The Trajectory and Consequences of Liberalization Policy in Nepal

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CERTIFICATE

This is to certify that the dissertation entitled **"The Trajectory and Consequences Liberalization Policies in Nepal"**, submitted by Mr.Hari Roka, is in partial fulfillment of the requirements for the award of the degree of **MASTER OF PHILOSOPHY** of this university. This dissertation is his own work and has not been previously submitted for any other degree to this or any other university.

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Dedicated to

Late Mahesh Chandra Regmi

(1929- 2003)

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Introduction

In Nepal, there is a consensus today among the leaders of major political parties, royal palace representatives and a majority of intellectuals in favour of a market-oriented approach to development. Most of them believe that a competitive free market and the dominance of private entrepreneurial activities enable more efficient allocation of resources. This has led to the adoption of a range of economic policy reforms: involving stabilization, structural adjustment, liberalization and deregulation.

The process began in 1985 with the introduction of a stabilization programme sponsored by the IMF and the World Bank. At that time, Nepal was facing a huge financial deficit. The debt-servicing burden was increasing. Revenue surpluses were declining, and foreign exchange reserves were just sufficient to many import requirements for 4 months. To meet these crises, the government agreed to implement stabilization programme. Like in other third world countries, the World Bank and the IMF had a simple diagnosis of the balance of payments and inflation difficulties. In their findings, the fundamental problem of Nepal was excess government spending which was at the root of both the international reserve losses and domestic inflationary pressures. Similarly, according to them, the other complementary problems related to the BOP were the result of 'over valued' exchange rates supported by quantitative import controls. That was designed to artificially reduce the cost of imported wages goods and industrial inputs. Finally, private saving had been repressed by the maintenance of negative real interest rates, supported by discriminating credit allotment (Bacha& Carneiro 1993). Thus, a stabilization programme based on two fundamental prescriptions; 'balance the budget' and 'great prices right' was offered as the solution.

The IMF and the World Bank prescribed a gradual reduction in government spending, devaluation of the currency and positive real domestic interest rates. After two years of implementation of the stabilization programme, it was argued that massive structural reforms to stabilize the situation in the short- term and to improve economic practices in the long-term were needed. Therefore, the IMF intervened with a stand-by arrangement to stabilize economy for the short term. Shortly afterwards the World Bank introduced a longer-term structural adjustment programme (Skerry et.al 1992), which meant the adoption of liberal economic policies.

The principle under lying Structural Adjustment lending, among others, were: first, to ensure that the disbursement of general programme funds would contribute to the creation of domestic economic capacity; which require an understanding of the linkages between macroeconomic instruments and microeconomic behaviour; secondly, starting from an initial situation with many policy instruments geared to control and regulate markets, reform attempts that aim to increase welfare through eliminating some of these controls may, in particular during transitory phases, decrease socials welfare, worsen poverty incidence and fail to mobilize resources for short or long-term investment; and third, the implementation of adjustment programme required extensive government resources and capable executives (Geest 1994).

This understanding led to the adoption of five objectives (1) Budget balancing, (2) Relative price correction, (3) trade and foreign investment liberalization, (4) Privatization and, (5) domestic deregulation (Williamson 2003).

However, trade liberalization was a difficult task in Nepal due to the particular relation that Nepal had with India. India had not entered into that stabilization process during that period. When India introduced neo-liberal reform as its national policy, trade liberalization became easier for Nepal. Typically, it was achieved in a sequence of moves, starting with replacement of quotas by tariff, followed by a process of tariff unification and gradual reduction of tariffs. A new act was introduced to attract foreign direct investment (FDI). It was believed that the development of a dynamic private sector was essential for the success of the transition towards a market economy. Therefore, Nepal begun its privatization of public undertakings arbitrarily and some of them which were in losses were liquidated even before introducing a proper new act. Almost all of the profits making public sector enterprises were sold out to the private firms at undervalued prices.

On the measure, the main objectives of structural Adjustment were to reduce poverty, reduce the country's dependence on India through industrial and agricultural development and to improve resource mobilization and utilization. For 18 years or during all previous Five Year Plans, the government included poverty alleviation as its main objective. However, it could not achieve this as still 42 percent of the total population was living below poverty line (MOF 2002) even this may be a conservative figure. More than 80 percent of the population primarily depends on agriculture, and the per capita income of individual farmer stagnated or even declined in real terms and the share of agriculture decreased from around 60 to 39.2 percent of the GDP. The agricultural growth rate in the entire period remained below population growth rate.

After implementation of the neo-liberal policy, the share of the private sector in GDP grew tremendously to reach more than 90 percent but inequality grew in the same proportion. One research article shows that inequality of consumption in Nepal as a whole measured by the Gini coefficient is 0.34. However, there is a big difference in the degree of inequality between urban and rural areas: as high as 0.43 compared to 0.31 in rural areas. The Gini coefficient across countries typically lies in a range between 0.2 and 0.5. In this context, the difference in degree of inequality in the two sectors is striking (Prennushi 1999:17).

Despite growing inequality expected saving rate was not realised, slowing down the industrialization process itself. The established manufacturing industries are not based on agriculture or indigenous raw materials. In other words, inter-linkage between agriculture and manufacturing products is clearly lacking. Most of the industries are of the assembly type, or highly reliant on imported raw materials and labour. The policy of diversification, which was liquidated attempted in the decades from the 60s to end of the 80s, had also failed.

In this light it is necessary examine the factors and underlying this failure to achieve the desired objectives.

The present underdevelopment, inequitable distribution of wealth, and backwardness of the country are not only the product of present bad governance and bad policy implementation. These are also the result of accumulated failures of the past. Present policies and bad governance only aggravate the problem.

The process of unification had not led any change in the lives of the people. Politically this create strong nation as sectarian conflicts were solved after the unification. However, territorial unification of the country did not mean social, political, economic and cultural integration, due to the continuing war, war threat, and invasion from the south. In the war between British India and Nepal in 1814to16, Nepal lost large area in the west as well as the plains of Tarai. For some subsequent years, many resources were spent on preparing for the war to regain those lost territories.

There was another weakness, too. The ruling bureaucracy that had been controlled by different feuding factions such as the Thapas, Pandeys, and Basnets, were engaged in never-ending competition to gain power. Such conflicts remained until the usurpation of power by Jung Bahadur Kunwar in 1946, or the beginning of what is now known as Rana Rule.

The Ranas emerged as the sole axis of social, economic and political power (Joshi and Rose, 1966). However, the Rana period was the most damaging era in the history of Nepal. They virtually converted Nepal from an economy on a self-reliant path of progress to a semi-colony of British India. They ruled the country with the help of British imperialism for over a century. They were the law of the land master of the masses within the country, and the national treasury became their personal treasury (Shrestha 1998).

The political change of the 1950s was a patchwork among the three different forces: the Ranas, the royal palace and the Nepali Congress. Therefore, power was not actually handed over to the people. Eventually the king regained power through a military coup internally and tacit support from other international forces, which were not in favour of drastic change to enter in to the modernity.

In reality, the decades of the 1950s to 1970s were a fruitful time for Nepal to advance along an alternative self-reliant path of progress. There was a need of structural change; in particular agricultural, land distribution was necessary especially to bring all people in the national mainstream of socio-political and economic development. For this, there was a need of radical land reform program.

Integrating all sections of the people, who remained backward and deprived because of unequal treatment and discrimination by the state since unification, was also necessary. Most of the people were discriminated regionally, politically, economically socially and culturally. However, state power was in the hand of a dictatorial monarchy support by American imperialism. Rulers, donors, planners and advisors searched for a sustainable increase in production without making any structural change.

Land reform was carried out in the mid-sixties. However, this was also an utter failure. In addition, most of the industrial development was highly dependent on foreign machinery, imported raw materials and imported skilled workers. This led to an increase in the number of comprador elements instead of the national bourgeoisie. Dependency increased and on the other hand, underdevelopment, mass poverty, and mass frustration grew tremendously. In the mid-eighties, the structural adjustment policies were adopted following the balance of payments crisis.

After 18 years of reform, the government is still hoping for good economic results such as sustainable increase in production. Nevertheless, this seems to be impossible with these policies. In fact, to achieve economic development, many changes are required. Agricultural technology to use less land, land ownership and tenure reforms; changes in industrial technology; changes to enable an increase in entrepreneurial activities (legal system, tax structure) and in industrial capabilities more generally (financial, managerial, marketing, as well as technical, skills) are required. All these and other measures are required to generate structural transformation, which in turn requires policies and programmes to be formulated that can be progressively adopted and developed.

The Trajectories and Consequences of Liberalization Policies in Nepal

Chapter 1:

The Political Economy of Nepali State, (1769-1923)

Based on the extent of its geographical area, Nepal is ranked fiftieth largest country in the world, yet it is a land of immense diversity in terms of climate, topography and culture. Its area encompasses almost all the climatic zones of the world and ranges in altitude from the world's highest point at the peak of Mt. Everest in the north to a few hundred meters high plains in the south. It has huge natural resources, big rivers, sizable forest, and various types of mineral resources, small streams, high mountains, wide hills, several valleys and fertile planes. It adjoins India on three sides of its border and China (Tibet) on the northern side. Thus, Nepal has immense opportunities for economic prosperity by expanding its economic activities within the regions. The nation has a capacity to feed nearly 23 million people (CBS 2001) and even can generate a surplus of food grains because of the availability of large tracts of fertile land and abundant water resources.

Despite all this, Nepal has become a country of violence; people are fleeing the country for their livelihood and safety. The belief of people in political parties and democratic institutions is decreasing day to day. That might be very dangerous percent for the existence of the Nepali state in future. Why is Nepal facing all these problems at this particular time in its history? Is this a problem of geo-politics? Is this a problem of internal communal harmony? Is this a problem of national integration? Alternatively, are these the problems socio-economic, political and cultural inequalities among the different classes and different ethnic and cultural groups of nation as a whole? Is this a failure of democracy as whole or only a failure of liberal socio-economic polity? Under all argument of this dissertation is that essential to an understanding of Nepal's a socio economic problem is an assessment of the consequences of pre-existing asset and income inequalities and of factors that resulted in the persistence and for widening of through inequalities over time.

