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RESEARCH ARTICLE

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Abstract

In the midst of political turmoil, Nepal is surrounded by giants whose business activities impact her sheer existence. Internal political factors define the extent of success so far attained by Nepal. Economic forces that act on Nepal include those that emanate from China, India and other Asian business districts. Within those operations, there are legal antecedents that Nepal has to deal with. Those antecedents suffer from internal governmental structures. With all these circumstances in mind, competitive advantages and fettered because China and India are relentless in their quest for their share of global business. Ethics, patriotism and economic growth, trade policies and the potential for sustainability continue to pose challenges. In spite of Nepal's sandwiched geography, it remains an identifiable factor in the trafficking of goods and services between the neighboring giants.

Nepal's Strategic Position in Global Business

Nepal is a country that is bounded on the north by China, and on the south by India. Everything about China's economy affects Nepal whether visibly or invisibly. There are companies in China that are not listed on the stock exchanges just as the listed companies operate alongside. Nepal's legitimacy in a near-comparative form makes for an understanding of its circumstances. This is especially facilitated by those neighboring countries. Of critical importance is this economy's presence in a potentially prosperous region.

The official name of the country is Nepal Adhirajya (Kingdom of Nepal). The Head of State is King Gyanendra Bir Bikram Shah Dev (crowned by the State Council 4 Jun 2001). The head of government is King Gyanendra Bir Bikram Shah Dev (assumed power 1 Feb 2005). The ruling party is Transition government (from 9 Jul 2004). Nepal sits on an area of 147,181 square km. Its population is about 26.41 million (2004). The capital city is Kathmandu. Its official language is Nepali, and the currency is Rupee (NRs) = 100 paisa. In foreign exchange, the country's currency stands at NRs70.34 against the US dollar. Nepal's Gross Domestic Product, in dollar is US\$239 with a working population of 11.92 million. Nepal's unemployment figures stand at 47.00%, with inflation standing at 4.00% per year. Nepal's Balance of trade is US\$1.15billion, and foreign debt is US\$2.55billion. (Walden Publishing, 2006)

Critical Factors

Political Factors

Under a Multi Party Democratic government with more than 10 years of civil strife, Nepal is now engaged in a peace process and political negotiations to chart the country's future. One of the major components of the November

2006 Comprehensive Peace Agreement signed by the Seven-Party Alliance government and the Communist Party of Nepal (Maoist) was an agreement to hold elections for a constituent assembly. A brief experiment with multi-party politics in 1959 ended with King Mahendra suspending parliament and taking sole charge. Democratic politics was introduced in 1991 after popular protests, but it was extremely factionalized, with frequent changes of government. The current monarch twice assumed executive powers - in 2002 and 2005.

Ahlstrom (2001) reveals State-owned enterprises, private business and issues regarding their legitimacy (as organizations) appear to draw the attention of the international business community. In dealing with that subject, a tabulation of strategies for building legitimacy featured volumes for environment actions, resources, moral and cultural antecedents. (p.75) The path to good corporate citizenry would apply not only to China, but also to any nation in the world. If it worked in China, it can work in Nepal. GM's choice to produce an expensive Buick sedan was encouraged largely by the local Chinese staff. In China, Buick sedans from the 1930s are fondly remembered, especially in large cities. (p.79) It is no surprise, therefore, GM's Buick sedan is a status symbol in some Nepalese communities, even though the article did not allude to a GM manufacturing plant in Nepal. According to Percy (1992), "National legislative elections were held in May 1991, and the Nepali Congress Party won a decisive victory. The country's fundamental unfamiliarity with democracy as well as the economic burdens of severe poverty and totally inadequate infrastructure is the main threats to Nepal's fragile democracy".

