heartland. Nepal and India enjoy excellent bilateral ties. Founded on the age-old connection of history, culture, tradition, and religion, these relations are close, comprehensive, and multidimensional and are pronounced more in political, social, cultural, religious, and economic engagements with each other. Nepal, on the other hand, has always looked at either China or India, whichever it considers crucial for its survival at that moment, given its delicate land-locked position between the two Asian superpowers. Maintaining a balancing relationship with China remains Nepal's key and critical component of its 'China' foreign policy.

India and China are both superpowers but out of these two countries, India lost its credibility in Nepal. In Nepal, the new government has come to the power, and there is a movement in geopolitical relations for Nepal with India and China are expected. Nepal is working towards establishing relations with China, as India continues to disappoint the nation. The ties between India and China are continually shaking, thus holding on to Nepal is extremely beneficial for China to increase its hold on the Tibetan border. In this critical situation, Nepal's allegiance was shifted to China from India. Approximately 60% of foreign direct investment commitments in Nepal are made by China, whereas India comes second with a huge gap. These new ties between China and Nepal are definitely directly impacting the ties between India and China too.

## 4. ECONOMIC PERFORMANCE OF SRI LANKA

After the analysis of the economic performance of Nepal with its change of loyalty from India to China, the economic performance of Sri Lanka also discussed in this section. Economic performance of Sri Lanka should be discussed to understand the reason whether Nepal is following the Sri Lanka way or not. The Sri Lankan economic crisis is an ongoing crisis in the island-state of Sri Lanka that started in 2019. It is the country's worst economic crisis since its independence in 1948. It has led to unprecedented levels of inflation, near-depletion of foreign exchange reserves, shortages of medical supplies, and an increase in prices of basic commodities.

Sri Lanka is passing through an acute economic crisis due to the depletion of foreign reserves. There has been a decline in foreign reserves since August 2020, but in November 2021 it dipped to a precarious level. It was just enough for meeting one month's import. A month later, there was a slight increase but even then, it was not enough for two months' import.

It is facing its worst economic crisis in modern history. Its 22 million-strong population is struggling with huge price increases for food, power, medicines, and other necessities. That's if they can get them at all, with private motorists spending hours queuing for their fuel quota. The crisis has had a **serious impact on human rights**, the experts said. Prolonged disrupted access to food and healthcare, has severely affected people with illnesses, pregnant women, and lactating mothers with a serious need of life assistance. Table 1 explains the indicators that describe the economic performance of Sri Lanka.

**Table 1:** Indicators that describe the recent economic performance of Sri Lanka

INDICATORS	PERFORMANCE
<b>Real GDP Growth rates [9]</b>	GDP in Sri Lanka was expected to reach 83.00 USD Billion by the end of 2022, according to Trading Economics global macro models and analysts' expectation
<b>Gross Domestic Savings Rates [10]</b>	Sri Lanka Gross Savings Rate was measured at 25.5% in Dec 2021, compared with 25.5% in the previous quarter

<b>Growth Domestic Investment Rates [11]</b>	Sri Lanka Investment accounted for 29.8 % of its Nominal GDP in Dec 2021, compared with a ratio of 18.4 % in the previous quarter
<b>Inflation rate [12]</b>	The annual inflation rate in Sri Lanka jumped to a record high of 60.8% in July of 2022, as a state of emergency, and weak currency added further pressure on prices
<b>Budget balance [13]</b>	Total expenditure was presented as 3.3 trillion but it was now projected to go up to 4.0 trillion rupees with higher interest and other costs
<b>Current account balance [14]</b>	Sri Lanka recorded a Current Account deficit of 1331.32 USD Million in the first quarter of 2022
<b>Merchandise export growth rate [15]</b>	As per statistics released by Sri Lanka Customs, the earnings have increased from USD 980.2 million in May 2022 to USD 1,208.2 million in June.
<b>Merchandise import growth rate [16]</b>	Imports in Sri Lanka dropped 9.7 percent from a year earlier to USD 1,451 million in May of 2022 on lower purchases of consumer goods (-30.2%), in particular, dairy products (-7.3%) and vegetables (-26.2%)

From table 1, the performance evaluation of the indicators of Sri Lanka has been found. From the analysis of trading economics global models, the GDP of Sri Lanka has been expected to reach 83.00 USD billion before 2023. Prices of non-food items increased 46.5%, led by transport, restaurants and hotels, and housing and utilities. So that the inflation rate increases jumped high in the month of July 2022. Sri Lanka's merchandise exports increased by 16.71% to US\$ 1,125.69 Million in December 2021 compared to December 2020 as per the data released by the Sri Lanka Customs. Merchandise trade (% of GDP) in Sri Lanka was reported at 39.21 % in 2021, according to the World Bank collection of development indicators, compiled from officially recognized sources.