Ninety percent of the households residing in rural areas depend on farming for their livelihoods. Nepal is, therefore, characterized as a typical agrarian society (Shrestha 1999:).

Nevertheless, the pattern of land distributions is highly unequal. Peasants are increasingly being disenfranchised from the land they used to cultivate on a sharecropping or rental basis. This has been aggravated by the growth of population, which has placed additional pressure on land.

More than 50 percent of households own less than 0.5 hectare of land. The average holding is merely 0.15 hectare. Another 16 percent owns 0.5 to 1.0 hectare of land, the average holding being 0.75 hectare. This means more than 66 percent of the households own less than 1 hectare of land. The per capita ownership is a mere 0.16 hectare. This land holding size is too small to produce enough food to feed family for a whole year. This situation gets even worse when the weather fails (ibid pp 9).

The ruling political organizations and state institutions never cared about the land reform and land management to increase productivity. Politically, liberal democracy, restored in 1990, became defunct in October 2002 when a democratic system with constitutional monarchy has replaced by an active monarchy. More than eight thousand Nepali people have already been killed and several hundred thousand have become displaced in the wake of the Maoist 'People's War'. A large number of this internally displaced population is fleeing across the open boarder into India for security and livelihood.

The Past

The Territorial Expansion and Its Political Economy (1768-1846)

Unified modern Nepal is two hundred and thirty-three years old. Various kinds of pre-capitalist structures existed throughout Nepal for long period of time. The pre-capitalist world is a world of seclusion, variation, and romantic uniqueness. Pre-capitalist economies are not granted for expansion and ever-encompassing level of integration (Mishra 1985).

The growing expenditures on maintaining a military, sustaining royal palace, and financing the expenditure of aristocrats benefiting from state generosity, were all met from the revenues generated from the agrarian surplus. The main agricultural crops grown in this region were paddy, oilseed, cotton, jute, tobacco, and sugarcane. The production of these crops appears to have been large enough not only to meet local needs but also to contribute to the export trade. The eastern Tarai in particular exported considerable quantities of rice to Bihar, Bengal, and elsewhere in India. In addition, monopoly over the entrepot trade and export of forest products generated revenues for the state. There appears to have been a thriving industry based on the processing of timber and other forest products including the manufacture of plows, canoes, and catechu. The collection and export of wax, honey, musk, and herbs and drugs of different varieties, birds, and elephants, and production of saltpeter, provided employment to a large number of people as well as revenue to the government (Regmi 1972:15-16).

In the Himalayan region, there were 24 Nepal–Tibet trade routes. The government levied tax on the long distance trade between Tibet and India, which passed through these trade routes. Kathmandu valley itself had a highly developed agrarian-artisan-trading culture from the seventh century onwards. On the other hand, the Tarai, even at this early period, was a major source of animal and vegetable exports to India and thus a good source of revenue to the central government in the form of trading tax. There were important trade centers between India and Nepal one of which was Butwal where gold ore, brass, iron, copper, borax, bees-wax, and other products of the northern areas were exchanged for different varieties of cotton goods brought by merchants from India, Bhutan and Tibet. These market areas yielded considerable revenue in the fo rm of transit and market duties.

Nepal thus had a highly developed market economy, constituted of several markets where local commodities as well as those procured from the hill areas were exchanged for commodities obtained from India (ibid:20). The hills yielded minerals, primarily coppers, iron, and lead. Gold, cinnabar, and other minerals were also worked to some extent. The major source of revenue, however, was land-tax as around 68 percent of the state's revenue accrued from land (Regmi, 1972:57).

Much of the revenue spent was during that period on the up keeping of the military. Until 1816, the Nepali state had fought several wars with Tibet, China, and British India. Non-state resources–i.e. from the community, family— played a predominant role not only a public construction projects but also in the military efforts. Therefore, Nepali rulers, specifically Prithivi Narayan Shah in the early stage, encouraged for the consumption of *swadeshi* products and prohibited all imports of luxuries. The community and household politico-economic structure was not geared to the creation of large surpluses; the mercantilism of The East India Company had acquired neither the economic nor the political edge to enforce itself on the Nepali state; and artisan and traders formed an important component of the Nepali state alliance (Mishra, 1985).

The penetration of mercantile capitalism within Nepali society led to various consequences. Firstly, its territorial expansion disintegrated the communal political-economic formations. New rulers gave priority to land privatization instead of community ownership especially in the mid and eastern hill regions, which weakened the community and began class polarization. This also led to the break up of community based cooperative arrangements.

Secondly, the ruling class took control of most of the fertile lands in the hills in the name of *Rajya*[1] *Birta*[2], *Guthi*[3], and *Jagir*[4]. This led to the widening of differences between the hill and Tarai people. The Tarai hill people could not come down to the plains due to the threat of malaria. However, the rulers tried their best to settle hill people in Tarai but they were not successful. Therefore the cultivation of land and clearing of extensive tracts of forest needed labour inputs which they got by encouraging labour migration from the Northern part of India. Francis Hamilton in his book, *An Account of the Kingdom of Nepal, and the Territories Annexed to This Dominion by House of Gorkha* made the following remarks about the general situation of peasantry in the Tarai then: "The peasantries are extremely nasty, and apparently indigent. Their huts are small, dirty, and very ill calculated to keep out of the cold winds of the winter season, for a great many of them have no other walls but a few reeds supported by sticks in a perpendicular direction. Their clothing consists of some cotton rags, neither bleached nor dyed, and which seem never to be washed. They are a small, hard- favored people, and by no means fairer then the inhabitants of Bengal who are comparatively in much better circumstances" (Quoted in Regmi 1972:32).

From the above remarks, we can understand that the economic inequalities were more marked in the Tarai than in any other region. The feudal organization of the ownership on over all natural sources led to an increase in power. Firstly, enriching the rulers and putting much greater resources at the disposal of the state; secondly, firmly incorporating the local feudal lords within the state alliance heretofore made up of the ruling houses and the

[1] Rajya was a vassal principality in the western hill regions.
[2] Birta Land granted by the state to individual, generally on tax-free basis.
[3] Guthi Lands endowed to temples, monasteries, and other religious and philanthropic institutions or for similar purposes.
[4]Jagir Land assigned to a government employee or functionary as emolument.

bureaucratic-military complex and lastly, enabling it to extend its political- administrative arms across the territory (points are Cited from Mishra 1986:114).

Thirdly, the unification led to the economic integration of the mercantilist Indo-British ruling class and the Tarai based Nepali ruling class. Even this colossal activity widened the economic and social gap between the hill and Tarai.

Fourthly, the over-centralized activities of the ruling class marginalized local entrepreneurship. The monopoly exercised by the state especially in the export trade of natural reserves and the primary commodity is to India completely weakened Nepali entrepreneurship and this consequently stifled the growth of middle class.

Fifthly, the alliance between the ruling feudal classes with mercantile groups led to increased exploitation of the peasantry. Forced labour and slavery became common. Compulsory and unpaid labor took three forms: *jhara*, *beth*, and *begar*. *Jhara* referred to the general obligation to work for the government; *beth* referred to the the supply of field labor to landlords and local officials; and *begar* referred to the denoted portage service only (Regmi, 1972; 104). The Hulak (postal) system, the transportation of arms and ammunition and other military supplies constituted the main field where *jhara* labor was utilized. Similarly, it was also utilized to reclaim wasteland, which was then allotted for cultivation to the local peasants. In addition, people were forced to work in large numbers without wages to meet the needs of the royal palace. Crown land was usually cultivated through Jhara labor. Goods procure from different parts of the country or imported from India by the royal palace were transported to Kathmandu similarly (ibid).

Obviously, the feudal system involved in the exploitation of the peasantry. The ruling class adopted a taxation system in which the largest burden fell on the primary producers and the non-producing, ruling sections were generally exempt from tax. Taxes were imposed primarily on occupations and economic activities, not on property. In fact, in a situation where the majority of the people were denied property rights in the land they cultivated and the homestead they occupied, a system of taxation on property could hardly emerge. In this system majority of the people were marginalized from the over all economic activities, so, usually they did not have sufficient money to pay taxes.

With the ruling of Indo-British mercantilism, the growth of all types of indigenous commodity production in Nepal gradually slowed down. At that point, in time we can expect that people did not have sufficient money to purchase clothes and other essentials goods and commodities. When they did not have money to pay taxes to the government then people started to sell their children to the nearest landlords. Then for ruling class it became a business. In this way, the system of slavery also emerged with the feudal system. The consequence of all this was increased migration--both permanent and temporary--to the northern and southern hills of India.

The state revenue

The maximization of revenue was the prime objective of the Gorkhali regime during this period. But they paid special attention not to alienate the people. Local administrations were instructed by the high officials not to treat the ryots unjustly or harass them, but to insure justice and keep them happy and satisfied. There were several sources of revenues during that period such as Birta and kipat Taxes, other taxes and levies, Royal taxes levies, governmental levies, commercial taxes, taxes on mines, minting, forests, judicial fines, etc..