Cultural and Legal Factors

About 65 ethnic groups are living within this small nation. Various cultural and ritual practices characterize life and living in this regional enclave. It is necessary to state that the cultural influences include its Hindu 80.6 percent population, and 19.4 per cent shared by the Buddhist, Muslim and Kirant faiths. Nepal's cultural and legal factors cannot be completely comprehended without a look at the interplay of land and money. JUDGE ANIL CHETTRI seems a moderate sort of chap to be running a Maoist "people's court", and the court seems popular with the villagers of Kohalpur, in western Nepal. In the past three months it has heard 471 cases. Most involved small disputes over land and money, but a spicier example last week concerned polygamy. Giving evidence for the defense, a priest noted that the god Krishna had 16,000 wives. (EIU ViewsWire, 2006)

Ahlstrom (2001) states that the extent to which culture affects organizational legitimacy in China reveals a major influence over Nepal that a corporation should be mindful of. It remarks that resource-related aspects of legitimacy are on the path of progress, which stands the country in a good stead regionally and globally. In categorical terms, Ahlstrom (2001) states, "One private firm reported receiving significant favors from a municipality in which it located by becoming the largest employer in the area" (p.78). Nepal is one of the world's poorest countries. It is still

striving to overcome the problem of legality, being overloaded with a legacy of a deadly 10-year Maoist rebellion. It could be said to be seeking legitimacy.

Economic Factors

Mr Girija Prasad Koirala visited India at the invitation of the Indian prime minister, Manmohan Singh. India agreed to extend Rs1bn (US\$21m) as a one-time grant to Nepal, together with a US\$100m soft credit line for infrastructure projects of Nepal's choice. India also announced that it was increasing its annual aid to Nepal from Rs650m (US\$14m) to Rs1.5bn (US\$32m) (EIU ViewsWire, 2006). Being, one of the poorest countries of the world, Nepal has many natural and raw material resources. Poverty is due to the country's bad political leadership. Corruption is said to be unabated. The per capita income (measured in the world's most popular currency, the dollar) is US \$270. Nepal's economic strategy for growth can easily be mirrored from an ability to also compare Nepal to (and with) China. The political and cultural forces in Nepal rely extensively on economy activity in its neighboring China. Therefore, politics, culture, legality, economics, globalization, competition, ethics, growth and advantages play a great role in the Sustainability of Nepal's global Strategy. The Nepal Rastra Bank (Nepal's central bank) reported that government expenditure rose to NRs19.5bn (US\$274m) in the first quarter of 2006/07, a rise of 17.7% year on year. (EIU ViewsWire, 2007).

Gupta and Govindarajan (2001) posit that Indians apply culture to business paradigm, and its influence transcends its immediate borders. It is, therefore, easy to understand that if any nation can be immediately and easily influenced by Indian culture, that nation is Nepal because it is immediately bordering India. In the context of economics, the region is shared by Nepal, India, China and Pakistan. There are other major players within the neighborhood. Economic progress, if measured in terms of available neighboring synergies, Nepal's neighboring nations would be remembered. Nepal appears to be more susceptible to external influence due to the comparative demographics to its neighbors like Pakistan, Bangladesh, and others. These countries neighboring Nepal are able to host Coca-Cola and PepsiCo, thereby furthering their economic interests. These two companies and others in the service industry provide products that are household names in that region, which are all capable of providing Nepal with economic advantages. It goes to buttress the point that Nepal can compete in the global economy if it uses one or both of the products. Nepal's real GDP at factor cost grew by an estimated 2.3% in fiscal year 2005/06 according to the Central Bureau of Statistics. (EIU ViewsWire, 2006)

Global Strategy

It is pertinent to expose the triangle of Canada, U.S. and Mexico. This triangle conceptually mirrors Nepal, which remotely deals with the triangle of China, Nepal and India. A critical look at NAFTA can point to other critical

aspects of the Nepalese economic situation in the light of its neighboring China and India. Macroeconomic issues addressing the big picture, labor markets, trade balance, currency stability and instability, and structural adjustments addressing agriculture's transition and domestic policy issues, rationalization of automobiles and parts, textiles and apparels, and gains from regional integration create a NAFTA type atmosphere in this far East region. It is likely that a multi-faced and multi-events strategy will be more effective, for example, organizing multiple opportunities to learn and practice working with the guidelines. (Asbroek et. al., 2005)

There are considerations that should provide Nepal with global clout development and growth. It would have been easy to exclude some business lines due to geographical delineation. However, since the markets are merging, and global markets are becoming singular in nature, the exact same products and considerations that besiege NAFTA can characterize Nepal and her neighbors, especially if GM's Buick sedan can cross borders from China into Nepal and serve as a status symbol in a local community.