## 5. COMPARISON OF NEPAL AND SRI LANKA IN GDP

The GDP reflects the value and productivity of an economy. It measures the market value of all the final goods and services produced annually. The GDP between 2006 and 2010 (in current prices) expanded by 87.8% in Nepal, whereas the GDP expanded by only 79.4% between 2009 and 2013 in Sri Lanka. Although in nominal terms (at current prices) GDP growth rate in Nepal was higher than in Sri Lanka, in real terms (at constant prices) Sri Lanka had a higher GDP growth (33.3%) than Nepal (20.2%) during the respective five year periods under consideration [17]. Figure 2 explains the GDP in dollars for the country Nepal.

### Figure 2: GDP in dollars for the country Nepal

In figure 2, it has been shown the GDP in Nepal from 2011 to the present year (2022). GDP refers to the total market value of all goods and services that are produced within a country per year. It is an important indicator of the economic strength of a country. In the present year (2022), the GDP in Nepal was around 36.32 billion U.S. dollars.

Furthermore, GDP in dollars for the country Sri Lanka also had been analyzed [18]. The economy of Sri Lanka contracted 1.6 percent year-on-year in the first quarter of 2022, compared to an upwardly revised 2 percent expansion in the previous three-month period amid high domestic inflation, foreign exchange devaluation, and dollar deficit. Table 2 explains the year versus the GDP in dollars of the country Sri Lanka

**Table 2:** Year versus the GDP in dollars of country Sri Lanka

YEAR	GDP IN BILLION US DOLLARS
2011	65.27
2012	68.42
2013	74.28
2014	79.31
2015	80.56
2016	82.39
2017	87.43
2018	87.95
2019	83.99
2020	80.68

2021	82.47
2022	81.93

From table 2, it has been found that like the country Nepal, Sri Lanka's GDP was considered from the year 2011 to 2022. Figure 3 explains the GDP in dollars for the country Sri Lanka.

**Figure 3:** GDP in dollars for the country Sri Lanka

In figure 3, it has been shown the GDP in Sri Lanka from 2011 to the present year (2022). In 2011, the GDP started in the range of 65.27 billion US dollars and it ended in the present year (2022) at 81.93 billion US dollars.

In comparing both the countries (Nepal and Sri Lanka), the GDP level of the country Nepal is very less when compared with the country Sri Lanka in the present year (2022). Sri Lanka and Nepal have many similarities. Both countries (Sri Lanka and Nepal) are heavily dependent upon tourism for running their economies. Another thing is that both of them have India as their immediate neighbour with whom they share cultural, religious, and social relations and both countries are facing an economic crisis now. While Sri Lanka has already defaulted on its monetary commitments declaring itself almost insolvent, there are vibes that Nepal may also follow the same. By this, it is able to conclude that Nepal's walking in Sri Lanka's footsteps.

## 6. CONCLUSION

Nepal's balance-of-payments problem comes at the same time as a much more serious foreign exchange crisis hits Sri Lanka. Fortunately, Nepal may not be in quite such dire straits as Sri Lanka. The former country has much less debt, equal to almost 50 percent of GDP. By comparison, Sri Lanka's debt-to-GDP ratio was 104 percent in 2021. Critics warn that Nepal risks being another indebted country facing economic ruin if it accepts loans from China, in the wake of Sri Lanka's debt troubles. So in this paper, the economic performance of Nepal and Sri Lanka and a comparison of Nepal and Sri Lanka in GDP had been explained. By analyzing the GDP of both countries, it is concluded that the GDP of Nepal is very less when compared with Sri Lanka. However, it was evident that remittance has a huge long-term impact on the future of Nepal, concerning its economy's stability and development. The increase in labour migration and a large amount of remittance flow into Nepal is furthering Nepal's dependency on remittance.

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