Birta and Kipat[5] Taxes

When Gorkhali rulers defeated small states then they confiscated the Birta land provided by the previous ruler and distributed that land to their own followers. Such lands, which were already cultivated by villagers, were taxable. However, there were dilemmas associated with the imposition of tax on Birta land. The *pota tax* [6]was first imposed in 1782 on Birta lands in Kathmandu valley had escaped confiscation. The rate of taxes on such land was lower than Raikar lands. Another levy called *Kusahi-Bisahi* [7] owning Brahamans and Sanyasis [8] in the

[5] Kipat is a firm of customary communal land tenure prevalent among Lmbus, Rais, Sherpas, Danuwars, Majhies, Newars, and other communities in the hill regions, including Kathmandu valley.
[6] Pota tax is a kind of tax which is payable as some categories of Birta lands in Kathmandu valley.
[7] Kusahi- Bisahi – a tax collected from Birta owning Brahmans and member of religions sects in consideration of the confirmation of their Birta lands in the western regions, including Kumaun.
[8] Sanyasi is a member of a religious sect who renounces worldly life; the term is used also to denote Sanyasi who have reverted to the life of a householder.

consideration of the conformation of the lands in the western regions, which had been annexed during the period from 1788 to 1789. Moreover, arrangements were made in these regulations to accept payments in the form of household utensils, gold and silver. A similar policy was followed in case of Kipat lands. In eastern part of country, known as Pallo Kirat, a system of land taxation is said to have been in existence even during the middle of the seventeenth century under which, according to Limbu system, one tenth of the produce of the land was paid as tax to the chieftain (Chemjung 1952:26). Later, Prithivi Narayan Shah is said to have exhortated the local people not to pay any taxes on Kipat. A system of assessing taxes on each Kipat owning family was first introduced in 1782. In consideration of this payment, the government gave up its right to impose any other tax on the Limbu community, although it resumed revenue from judicial fines of certain categories in 1795. In the word of Mahesh Chandra Regmi,

"The gradual entrenchment of Kathmandu's authority, particularly after 1792-93 Nepal- China war, appears to have resulted in a progressive increase in and diversification of the tax system. Taxes were collected from each member of the Limbu community who owned a homestead, regardless of the actual area of the Kipat lands owned by him. Accordingly, the burden of these taxes was higher on poorer Limbus than on those who owned extensive land". (Regmi vol.iii, P105).

Royal Palace Levies

Walak [9] levies were collected twice a year in cash, as the commuted value of goats, Boer, ghee, or oil, from Birta owners and village headmen. Public were also subjected to the levy, but lower than fifty percent and even lower according to the status of the occupants.

Government Levies

Darsanbhet, salami, and fees, such as from those persons who had specified occupations such as, barbers, blacksmiths, curd-holders, and oilmen, on marriages and on the use of such communal facilities as forest and sources of water were collected routinely. Similarly,

[9] Walak levies are a kind of homestead levies collected in the hill districts, including Kathmandu valley. There were in three kinds: 1, Saune Fagu, collected during Shrawan and Fagun every year. Harsa Bismat KO walak collection on celebration and mourning, and 3, Kaj Kalyan KO walak, collected on festive and ceremonial occasions.

hunters and members of other communities also paid taxes in another form such as skin and hides.

Local Levies

It was collected from the chief district administrator to the village headmen. In the hill region, village headman collected levies from peasants for use during festivals and ceremonial occasions. After the new crop was harvested, a load of grain was usually due to the village headmen.

Commercial Taxes:

Customs, duties, market duties and levies on the manufacture of different commodities constituted other important sources of state revenue. Contract system was used for the collection of customs duties on all exports and imports in the Kathmandu valley and western hill region, including transit duties at different outpost. It included levies on dyers and printers of clothes and manufacturers of vermillion in Kathmandu and Patan, fees for stamping, metal utensil, exported to Tibet and textile imported from India or Tibet, taxes on levies collected from Newar community and a monopoly in the trade. The trade in cotton was a government monopoly, which was given out on contract.

Sales tax was collected in eastern Tarai districts on transactions in commodities other than those in transit to or from Kathmandu valley at the rate of one percent of the value from both the seller and the purchaser.

Mint and Minting

In the mid-hill regions of Nepal, there were several mines of copper, iron, lead and other minerals. Iron and copper was the major source of revenue through larges on incomes from the export. According to Kirkpatric, revenue from copper mines had once amounted to between Rs.300,000 to Rs.400,000. However, the increased local consumption of copper for the minting of coins and the manufacture of munitions led to the decline of exports. Consequently, in 1793 the revenue from export of copper was only Rs.80,000 to 100,000.

Kirkpatric reported that traders who imported silver from Tibet for commercial purposes were under obligation to take the mint and have it converted into coins. The mint charged a

4% fee on such coinage, in addition to an 8% profit made by mixing alloy with the silver (Regmi 1972)

Forest

Revenue from forest of the Tarai during this period was derived primarily from the collection of duties on timber exports, wildlife such as herbs and drugs, catechu, wax and musk, falcons and other birds and elephants.

Judicial Fines

During the period, judicial fines were also one of the sources of income. The administration of justice implied the right to collect fines from offenders. There was thus a premium on trepidation and conviction, and on punishment in the form of fine and enslavement. After the political unification, the Gorkhali government defended and imposed the Hindu fundamentalism over tribal religious people, which resulted in widespread judicial fines as the people of the new-territory could not easily conform to the Hindu codes.

Annual Revenue Estimate

It is very difficult to analyse the financial position of the country during the unification period because of lack of proper and adequate data. In 1793, Kirkpatric estimated the total annual revenue at between Rs 2.5 and 3 million. The break down was as follows:

Table no 1,

Export duties and profits on the Sale of elephants	Rs 300000	Rs 400000
Mint including duties, levied On the import trade from Tibet	Rs 700000	Rs 800000
Duties on salt, profits on saltpeter, Copper and iron; land taxes	Rs 1500000	Rs 1800000
Total:	Rs 2500000	Rs 3000000

(Source: Regmi 1972: pp 55 to 74)

Nevertheless, these estimates are highly exaggerated. According to an empirical analysis conducted by Mahesh Chandra Regmi, the contractual amounts, which the government received in 1793-94 from the districts comprising the eastern Tarai, without providing for expenses, amounted to only Rs 244,104. During that period, eastern Tarai was the major source of revenue. The above mentioned estimate of false revenue was in all probability never realized because there was no possibility of collection from the hill regions and till that period western Tarai was not yet been annexed. Thus, a more realistic estimate might place the total revenue realize by the government of Nepal in 1793 at approximately Rs.500,000 (From: Revenue and expenditure of the government of Nepal- 1918(1861)(Regmi 1988).

The process of unification began in 1744 and ended in 1816 in a war with the British, although Gorkahali rulers were in the process of new war. Even after the 1816 war with the East India Company, military objective dominated the policies and programs of the rulers. They had to maintain an army, assign lands to military personnel as emoluments, install factories for the production of munitions, and make arrangements for metals and other supplies (Regmi 1984:212). However, before 1816 the process of political unification of the country could not lead to economic unification and integration. There were several reasons:

- The Gorkahali rulers did not achieve political unification solely through military conquest, and often-political compromise with various communal groups, as well as with the rulers of different principalities were considered more expedient. The Kipat was provided to the Eastern part of Nepal for tribes. Similarly, in the far western part of the country the erstwhile ruler were permitted to retain administrative as well as economic authority, subject to the general suzerainty of the centre. this pattern was not very conducive to total economic integration.

- Because all the big rivers of the country flows north to south but this country stretches from expanded west to east, communication was easier with India than with parts internal to the country.

- The restriction of movement of people from hill to Tarai was a major hindrance. The government restricted people for two reasons: one, they had a fear of foreign intervention in the hills by the British-India; second, there was a fear of smuggling of goods and commodities without paying taxes. Further, this Tarai was a malarial region where hill people could not stay all the year or permanently. Thus, it was more accessible for northern Indians then hill people of the Nepal.

- Economic integration of a nation is possible only when factor of production freely mobile, and there is free and unrestricted commercial intercourse within the boundaries. For this, the first condition is that facilities of transport and communication should be adequate. Over and above this, it is essential that official policies be attuned towards economic integration, not diverted towards extra economic activities. To be sure, extra economic activities, such as security against external aggression, often outweigh considerations of economic integration and growth. (Regmi1984: 10).

- The ownership of factor of production decides the major political and economic activities of the people. As we noticed above that, the ownership of factors of production was highly centralized. The cultivated and fertile land was assigned to the high nobility mostly; the recipients were priests, religious teachers, soldiers, members of the nobility, and the royal family in the name of *guthi, birta and jagirs*. Such transfers of factors of production to the individuals and institutions would not serve the state. That helped to the individuals who owned Birta and Jagir. Similarly, who held business, exports and imports, and commodity production needs seed money which of course holed by the same people who had lands and state power.

Continuous war and its management was not an easy task. The state was self-reliant in the production of cotton cloth, vessels of copper and brass, domestic agricultural tools, guns and essential ammunition, industrial necessaries, sugar and various types of food grains (Bhattarai, 2055(1995):27). Although, we can surmise here that during this period productivity of labor was high, average productivity was low because of the low ratio of the capital to available land and labor resources. As Regmi remarks

"the accumulation of saving was inhibited by the absorption of surplus resources by the state. But even in the absence of such absorption, capital would not have accumulated because of lack of incentive created by such factors as a high propensity to consume, lack of means of mobilize saving and absence of security and right to hold property".

Low productivity on its part engendered low incomes, for as Myrdal says, *"low incomes are only the other side of low labor productivity, a vicious circle makes poverty and the low level of living or low labor productivity, self generating."*(Regmi, 1972:203).

The War and After

The defeat of Nepal in the war (1814 -1816) with the British East India Company was the major turning point in Nepal's political and economic history. This defeat closed all possibilities of further territorial expansion. The treaty of Sugauli signed between Nepal and

British India after the defeat led to limiting the territory to Mahakali River to the West and Nepal lost almost all of the southern plains.

After this treaty, Nepal remained a politically semi-colonial and economically subordinate but formally independent state. A British resident was appointed for Kathmandu, and Nepal was forbidden to have any direct communication and obliged to abandon all territorial acquisitions west of the Mahakali River and east of the Mechi River (Seddon 1987:18, 19). Given, such humiliating circumstances, Gorkhali rulers tried their best to prepare for the next war and spent not only resources but also all their effort.

When the elite or nobility became free from the war, they started to exercise control over most of the fertile land and other natural resources. The majority of the peasantry became extremely marginalized. There is evidence of substantial migration from Nepal to India during the first 30 years of the 19th century. partly as a result of the highly centralized policy framework of the rulers, partially to escape money lenders, also as a result of new employment opportunities in the armies of the British East India Company and native government of Punjab (Seddon 1987: 20).

Between 1891 and 1931, there was fivefold increase in the number of Nepali migrants to Sikkim, Bengal, and Assam provinces of India (Mishra 1985pp118). Earlier in the 19th century, a large number of hill migrants were recruited into the armies of British East India Company before the 1814-16 war. Many of these new recruits were the defectors from the Nepali army.