Burfisher, Robinson & Thierfeider (2001) states,

With those same considerations, Nepal's strategy for growth will be conceptually aligned to that of its region as well as of the globe. Her sources of comparative advantage will include the carpets, shawls, textiles and the Everest. Cultural and political influences will continue to be generated from within and received from India and China. All those, put together, will create or improved its competitive advantage regionally and eventually global. Nepal's trade policies are anything but visible.

This is consequent upon the political climate in which its kingdom is only learning the ropes with handing over of power to 'the people' (called Democracy). Nepal has been dealing mainly with large nations (India and China) from its inception. With the opening of the world's markets, foreign exchange has enabled the penetration of those its neighbors by multi-national enterprises. Even 'small' countries that are players at the global chessboard have begun to interact with Nepal, not because it is a small nation, but because it could serve as a pivot point for their penetration of China and India. On these bases, it is working with small and large players, thereby creating an opportunity for her to begin and develop strategies that are sustainable.

Competitive Advantage

Nepal's ability to compete internationally is x-rayed in the light of its sandwich state between China and India. Her natural resources will feature as a catalyst to her international subsistence. This will include the nature and methods of her competitive advantage, and how culture and politics have influenced or improved this competitive advantage. Gupta and Govindarajan (2001) address the taping of optimal locations for activities and resources and maximizing knowledge transfer across locations. This business philosophy does not sound new, but highlights the convertibility of what is available into a 'weapon' for competing with other nations.

Coca-Cola and PepsiCo are two giants that, as examples of European manufacturing operations, become a tool

for Nepal in the Asia region become a play in the regional, and then global marketplace. Other known players, also within that region include Procter and Gamble, IBM Asea Brown Boveri, GM, Ford, Toyota and DaimlerChrysler, which automobile corporations were locked in a running battle for global dominance. Gupta and Govindarajan (2001) opine that Nepal stands to gain from these because of the involvement of India in the IT aspects and China's involvement in the marketplace germination.

In addressing competitive advantage, the entry into South Korea market of Acer, Taiwan's Global Powerhouse and TGIF gives neighboring Nepal the much-desired platform. Those entries are pointers to the possibility of Nepal achieving global economic positioning, even as a provider of cheap labor to its large-size neighbors. According to Percy, (1992/1993), "The country's fundamental unfamiliarity with democracy as well as the economic burdens of severe poverty and totally inadequate infrastructure are the main threats to Nepal's fragile democracy" (p.166)

Ethical Dimensions

The extent to which ethics influences business transactions will help to identify Nepal's contribution to sanity in international business operations. Reuters (2007) uses Foreign Corrupt Practices Act to buttress the fine line between ethics and economics. However its mix of America, India and China in one viewpoint brings up further ethical issues at international levels. It is easier to say India, China and Nepal; or India, China and Pakistan than with America in the mix. Need for ethics drove America to the point of deploying Sarbanes-Oxley Act of 2002. The jurisdiction of this act does not include India, nor China, and definitely not Nepal. Ethical considerations appear, therefore, to be more cultural than otherwise. If it is against "the way we do things around here", then it cannot be done. That is Nepal's state of affairs in the face of ethics. Ahlstrom's (2001) postulation that "One private firm reported receiving significant favors from a municipality in which it located by becoming the largest employer in the area" (p.78) has significant relevance in the issue of ethics. In spite of Nepal's "way we do things around here", being one of the world's poorest countries, it is unable to fight against any firm that would do this. If the firm is an American firm, it may be caught in the web of FCPA. Nepal's struggle will then aim at surviving the suffocation that arises from international infiltration. Depending on the nation's policies, those infiltrators would either be regarded as clustering Nepal or helping to pollinate the nation along new philosophies that will benefit international business. This would also be part of the nation's search for legitimacy.