Emergence of autocratic rule, 1846-1951

After the defeat, Nepali state became embroiled in political instability for nearly nine years because of internecine conflict among members of the royal family and numerous nobilities. Emergence of Bhimsen Thapa as primeminister led to stability for more than three decades. However, his tenure ended violently leading to emergence of another clan of rulers who continued for 104 years.

Regmi remarks that - "During the period from 1846 to 1856 Jung Bahadur functioned as a Prime minister in his individual capacity .The Rana family was, therefore mere defacto political elite which owed its status to the actual exercise of political power. Subsequently, it acquired that status through the exclusion in constitutional law of other political classes from political power, as well as through the formal institutionalization of its own privileges and obligation. The 1856 royal charter formally limited succession to the prime- minister ship to members of Rana family. Other sections of nobility from among whom prime minister had traditionally been appointed, such as Thapas, Pandeys and Chautariyas were there after excluded from the ranks of the political elite"(Regmi1978:23).

After 1846, the then autocratic Rana regime comprising the vizier, and his brothers and sons accordingly constituted the political elite that ruled Nepal until 1951. They functioned as an autochthonous system. They served their own family interest

Thus the administration under the Rana had two main functions; the collection of revenue and maintenance of law and order, the latter primarily in order to facilitate the former The Ranas remained fearful of the British in India. Jung Bahadur said:

"*I know very well that advantage would accrue to Nepal for a few years if we were open the country to British officers and British merchants, but even supposing that we were to double our revenue for ten or twenty years, what good would that do us? At the end of that time you would probably take the country.*" (Blaikie et.al. 1980: cited from this section from Hanry A. Oldfield' "Sketches from Nepal", reprint of 1880ed, New Delhi; Cosmo publication, 1974:46).

Ranas avoided the possible link road construction and any other means of transportation between hills to Tarai, which usually links to the northern border of India. Oldfield again writes "The Nepalese are averse to the 'clearing' of these forest s as they look upon the malaria jungle at the foot of their hills as the safest and surest barrier against the advance of any army invasion from the plain of Hindustan" (ibid, 47-49 pp).

Fiscal System

The beginning of Rana autocracy was just a replacement of individual s in power without for socio-economic change. In fact, it was the beginning of implications the creation of extra layers of feudalism to rule the country. In such circumstances, they followed the same traditional system of economy. The Ranas tried to maximize revenue from minerals, land and labour. Mineral resources belonged to the state. The state ownership rights in minerals were never transferred to individuals. Even, if new mines were found in any person's agricultural fields, forest or Birta that also belonged to the State. The state paid emoluments to the employees and functionaries partly or entirely through assignments of taxable lands or villages as *Jagir*. The *jhara* system entitled the nineteenth century Nepali state to exact porterage and other labor services from its subjects without paying wages.

During the Rana's autocratic ruling, agriculture tax on *jagera* land was the major source of revenue. The Ranas' setup three kinds of revenue collection system: (1) Agrarian taxes and commercial taxes to be raised from the peasants and small business holders; (2) Production and trade from the state sector such as agricultural plantations, mine sector and forest; and (3) state intervention in private trade. It was also divided in to two: fiscal monopolies and state trading. The major source of revenue remained the taxes on peasant production.

At the middle of the 19th century, mining was the third major source of revenue, which contributed 7 percent of the kingdom's total revenue after agrarian and commercial tax. During that time Nepal was an important producer of copper, iron, lead, and other metals like small quantities of gold, cinnabar, and sulfur (Regmi 1984:55, 56). Nevertheless, by the later part of the 19th century the mining as a source of revenue declined because of gradual exhaustion of surface deposits, role of the inequalities of the *Ijara*[10] *system*, and failure to devise a viable alternative system of organization of production and trade. The expansion of the Indian railways line to just across the Nepali border between 1885 to1910 gave a great impetus to this trade. Nepali timber was the primary source of wood for the construction of railway lines all along northeast India (Mishra 1985). As we said earlier forest was under state ownership. Later it became a part of Birta, too. The *birta* owhers had a right to sell or export but they had to pay half of the profit to the government. In the middle of the 19th century, forest product revenue was 11.2 percent of total revenue to the government, but latter it increased.

Another component of revenue was 'trade'. Nepal's external trade was limited to Tibet and India during the 19th century and even half of the twentieth century.

Regmi remarks

"*there is no evidence that its products ever reached a third country. On the other hand, Nepal received European goods through India, and also served as a conduit for the re-export of Indian and European*

[10] Ijara system; Revenue farming; a system under which revenue was collected, or source of revenue exploited, by an individual on contract on behalf of the state.

goods to Tibet, and Tibetian goods to India"(Regmi 1988:186). Latter, transit trade declined because British India found a route directly from Sikkim. This was a sort route to reach Lasha the capital city of Tibet from Calcutta. However, Nepal had a positive trade balance during the period with both countries. The trade deficit occurred during second decade of the twentieth century. Industrial production was negligible during Rana period. Only cottage industries and handicrafts production existed. The following table shows the revenue position of the Nepal kingdom in 1851:

Table no: 2

Revenue Receipt of the central Treasury, 1851

	Source	Amount (NRs)	% of Total Revenue
1	Agrarian Taxes	1,021,107	72.16
2	Income from State Sector (a)Forest- Rs.38, 863) (b)Mines Rs. 119,803)	158,682	11.2
3	Commercial taxes	234, 514	9.5
4	State Intervention In Trade	20, 635	1.45
5	Other sources	80, 664	5.69
	Total	14,15,602	100

(Source; Regmi 1988:57)

Reform in Fiscal system

In 1861, the revenue figure had reached Rs.3.5million, or two and half times of what it was ten years before. In the pre-Rana period, the fiscal system was dominated by contractual revenue–farming arrangements. Agrarian taxes in both hill and Tarai regions were collected either by local functionaries under various forms of *theck* or contract, or by individuals who offered the highest bid for any specified area or source of revenue under the revenue farming or *Ijara* system. In either case, the government received only what the *thekadar* or *Ijaradar* set, rather than what was actually collected from the people (ibid; 68).

The Rana government abolished the system of territorial ijara system for civil administration and revenue collection in the Tarai region, and brought it under the *amanat*[11] system. In 1856 the Rana regime permanently setup district offices in the favour of Bakyauta Tahasil Addas[12]. But at the village level, they do not seem to have made any change in the traditional *thek-thiki*[13]. Mal Adda[14] was created in each district of the Tarai regions to discharge functions relating to land and fiscal administration. Mal Addas (Land Offices) were responsible for the collection of agrarian taxes. They oversee the administration of fiscal monopolies and state trading enterprises. Such initiation of reform had led to increased revenue collection. In 1877, the revenue of Nepal increased by 12 million in 1900 and reached 20 million in 1920. In 1950-51, the final year of Rana rule, revenue amounted to more than about Rs.29 million (Regmi 1988:58).During the early Rana period, the state experimented with agricultural plantations in the state sector with the objective of raising revenue. Such plantations were confined to a few crops, mainly tea and cotton, and jute to a few areas in the hill and inner Tarai regions.

Mine management was totally handled by the state under *ijara* and *amanat* system, and producers remained subject to force and extortion. Both ijaradars and amanat officials tried to maximize collections and minimize their own obligations by appointing sub-ijaradars at the local level and resorting to force and extortion. Later the Rana rulers engaged their army to work in newly discovered copper and lead deposits. However, these were soon discontinued.

Forest product, was another major source of income. The Rana regime responded to growing demand in northern India to meet the growing needs of urbanization and industrialization, and the development of railway transport system in India. They abolished the ijara system and replaced it by arrangements for logging and export under the amanat system. The timber export trade was thereafter placed under the management of salaried employees appointed by the government, who not only received the actual sale proceeds, but

[11] Amanat was a system, under which revenue was collected, or sources of revenue exploited, or government account by salaried employees.
[12] Bakyuta Tahasil Addas was a district level revenue collection office in the hill region.
[13] Thek-thity was a revenue settlement with the village community for the collection of agrarian taxes in the far eastern and far western hill region.
[14] Mal adda was a district level revenue collection office in the Tarai region.

also assumed the obligation to meet administrative expenses, incurred on the cutting, transportation, and shortage of timber (ibid;163).

Internal and external trade was very important in the economy of Nepal, although external trade was limited to Tibet and India. The transit trade via Nepal with Tibet declined because of the opening of the Calcutta- Sikkim-Lasha route, which took less than half the time required for the Calcutta-Kathmandu-Lasha journey. Consequently, Nepal became more dependent on India. The following tables show the Nepal- India trade balance within the period from 1880 to 1900:

Table 3: Nepal India Trade in the Eastern and central Sector, 1880-1900 In million Rs.

	1880-81	1890-91	1899-1900
Exports	10.3	12.4	16.9
Import	5.6	6.9	11.5

Table 4: Nepal- India Trade in the western and Far-western sector 1880-1900

	1880-81	1890-91	1899-1900
Export	5.7	5.9	8.1
Import	3.2	3.4	4.3

(Source ibid: 210)

Decline in the transit trade with Tibet led to increase in the volume of trade with British India. The advantage of a virtually unlimited market in India was offset by a low production base and transport bottlenecks neither of which was amenable to any short-term solution. Further, there were two other factors one was the financial constraint and the other then centralization of administrative authority.

Political Willingness

During that time, Nepal had not integrated socially, economically and culturally. There was a need for such integration, which could have contributed, to the emergence of new progressive productive forces to create of new internal markets. However, to do this, the political leaders should have good knowledge and a belief in democratic value. This was what was lacking in the Rana rule. As Pasupati S. Rana observes:

"Jung Bahadur Rana then prime minister had no knowledge about the welfare of the people. During his visit to Europe, he had seen the functioning of the parliaments. He had visited several schools, hospitals and some philanthropic institutions there... but he took very little care for the public welfare. His main consideration was to cement the foundation of the family rule of the Rana in Nepal. This he did with the utmost care and his brother and nephews ruled over Nepal for another seventy-five years after his death. Throughout his own period of rule, from 1846 to 1877, there were virtually no schools or health facilities and "every year hundreds of people died of cholera and small-pox" (Rana 1978: 52, 63; Seddon1987:31).