National Growth

The economic growth of the nation of Nepal can be simulated in the similitude of NAFTA's United States, Canada and Mexico. Reuters (2007) draws a picture of one West and two East countries, auspiciously considering a middle point to what a Nepal, China and India could be. Although the author does not intend that, a parallel picture

emerges from there. For Nepal to grow as a nation, a simulation such as this is necessary. This, in addition (possibly) to regression analysis of China-Nepal-India business environment, will throw further light to Nepal's growth potential. In a role-playing concept, one would expect Nepal to do whatever America would do in this strange triangle. The rise of China and India, just as Pakistan, is associated to regional factors that can also empower Nepal, being on the other side of India, as well as on the other side of China. This enables a look at India's nuclear power in the way that Nepal's Mount Everest can be viewed, because these are both national growth factors.

Reuters (2007) relates to political, legal and economic factors of India. This, in effect, relates to the same factors for a larger geography. That larger geography undoubtedly includes Nepal. If India's nuclear energy provides competitive advantage for India, Nepal will be a major benefactor because the river, Ganges, is a major link between the two countries, among other linkages. Growing Nepal's economy will involve several activities across the spectrum of commerce and industry. The manufacturing sector is constrained by the small domestic market, Indian competition, the impracticality of import restrictions along the open southern border and by the lack of sea access. A further hindrance to industrial development is the lack of infrastructure, skills and capital. Although governments have pursued a policy of planned industrialization since the 1960s, in 2001/02 manufacturing accounted for just 8.1% of GDP. (EIU ViewsWire, 2003)

Comparative Advantage

It is important to consider what Nepal gives to, or takes from its geo-politico-economic segment of the international arena, considering that it has a highly advantageous geography while it appears to be disadvantageously small in terms of quantities. Anonymous (1998) reports, "Since 1992, Nepal's erratic policy of economic liberalization has had one notable success. It has opened up the mountain skies to a host of young airlines. Today, Nepal has over a dozen, and another 12 have applied for licenses". Frisch (2003) portrays a geographical mediation between Nepal (Asia) and the dollar-controlled geographies. It will, therefore, be important to observe the dilution of culture, dilution of econometrics and dilution of business philosophies on the continuum of West through East in a global business environment. Using the Euro, as an example, shows how the Rupee can not only bind Nepal with India, but conceptually create a region-type atmosphere with China, which uses a different currency. The Euro has the attributes of a strong currency. This important parallel is needed in order to determine whether Nepalese Rupee is weak just because it belongs to Nepal or strong because it accomplishes all it is designed to accomplish within the economy of its own sovereign state. Furthermore, while the Euro ties several countries together, The Rupee serves just one country, even though to the south, India uses (its own version of) the Rupee.

Asia's skills shortage encapsulates the entire region in which Nepal finds itself. It is expected (before research

reveals the truth) that each nation in that region contribute to that advantage. So also is the disadvantage. Nepal is part of the Asian region from which more talent could be captured. Six hundred chief executives reveal that lack of qualified staff was their biggest concern. Their biggest concern is China (which is on the north of Nepal). Their fourth-biggest problem was India (which is on the south of Nepal).

Ranking	Nation	Remarks
First-Biggest	China	North of Nepal
Second-Biggest	Japan	Neighboring Nepal
Third-Biggest	Not identified	Still in Asia – Nepal
Forth-Biggest	India	South of Nepal

The worry-list includes the following, and in their order importance: shortage of qualified staff; bureaucracy, red tape, inefficient government; staff turnover; lack of legal certainty; wage inflation; poor data, information, market research; intellectual-property theft; corruption; cultural and linguistic differences; inadequate physical infrastructure; underdeveloped banking and financial systems; political instability and terrorism. These worries are within the ranges of 0 and 4, with four as the highest worry and zero as the least worry. (Anonymous, 2007)