The growth of progressive productive forces depends on the nature of the policies adopted by the state. In the history of Nepal, agricultural land was occupied by *rajya, birta and jagir,* systems to legitimize the political power. To keep a strong grip on power the Rana family confiscated the birta and other lands from the previous owners and re-allotted those to their own family members and their supporters. These fresh grants under the rajya, birta, jagir system became the base for the Rana power (Regmi 1972:46).

Through that division of land and grants, they created a chain of command through which, it was possible to accumulate the state surplus from the poor peasants in terms of (1) taxes in money or commodities; (2) compulsory cash levies imposed instead of labour obligation and (3) other payments. Between 25 percent and 50 percent of total state revenue were treated as part of the ruler's private purse. Top appointments in the bureaucracy, including the important post of district governor, were conferred personally by the prime minister (Blakie, Cameron,& Seddon 1980:87).

In 1923, Britain recognized Nepal as an independent country. This treaty removed the restriction on Nepal's relationship with other nations as well as all restrictions over trade between Nepal and India. Chaitnaya Mishra writes:

"the guarantees of formal independence, coupled with a general support received from the British Indian Government, gave Chandra Samsher (then Prime minister) the confidence he needed to carry out several mildly anti-feudal measures. The most well-known of such measures was the abolition of (the almost wholly domestic) slavery at the state expense and resettlement of the slaves in Amlekhgunj in the central Tarai. The treaty also gave him the confidence to lay down the Raxual –Amlekhgunj railroad and to construct the Bhainse-Kathmandu rope-way line.

These acts of further opening- up, of course, led to the increase in the scale of both exports and imports" (Mishra 1985pp 120).

This had a number of negative effects on the Nepali economy. The substantial economy of the hill region collapsed. This treaty had given Indian capitalists easy access to the growing market in a period when their productive capacity was rising fast whilst world trade was tending to become more restrictive. Household crafts and cottage industries in the hills were badly affected in particular by the flow of cotton goods and metalwork. Raw cotton, extensively cultivated in almost all part of the hills slowly disappeared from hills to melt their regime rent of essential goods and commodities an increasingly large proportion of hill households were compelled to seek seasonal or permanent manual jobs in Indian towns and cities (ibid).

There were four main political and socio- economic reasons, which led to keep Nepal underdeveloped. First, Rana autocrats were very fearful of the growth of their own productive forces. In their perception, if the productive forces grew effectively and progressively then the internal contradiction would be sharpened and their autocratic regime would be superfluous. Therefore, they did not try to build in strong internal market. They did not encourage social and cultural integration among the people. Secondly, the agricultural technology was rather primitive. Thirdly, economic development was not a goal of the nation. The nature of the socio-economic structure was feudalistic, and entrepreneurship among the people was frowned upon. Fourthly, the treaty of 1923 allowed for practically unrestricted imports of British commodities to Nepal, which led to the collapse of the handicraft and cottage industries and highly discouraged innovative establishment of new industries.

The following table of land distribution shows the clear picture of exploitation of land and its people.

Table **Land distribution according to ownership of land Area**

Kind of land	Area in hectare	Percentage of total area.
Raikar	963500	50.00
Bira	700080	26.30
Guthi	40000	2.00
Kipat	77090	4.00
Rajya ,Jagir,Rakam[15] etc.	146330	7.70
Total	1927000	100.00

Source: Zaman, M.A., 1973, Evaluation of land reform in Nepal, His Majesty Government, Ministry of Land Reform, Kathmandu, page 7.)

The existing agrarian structure and land tenure practices facilitated the further growth of the land holding class through concentration of land in the hands of a few, and widened socioeconomic differences between the land owning class and others. The tenants were in the very shaky position in which they had to contribute everything by themselves for growing the crops and had to work under conditions of utmost uncertainty of being evacuated from the tenancy-ship. There was no protection against arbitrary eviction. In addition, no limit to the rent the tenants were required to pay (Regmi, 1976).

Conclusion of the political economy of Nepali state:

In the first stage, the expansion of territory and full control over the annexed land was the basic priority for ruler. They were always fearful with strong invaders from the south and north. That is why most of the resources spend on preparation of war to protect occupied land. However, expansion process brought in major shifts to the feudal order, which was at a primitive level. In the second stage, Rana captured all state power and imposed feudal based autocratic rule. They misuse the entire state resources and treat the state as their 'own Birta land' with the association of British imperialism. Opening domestic market to the British commodities and supplying the most vital resources for the British imperial army, they broke down the Nepali self-reliant path of progress and converted Nepal to be a semi-colony. The

[15] "Rakam land" refers to land on which individuals enjoyed occupancy right with the obligation of payments of rent and contribution compulsory and unpaid labor.

very exercises of atrocious feudal order rule widened a gulf between people and ruling class economically, socially, politically and psychologically. More than one-century long Rana family rule destroyed all base for people, the bad impact of that rule still reflecting in Nepalese socio-economic and cultural life.

Chapter-2

The change (1923-1985)

"Market society was born in England- yet it was on the continent that its weaknesses engenderd the most tragic complications. In order to comprehend German fascism, we must revert to Ricardian England. The nineteenth century, as cannot be overemphasized, was England's century. The Industrial revolution was an English event. Market economy, free trade, and gold standard were English inventions. These institutions broke down in the twentieth every where- in Germany, Italy, or Austria the events were merely more political and more dramatic. But whatever the scenery and the temperature of the final episodes, the long term factors which wrecked that civilization should be studied in the birth place of Industrial Revolution, England."

Karl Polanyi

The Great Transformation

After the end of the First World War, destabilization was the major problem in the world. It was seen that the prestige of economic liberalism was at its height. Hundreds of millions of people had been afflicted by the scourge of inflation; the whole social classes and the whole nations had been expropriated. Stabilization of currencies became the major challenge for the governments; the restoration of the gold standard became the supreme aim of all organized efforts in the economic field. The repayments of foreign loans and return to stable currencies were recognized as the yardstick of the rationality in politics. The deprivation of unemployed made jobless by deflation; the destitution of public service dismissed without a meager amount; and even the relinquishment of national rights and loss of constitutional liberties were judged to be a fair price to pay for the fulfillment of the requirement of sound budgets and sound currencies (Polyani 1954:142).

Politically, humanity was waiting for an alternative. Socialists Parties with the support of expanding working classes of their countries and inspired by a belief in the historic inevitability of their victory, represented this alternative in most countries of Europe. It looked as though only a signal was needed for people to rise, to replace capitalism by socialism and thus to transform the meaningless suffering of world war into something more positive: the bloody birth-pains and convulsion of a new world. The Russian Revolution or more precisely the Bolshevik revolution of October 1917 was far greater and more lasting than those of 1789's French Revolution (Hobsbawm 1996).

The tide of October Revolution was spreading all over the world and the national salvation movement was emerging against imperialist power in all the colonies as its by product. In the Indian continent the Indian independence movement was gaining momentum. "Capitalism," said Lenin,"has grown into a world system of colonial oppression and financial strangle of overwhelming majority of the population of the world by 'advanced' countries and this 'booty' shared between two or three powerful world plunders armed to the teeth (America, Great Britain, Japan) who are drawing the whole world into their war over the division of their booty" (Lenin: 2000).

The corridor of change (1923 to 1950)

In such international situation British Imperialism was facing great challenges. Nepal was a semi peripheral country whose leadership had been supplying its manpower to the British army- in an inferior alliance- to suppress people's movement and protecting its grip all over the colony and for the expansion of British Empire. Foreseeing the worsening of their grip in south Asia, the British recognized Nepal in 1923 as a sovereign state. This gave positive confidence to the then rulers of Nepal to carryout several anti-feudal measures such as the abolition of domestic slavery at the state expenses and the subsequent settlement of the freed slaves (Mishra: 1986). By the mid-1930s, Raikar land holding rights had evolved to a stage little short of full-fledged property right. Sale, mortgage and tenancy right were permitted without any restriction subject only to the condition that the payment of taxes due to the state not disrupted (Regmi 1976:176). In the agriculture field it has been estimated that before 1950, sixty percent of the cultivated land was tenanted by farmers paying rent to the various categories of intermediary owners. The bases for rent payment were (1) share-cropping, (2) fixed rent and (3) service rent.

Most of the tenants had share cropping arrangement with their landlords and usually paid half of the gross produce of the main annual crop. However, in some cases the tenants had to pay half of the produce of the secondary crops as well (such cases were to be generally found in the Tarai region). Tenancy worked out to have been practiced at the 75 percent of the total land holding in the country as a whole (Zaman 1973:8).

Similarly, autocratic rulers had set new forms of indigenous national development agendas for the first time after Prithivi Narayan Shah. The institution of Udhyog Parisad (Industrial Board), the promulgation of the Company Act, the establishment of Nepal Bank Limited, the jute and various other industrial establishments, could have led, in course of time, to the creation of a dynamic national bourgeoisie (Mishra, 1986, B.P. Shrestha 1967). Biratnagar jute mill, the first industry of Nepal, was established in 1936 under the joint venture investment of Nepalese and Indian business houses. Because of shortages and excess demand of jute products, there were no export duties which encouraged for other joint ventures investment to establish industries within a span of two years. According to H.P. Giri "from 1936 to the emergence of democracy, 63 companies involving an investment of 70 million Indian currency and 2.1 million Nepalese rupees were registered" in Nepal (Quoted in "Planned Development in Nepal" by Sriram Poudyal 1983:68). But some industries were liquidated within a few years because of decline in demand of products after Second World War.

Slowly and gradually this led to the expansion and transformation towards capitalist production of agriculture. After the treaty of 1923, the trade increased tremendously. In 1920-21, the total volume of trade was to the tune of Rs. 87.9 million. This reached 330.75 million in 1950/51. Simultaneously, trade deficit reached 115.43 million (Shrestha, 1962).

The emergence of property rights in land, and the opportunity to get hold of such rights through money, created a number of problems that are familiar to the current agrarian scene: cleavage between ownership of land and its actual use, which gave rise to tenancy; and landlord- tenant disputes. In a situation where land holding rights were restricted by the need for subsistence and direct use, the size of holdings was perforce limited by these factors. "But when land holding became a field for monetary investment and source of income without the obligation to cultivate it personally, the size was limited only by the amount of resources available to acquire Raikar lands. Therefore, Land became commodity, which available for purchase by any prosperous farmer who could procure sufficient funds (Regmi 1976:185). When feudal relationships between village overlords and land magnates of the aristocracy and the bureaucracy on the one hand, and peasants and village overlords on the other, were replaced by capitalistic relationships in which the central political authority had, at best, a secondary role. When Jimidari got the property right, village landlord realized that they no longer needed the political backing of the central authority to control and exploit the peasantry. When new class emerged from the landlord peasantry classes, consequently Rana regime began to lose support of the upper class of wealthy peasants because they had begun to go over to more capitalist modes of cultivation and to establish their independence against aristocracy seeking to maintain its position through the intensification of traditional obligation.

Within this new class of peasantry started the movement against traditional feudal classes of Rana autocracy and their follower Jagir holders and Birta holders. The loss of the support of an important segment of agrarian society was one of the main causes of the down fall of the Rana regime in early 1951.

Change and Development Dependency

The notions of the underdevelopment and 'Third World' were the products of the post Second World War climate. This concept did not exist before 1945. By the early 1950s the notion of three worlds- the free industrialized nation, the communist industrialized nations and the poor non industrialized nations constituting the first, second and Third World respectively was firmly in the place. The year 1945 marked the profound transformation in the world affairs. It bought the United States to an indisputable position of economic and military preeminence, placing under its tutelage the whole western system.

This privileged position did not go unchallenged. There was the rising influence of socialist regimes in Eastern Europe and the successful march of Chinese communist to power. Old colonies in Asia, Africa were claiming independence. The old colonial system of exploitation and control were no longer tenable. In sum, recognition of the structure of world power was taking place (Escobar 1995: 31-32). For the capitalist world, new world order had changed the configuration of power, therefore the third world were the most important arena of confrontation. Anti fascist sentiment easily gave way to anti-communist crusades after the war. The fear of communism became one of the most compelling arguments for development. It was commonly accepted that if poor countries were not rescued from their poverty they would succumb to communism. As Patnaik (2000) remarks:

"*Capitalism emerged from the second world war badly bruised. The balance of class forces in the advanced capitalist countries had shifted quite significantly in favor of working class, which had made immense sacrifice during the war. And the tide of the national liberation struggle in the colonies had swollen into torrent. Capitalism pursued in this situation a two pronged strategy for its immediate survival: isolation and repression of the revolutionary forces, notably the communist on the one hand; concession to and compromise with the demands of the domestic working class and colonial movements*" (p.21).

Under autocratic Rana regime, Nepal remained a semi-peripheral country in various aspects. Therefore, a 'Democratic Revolution' was not possible without any help and aspiration from outside. The political change or 'Democratic Revolution' of 1950/51 was also a byproduct of international liberation movement. For the Nepali freedom fighters during that period, Indian Independence Movement was the major inspiration. When communist regime was established in northern boarder and its influence began to spread all over the world, Indian side tried to clamp its security frontier up to the Himalayas, thus incorporating Nepal with its military perimeter. As Chaitnaya Mishra remarks,

"*The Indian state which preferred to deal on monopolistic term with neighbors and third world states, enforced the trade treaty which necessarily narrow Nepal's resource base and make it increasingly more dependent on India combined with friendship treaty (1950); which was exclusively directed against Nepal's only other neighbor, China. Nepal took shape as a near full fledged hegemony of the Indian state and mercantile bourgeoisie. In an immediate sense, there was part of the costs Nepal had to bear for the 1950-51 'Revolution'* (Mishra CNAS 1986, VOL.2, occasional papers: 105-135).

Before the change of 1950/51, the Nepali state had no democratic pretension. The state was totally dominated by feudal order. There were non-capitalist modes of production but they were under the domination of British Indian mercantile system. Characteristically, the leadership of the movement had no traditional knowledge of fighting, development philosophy, goals and objective. They have had only an unclear vision of west ministerial model of democracy, which could not help the transformation of society into new structure, new organization and formation of basic institutions for the stabilization of democracy. Therefore, the process of development after 'revolution' also became highly dependent on external forces, and could not lead towards fulfilling people's needs. Devendra Raj Pandey remarks on the situation of 1950 and after that,

"In terms of institutions, in terms of relative role of the market as against the state, Nepal on the face of it has only followed the path indicated by development economists and practitioners of international development since the 1950's. But we are not sure that the leadership of the country have at all tried to grasp the complexity of the development enterprise, no matter which conceptual frame or strategic means we choose to steer the process and adjust their personal and social behavior" (Pandey 1999:156).

Baran and Sweezy correctly characterize the Twentieth Century as a period of progressive establishment of North American hegemony in place of colonial empires. In the shadow of U.S. power, competitive capitalism gave way to the monopoly capitalism. In which, as Lenin predicted, industrial capital was intertwined with finance capital and concentration created giant corporations, and that this could prevent prices from falling in line with major productivity increases, and were thus able to build up a massive surplus (Baran & Sweezy in their book Monopoly Capital published in 1966). Within this framework, United States pronounced the 'Marshall Plan' on 5th of June 1947 to help with European post-war reconstruction. This created market for the huge productivity increases following the conversion of war-economy into mass production. The mobilization of capital under the Marshall Plan was huge. Around $ 19 billion went to the Western Europe in the period between 1945 and 1950 (Rist 1997: 69, Escobar 1995:33). The third world did not got the same treatment. It only got less than 2 percent of total US aid. For example, only $150 million was spent as external aid to the third world as a whole in 1953 (Kolko 1988: 42). The third world countries were, instead, instructed to look for private capital, both domestic and foreign. This meant that the "the right climate" had to be created, including the commitment to capitalist development; the curbing of nationalism; and the control of left, the working class and the peasantry (Escobar 1995: 45).

At the end of Rana regime the government of US signed the technical cooperation agreement with a grant of 2200 US dollars with Nepal under the Point Four program. This was to be the modest beginning of multimillion-rupee enterprises on which the gear of Nepal's development would be contingent (Sharma & Mishra 1983:1-17). India quickly assumed a prominent role in Nepal's development. Whereas US concentrated mainly on technical assistance, in its own evaluation, US operation mission (USMN) realized that the Marshal Plan model had limited relevance to Nepal's need. In their views, there were not matters of reconstruction but the formulating the basic structure of a pre-industrial economy. India focused on infrastructural projects using Indian technicians due to religious and cultural similarities. It had other three most relevant concerns: political, regional security and economic hegemony respectively. China became a donor in 1956, providing cash and commodities but no technical assistance. Chinese assistance balanced Indian's overwhelming presence (Skerry et.al 1992:7). After five years country's first five year plan were prepared and launched with the help from the Colombo Plan consultative Group.

Till 1955, Nepal had actively cultivated diplomatic relationship and encouraged donors to participate in Nepal's development. Christa A. Skarry et al remark,

"Economic assistance became increasingly complex as the number of donors increased. King Mahendra wanted donors to rely more on Nepali direction in targeting development priorities and less on their own agenda in an effort to achieve consistency in development activities. However, Nepal's lack of finance and technical manpower forced development policies to be largely reactive, despite efforts at planning" (ibid).

Political and Ideological constraints and Dependency

Nepal faced immense internal and external obstacles to economic and social transformation in the period of 1950s. Its economy was weak and fragmented, reflecting centuries of national autocratic and semi-colonial subjugation and exploitation. Virtually, no foundation had been laid for accelerated development. Before 1950s a few industries were established in eastern Tarai with good access to Indian market. Except this, industries and economic infrastructure such as power, transport, communication, hospitals and schools were virtually nonexistent. The infrastructure for developing the resources of the people through education and training was also grossly inadequate. In 1951, approximately 98 percent of eight million people in Nepal were illiterate. There were only three hundred college graduates in the entire country (Skerry et.al 1992:6). The political change of 1950/51 resulted through a tri-partite compromise among the king, Nepali Congress and Rana autocrats. Ranas were the residual forces who were highly demoralized and ceased to be in a decisive position in politics after the change. The remaining two were highly obliged and dependent on Indian ruling class, because of its intermediary's role in power balance, and other geo -political and economic considerations. This put serious limitation to Nepal's ability to put in place an independent foreign policy (Rose 1971: 17-18).

Any country where factors of production, structure of the economy, public finance, foreign trade, household expenditure, structure of savings, and investment capacity are of low standard, would be susceptible to external influence in every sector. Obviously, India was the most influential among the donors in the first half of the 1950s.

Many thinkers in Nepal had an idea that the political change of 1950-51 would lead towards the capitalistic path of development. But this did not happen for a number of reasons. Capitalist development needs unleashing of productive forces. This, in turn, requires an acceleration and intensification of the process of capital accumulation. That could not happen without an appropriate rhythm of the relevant domestic sources of accumulation. For the speeding up of development, private foreign investment or foreign aid may be contemplated, but there can be no escaping the task of domestic resources mobilization. In addition, this also requires "a fundamental shift in the balance of power towards capitalist classes" (Byres 1998: 43).

But in Nepal during that period there was no force committed to capitalist transformation. The King represented the feudal force. The Nepali Congress, which remained in state power during much of the 1950s, represented the semi-feudal oligarchies enamored by the modernity they saw in India, but were not committed to capitalist transformation. The Indian mercantile capital that entered the country in the mid-1930s did not fundamentally alter the pre-capitalist social and economic structure of society as it established alliances with the large land owners and commercial bourgeoisie giving rise to the 'feudal imperialist' alliance referred to by Mao Zedong and others. This was the comprador bourgeoisie defined economically and politically by its dependent relationship first with Indian bourgeoisie and later with imperialism (Munck 1985:234).

The crucial obstacles to the needed changes, therefore, were not the inherent nature of the people, or especial features of their culture or religion. The obstacle instead were located in the political economic context under which the people live, in the type of land owning, in the vested interest of the large land owners and business classes, and the social priorities imposed by the ruling classes.