Trade Policies

Nepal's political development has a direct impact on the development of Nepal's foreign trade legal regime. Before 1950, Nepal had adopted a policy of isolation and maintained relations with the United Kingdom and India only. There was no foreign trade law in Nepal before 1950. After 1950, Nepal changed its foreign policies from isolation to openness and started to make contact with other countries and international organizations. The foreign trade legal regime grew gradually and Nepal started to sign bilateral treaties to promote her trade with other countries. Nepal is among South Asia's most open and trade-dependent economies, and has the most liberalized trade policy in South Asia, when compared to those of the most liberalized developing countries. Nepal's Export Import Act of 1957 has to be seen in the light of Article XVIII of GATT. Article XVIII of GATT provides the legal cover for a least-developed country to maintain an import regime commensurate with its economic development needs. However, it could be suggested that Nepal makes a few adjustments on its laws. (Karky, 2005)

On a parallel view, Nepal's trade policies will probably be highly sought after because of a curiosity engendered by its apparent suffocation. In doing this, a view of Nepal's tango with large and both highly capitalized and industrialized countries like U.S. and small ones will be worthwhile. On a parallel platform, Canada-America-Mexico picture enables a comprehension of the triangle presented in activities of The European Central Bank. According to Mundell's (1961) operates within what is called "A Theory of Optimum Currency Area". This was

initially thought of as irrelevant, but because of cultural indications in Nepal, and the regional attributes shared by Nepal, China and India, the concept of optimum currency area becomes an option, at least, 'atmospherically'. It is, however, important to quickly mention that currency area, in a global environment transcends the country in which the currency is issued. An example of that would be the U.S. dollar that is being used in several far-flung countries as a determinant medium of exchange. Nepal would not be excluded from under that influence, having quoted its gross domestic product and per capita income in the dollar denomination.

Sustainability of Strategy

Nepal's strategy for growth cannot circumvent this broad overview of problems. An example with the airline industry, in which deregulation allowed for foreign corporations to come in and set up airlines gave the region a breath of fresh air, but there is a lack of pilots to fill the demands. Briefly describes the content of each cited work. Out of the projected 12,000 pilots needed by 2025, there are fewer than 3000 pilots in training all of whom are not certain to graduate or be licensed to fly. Under these circumstances, Nepal will probably occupy the back seat for a long time. This is why the happenings in the region are of importance to the sustenance of Nepal's economy.

According to Gupta and Govindarajan (2001), "both Motorola and Siemens have tinkered their manufacturing wages in China (which is next door to Nepal)" (p.53). These are sources of comparative advantage, are capable of helping Nepal to grow its national economy. They can also enable Nepal to fashion out a way to become increasingly competitive in its region, and sustain it in the long run.

Trade with India has remained stable, despite occasional hiccups resulting from policy changes in Indian states bordering Nepal. Exports of hydrogenated vegetable oil (vegetable ghee)-Nepal's largest export to India-grew by 11.2% year on year to NRs2.9bn in the eight months to mid- March 2005, almost equivalent to the full-year outturn in 2003/04. Exports of jute goods to India rose by 43% to NRs1.6bn in the same period, and those of polyester yarns increased by 35% to NRs939m (US\$12.5m). (EIU ViewsWire, 2005)

Conclusion

The relationship between the gross domestic product and the workings of the regional central bank play a major role in the positioning of Nepal in the global economic map. These are major considerations that pertain to the sustenance of national economy. As the monetary policy of Nepal's Federal Reserves face stifling regional legitimacy issues, Nepal can still be globally positioned through replicating whatever works for their neighboring nations. It does not have to be 500million in population to try new paradigms in economic development strategies. In a listing of foreign currencies, 'Other Currencies' sharing a 21.9 per cent presence would expectedly include Nepal. It will be interesting to know what portion of that 21.9 per cent would be Nepal's. The use of The Euro greatly draws attention

to aspects of the economy that Nepal should work on. It is clear, however, that all the critical factors of politics, culture, law and order, ethics, etc. will bring to bear on that effort. If properly harnessed, Nepal's national growth will increase its comparative advantage with India and China. It will also reflect in new trade policies that can sustain a growth strategy for as long as China and India are succeeding.

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Categories: Nepal, China, India, Business, Global Economy, Asia, Competitive Advantages, Management, Political Economy, Comparative Advantage.

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