Social transformation would have faced with the shortages of capital. In fact, this was the case in early days after change in 1950 (Skerry et.al 1991). The transformation in the relations of power at the level of state could have also halted three major sources of the drain of capital, (1) by reducing the consumption of rich and better-off sections of society; (2) By confiscating the illegally collected assets and other forms of capital from erstwhile ruling classes; and (3) by confiscating foreign-owned investment. The resources thus generated could have been utilized for the provisioning of social services, implementation of infrastructure projects, and meeting the need of scarce foreign exchange to purchase raw materials and equipment. In addition, the mobilization of labor could have been used to some extent as a substitute for capital and construction of roads, flood control mechanism and irrigation canals.

The focus on education and health for the masses could have led to the formation of human capital. Besides from humanitarian considerations, improved nutrition and medical care could have contributed to raising the productivity of labor. But all this required a political force, which was utterly lacking in Nepal.

A few positive changes have occurred. A variety of state institutions, the central bank (Nepal

Rastra Bank), University, Public Service Commission have been established. Land reform, though not in a comprehensive way, has been introduced. Another major work of the state was diversification of trade. Up to 1950s Nepal was simply the extension of the Indian economy as 90 percent of the external trade occurred with India. The main currency in circulation was Indian rupees. The availability of hard currency through foreign aid and the remittances Nepalese British army enabled Nepal to diversify its trades with other countries. Similarly, several public enterprises were established for self-reliance in construction materials such as cement, bricks, tiles, steel, and in consumer goods such as sugar, leather shoes, purified ghee, cigarettes, and petroleum products. They also provided employment for more than 70,000 people (Dahal,1999). All these features marked Nepal's attempt at disentangling itself from the Indian economy and its attempt to advance self-sufficient economy or one that was at least less Indian dependent (Sharma Sudhindra 2003, an unpublished article). According to one foreign aid expert, the then government had reversed the century old policy of what is called "Himalayan Neutrality" resulting in weakening of Indian influence (Mihaley 1965: 64, "Foreign Add and Politics in Nepal: A case study", Oxford University press London).

All this, however, did not lessen Nepal's dependency on external forces which put limit on carrying out genuine development. Firstly, the basic structure in land ownership and tenancy and relevant reform on taxation and administration could not be carried out. Government was lacking in will and determination to carryout a 'social revolution' (ibid). The continued existence of an economically backward feudal/ semi-feudal agrarian sector and the absence of significant national bourgeoisie limited the possibility of genuine development. Secondly, the landholders did not invest in manufacturing and industrial sector partly due to the dominance of land owning class, and partly due to manipulation of trade and transit agreement by the Indian state. Thirdly, the total dependency over Indian capitalism undermined the whole range of artisan production without creating any alternative forms of employment for the displaced artisan classes (and castes).

And lastly, capitalist dynamism in Nepalese agriculture was lacking. There was no decisive movement towards production for sale, investment in new inputs and the expansion of capitalist social relations of production. The infrastructural development such as building of roads funded by external investment failed to generate a significant or systematic response in terms of agricultural output or diversification, in a context where processes in the wider political economy were not conducive to a capitalist transformation of agriculture (Blakie et.al,2002,World development ,vol.30 no 7.pp1256).

A brief evaluation of Plan- Development and economic growth

For an intermediate regime, there are several difficulties to accelerate development process. The possibility and limits of original accumulation were set by the specific configuration in each country of the political struggle between classes in the pre-capitalist social formation, but in each case a successful transition to capitalist industrialization requires that subsistence producer be 'robbed of all their means of production and of all the guarantees of existence' afforded by the feudal arrangements (Chatterjee 1998:92, ed. Byres).

But intermediate regime does not undertake a full scale assaults on pre-capitalist dominant class. Rather, it seeks to limit their former power, neutralize them where necessary, attack them only selectively, and in general bring them round to a position of subsidiary alliances within a reformed structure. The dominance of capital does not emanate from its hegemonic swing over 'civil society'. On the contrary, it seeks to construct a synthetic hegemony over the domains of both civil society and pre-capitalist community (ibid: 95).

In Nepal, development planning began with no radical alteration in the distribution of assets, including land, which has existed earlier. The land reform initiated in 1964/65 did not change the structure of landownership. The social position of the vast mass of rural unemployed and underemployed remained the same. To get a country on the road to development very often require a 'leap'- often a quite substantial one- away from the past structures. Cypher and Dietz suggests:

"Marginal modification of the economy and society simply may be insufficient to propel the economy and society forward in the needed new direction and to a higher path in the future. For the less developed nations, development compels them to undertake substantial qualitative structural change; the future cannot be, for the poor nations, just an extension of the past. The past, and path-dependent nature of its weight on the present, is precisely what has made these

nations poor and is what need to be transcended" (Cypher&Dietz 1997:15).

Most of the development economists in 1950 have had deep faith on the major components of the economic development strategy followed during that time. These strategies were (a) capital accumulation, (b) deliberate industrialization, (c) development planning, (d) external aid. Nepal had little or no experience in any kind of planning. Financially, it was almost bankrupt as expenses had gone up steadily since the political change of 1950, but revenue had not kept pace.. E. Himsworth estimated that between 1951 and 1958 a total deficit $7.2 million had accumulated. This was met by drawing on reserves inherited from the Ranas. Nepali state had three major sources of revenue: foreign aid, taxation on land and taxation on trade. Policymakers and their western advisers believed that plan ensured the optimum allocation of scarce resources, corrected market distortions, maximized savings, oriented foreign investments in the right directions, and, in general, orchestrated the economy in terms of a well-balanced program. For these process of accumulation and modernization, 'planning' was necessary in Nepal. It started in 1956.

Nepal had lots of problem for planning. There were virtual absence of the statistical data and systemic planning technique. King Mahendra dismissed parliamentary system and imposed autocratic Panchayat system in 1960. He wanted to be a popular leader within the country. He did not have social strength to launch a full scale assault on the old dominant classes, and thus opted for a path in which the demands of a new society are satisfied in such a way that the political and economic position of the old feudal classes were not destroyed, agrarian reform could be avoided, and especially the popular masses were kept from rebelling. In other words, he wanted to have development without any structural change and wanted to be popular at the same time. "If we want to lift up Nepal to the level of other developed countries", he said, "We have to accomplish in 10 to 20 years what they took centuries to do."(Third plan 1970).

Objectives of Different Five Year Plans

The goal of the first five year plan was to increase production, generate employment and raise people's living standard. These three points were covered in almost all of the plans. The second plan emphasized the creation of a more just social order, by gradually reducing social and economic inequalities. In the third plan, long-term targets had been set for doubling of national income within 15 years with an estimated 4.7 percent growth rate. Fourth plan included effective utilization of manpower and sustainable growth; creation of a society free from exploitation; expansion and diversification of foreign trade; promotion of regional development and growth rate targeted 4.0 percent per annum.

In Fifth plan envisaged people oriented production and maximum utilization of manpower; regional integration and balance. Target rate of growth was set at 5 percent. In the sixth plan, increase in production and employment opportunities, fulfillment of the basic needs of the people and target of GDP growth rate of 5 percent per annum were set as primary objectives. The 'basic needs' program announced in Dec/ Jan. 1985 became the principle slogan and priority of the seventh plan. This program took a promise to fulfill the basic minimum needs such as food grains, clothing, housing, health, education, health, and public security among others and raise the economic condition of the people to the Asian standard by 2000 (Poudyal 1983).

Table-1:

Financial outlays in various plans (Rs.in millions)

Plan	Period	Total outlay	Percentage increase
First plan	1956-61	330	-
Second Plan	1962-65	600	81.1
Third plan	1965-70	2500	316.7
Fourth plan	1970-75	3530	41.2
Fifth plan	1975-80	9197	160.5
Sixth Plan	1980-85	22300	142.5

Source: (Poudyal 1983:5)

Note: the Fifth plan contained two programs, a minimum program and maximum program. Total outlays under these two alternatives were Rs. 9197 million and Rs. 11404 million respectively.

Transportation and communication were in the higher priority in the first plan period. In the second and third plan period Industry got the first priority. In fourth to sixth plan period agriculture was in the first priority. Thus, there was no fixed priority for certain sectoral developments. All three sectors, transportation and communication, Agriculture and industry had been given equal importance. In service sector, basically health and education were in the fourth priority sector. Transportation and communication development were in the priority because both India and china (both big donors to the country) wanted to develop for security reason. Later King Mahendra himself also felt that when parliamentary democratic forces fought against his autocratic regime from the eastern part then he faced difficulties to send his army immediately because of lack of good transportation.

In the initial three plans, the basic philosophy was "rapid capital accumulation (including knowledge, skill and capital). The ruling class and their foreign advisors wanted to shift underemployed people from agriculture to industries. It was argued that rural underemployed could be removed from the countryside without reducing agricultural output. This 'surplus labor' would be hired at near subsistence wages by the new industries set up with additional savings and foreign capital. Nepali rulers wanted to save the foreign exchange savings, employment creation, both through import substitution and export promotion. Moreover, since the countries economic life is virtually dependent on India, self-sufficiency in some consumer goods was considered most urgent (Poudyal 1983, Escobar 1995).

For the first time in history the Katmandu based ruling class gave some attention to regional development in their fifth plan. They emphasized balanced development of regions through specialization based on climate and topographic condition. Their view was to narrow the gap among the mountain, hill and Tarai people. But in the absence of clear strategy and genuine political commitment, it remained empty slogan.

Table -2.2

Sectoral Allocation of Total Outlay Under Different plans In percentage)

Sectors	1st Plan	2nd Plan	3rd Plan	4th Plan	5th Plan	6th Plan
Transportation and communication	33.8	23.9	26.8	35.4	27.5	21.4
Agriculture, forest, irrigation, land reform	31.4	13.6	25.9	33.1	33.4	33.2
Industry and commerce, mining, power	16.7	32.2	27.9	20.3	19.6	24.6
Social services	17.1	17.1	16.6	10.8	18.5	20.8
Miscellaneous	1	13.2	2.8	14.7	.	.
Total plan outlay(In million rupees)	330	600	2500	3540.3	9170	22300

Source: Various development plans, National Planning Commission, HMG/ Nepal.

The sixth plan aimed at the fulfillment of basic needs. Priority was given to the provisioning of drinking water, increasing food grain production, and fuel supply, health service, primary and skill oriented education, suspension bridges, mule tracks and feeder roads.

Evaluation of plans

The annual growth rate of GDP in Nepal remained approximately 1.7 percent for the period 1965-73 and 3.1 percent for the period 1973-83. With the population growing at two percent during the period 1965-73, per capita income appears to have grown at a marginal 0.5 percent rate. As might be expected, the slow growth also implied the absence of any significant structural change. During the period the economy had remained pre dominantly agricultural. The share of agriculture in GDP fell from approximately 65 percent in 1965 to 56 percent in 1984. The share of the work force in agriculture was 94 percent in 1965 and 93 percent in 1980. In the version of Godfrey Gunatilleke "The dependence on the primary sector is among the heaviest for developing countries in terms of total output and employment. Its share of agriculture in GDP was second highest in the world in 1980 and at 93 percent the agricultural workforce as the proportion of the total was that of two other countries"(Gunatilleke : 1988:607). Marginal increases were recorded in the GDP shares in the industry and the manufacturing components within it. Manufacturing, however, comprised only 4 percent of GDP in 1984. The service sector increased its share from 23 percent in 1965 to 32 percent in 1984. The rate of growth of agriculture, the dominant sector of economy grew between 1 to 1.5 percent in the entire period.

Table-2.3 GDP Growth Rates (Average Annual)

Period	Agriculture	Total
1964/65-1969/70	1.3	2.3
1970/71-1974/75	0.8	1.9
1975/76-1979/80	0	1.9
1980/81-1984/85	3.9	4.7

Source: (Nepal Relieving Poverty In a resource scarce Economy vol.2 August 15, 1990, UNDP/ WORLD BANK.

Table -2.4 Changes in the composition of Gross Domestic Product and Sectoral Rates of Growth:

Sector	Percentage of Share of GDP		Average Annual	
	1965	1984	1965-73	1973-83
Agriculture	65	56	1.5	1
Industry	11	12	na	na
Manufacturing	3	4	na	na
Services	23	32	2.1	6.9

Source: IBRD World Development report, 1986: table 2 and 3.

As agriculture was the major sector during the period, without increasing productivity in agriculture sector, there was no possibility for sustainable development. The non-agriculture sector grew at a comparatively high rate during the period 1974 -75 to 1983-84. The industrial output for selected industries grew at 7 percent. But it was on an extremely small base of production, not more than three percent of the GDP. The fast growth in the services sector was evidently promoted by tourism growing over 10 percent. This also reflected in the receipt from travel which increased from Rs.636 million in 1979 to 844 million in 1983(Nepal Rastra Bank, Research Departments Statistical table 1985, table 35).

An available estimate (which is given in table 2.5 below) indicates that overall productivity of the economy increased at a rate of approximately 0.1 percent during the period 1965/73 and 0.8 percent during the period 1973-83. These are derived from the estimate of GDP growth and the labor force, which shows sharp decline in agriculture production particularly in food grains.

Table -2.5

Over all Growth of the Productivity

Over all groth of Productivity	1965/66	1974/75
Growth of GDP	1.7	3.1
Average Annual growth of work-force	1.6	2.3
Growth of overall productivity	0.1	0.8

Source: IBRD, world development report, 1986.

Review of Agriculture, Industries and Foreign Trades

The share of agriculture in GDP went down from 65 percent in 1965 to an average of 49.3 percent for the period 1985 /86. But it does not mean this sector was economically replaced by other sector. Ninety-three percent of the workforce still remained in agriculture till 1985. While the total areas under food grains increased by approximately 13 percent from 1976/77 to 1984-85, production increased only by 12 percent. Thus yield declined. The performance during the ten years period from 1974-75 to 1984-85 fluctuated sharply both in terms of output, as well as yields. However, cash-crops yield increased by 1.8 percent and output increased by 7.4 percent. Still it was very small component of total agricultural output. Food grains accounted for approximately 55% of Nepal's exports in 1974-75. The share in export continued to fall over the next ten years to less than one third. Domestic consumption of edible food grains rose from approximately 900,000 metric tones in 1974-75 to 1260,000 metric tones in 1984-85. In 1982-83 the output was not adequate to meet national demand. By 1984/85 the total surpluses had been halved. It is because of population growth, low productivity of land and the failure of land reform.

Table 2.6:

Area and Yield of Principal Food grains (Area hectare in '000')

	Area Metric tons Per hectare					
	Paddy		wheat		Maize	
Year	Area	Yield	Area	Yield	Year	Yield
1964/65	1101	2	100	1.26	437	1.95
1969/70	1173	1.91	226	1.17	433	1.84
1974/75	1240	1.98	291	1.14	458	1.81
1979/80	1254	1.64	367	1.2	432	1.3
1984/85	1377	1.96	472	1.36	504	1.51

Source: Department of Food and Agricultural Marketing services.

Table 2.7

Index of Cash crops

	1974-75	1979-80	1980-81	1981-82	1982-83	1983-94	1984-85
Area	98.94	112.18	108.62	128.87	107.03	104.27	113.56
Production	108	107.81	113.29	128.66	141.98	139.34	149.69
yield	105.53	100.28	107.91	117.63	117.48	117.3	119.51

Source: Department of Food and Agriculture Marketing Services, and jute DevelopmentCorporation.

Foreign Aid politics and plan Development

When Nepal entered in to the modernization era 'foreign aid' became its part of life. The grant of Rs.22,000($2000) was provided in the fiscal year 1951/52 from the United States Government under point four Assistance Program was the modest beginning and then India entered promptly into the aid program. Since 1955 other countries came with aid packages including several UN agencies, the Ford Foundation, Switzerland, China, and Soviet Union.

US: goal of assistance

United States of America was interested to develop its influence in those places where British Imperialism had ruled or had a greater influence. Secondly, it had an interest in India as well as in the states on the periphery of the communist world. At that time Capitalist worlds were very much shocked after the Chinese peasant revolution. They were facing peasant uprising everywhere in the world. They were thinking that Nepal as well as other neighboring countries would be the next to be influenced from the communist peasant revolution of china that already showed its presence in Tibet claiming it as a part of China. To stop the influence of the Chinese type of revolution they had set up a policy of economic and political stability which are independent and together increase the capacity and the will to resist internal and external communist 'aggression' (Mihaly2002). From the following version we can understand the motive of US aid program:

"The maintenance of political stability is dependent in very large measure upon the capacity of these countries to improve the productivity and status of the agricultural population. The weaknesses of the present economies of south Asia bear most heavily upon the agrarian population and under current conditions, the agrarian sector offers a major target for communist

subversion. Therefore, the proposed program of economic assistance is designed to bring about improvements in the status of agricultural population... In a broad sense, all the proposed forms of economic assistance in south Asia can be classed as extensive work" (ibid 31-32).

Thirdly, American had a belief that Third world country has problem of knowledge of 'development' so they had improved 'method' of formula that was "know how" and "show how". In other words, if people saw how it was done, they would do it to themselves. The USOM had setup its goal as follows : 1) increase production of food, fiber, and housing materials so that every Nepalese had enough and the nation had an exportable surplus; 2) elimination of disease; 3) Schools for all; 4) sufficient roads to move agriculture and industrial products; 5) hydro-electricity for enough light and irrigation to sustain three annual crops; 6) reforestation; 7) land ownership to the tiller; 8) the establishment of an agricultural credit system; 9) the development of mineral resources; 10) the development of sense of unity, of love of liberty, and respect for the individual. To fulfill these goals he advocated: 1) training leadership, 2) developing democratic institutions; 3) policies to obtain financial support (presumably at home and abroad); 4) developing effective methods of American-Nepalese cooperation; 5) formulating a development plan (ibid).

Indian goal of Assistance

India had a broader interest in Nepal. When it won independence in 1947, it faced severe geo-political crisis. It was on a deep shock of partition and was not feeling safe from the northern as well as western neighbors. Geo-politically Nepal is landlocked by India from three parts. Therefore, India has a great security interest involved in Nepal. Secondly, India has a pride that it has greater knowledge about Nepal's geography, economic, political, cultural and social position rather than other countries. Because it has long history of all kind of relationship with Nepal and its leadership never thought that Nepal is an independently sovereign nation and it is considered as if it is just another state of northern India.

To counter the danger from northern border they commenced their aid projects in Nepal with the interest of consolidation of their military power. First, they built Tribhuvan Raj-path (highway which connects Kathmandu to Raxaul at the Indian border) and Kathmandu Gauchar air port (now the international airport of Nepal). Both, airport and road were built by Indian Army engineers with little Nepalese participation. Both projects helped connect with the North Indian States and open Kathmandu's markets for huge Indian commodities. Thirdly, Nepali leaderships had high inferiority complex with Indian counterparts that they did not have had confidence to do anything without Indian help and consensus.

Chinese Aid

In the second phase other donor countries and agencies were also involved in Nepal. Among them was China. In 1956, a cooperation agreement with China was signed with China providing cash and goods but not involved directly. It did not approach its technicians in the package of help and had given entire freedom in utilizing the both goods and cash. Mihaly remarks, *"China's aim in Nepal, in contrast to the complex Indian aims, easily lent themselves to expression through an aid program. For China's concern was straightforward and did not demand involvement in an attempt to reshape either Nepali economy or its' society" (Mihaly 2002:177).*

Others

After 1956 several other countries and aid agencies came to Nepal. Nepal had gained membership of the United Nation in 1955. Several UN agencies commenced their work since 1966. It also became a member of the World Bank and the IMF in 1961. But these two organizations actively involved since 1970's onward only (Sudhindra Sharma 2002).

Whatever the political, social or clear military motives of donor's in providing aid to Nepal, but ruler of the state never mind these all things. They never suspect any political philosophy and conditionality of aid pattern and future consequences and impact on country's development because they were highly interested to seek 'aid'. The Nepali state never tried to mobilize and generate its own resources. That is why the dependence on foreign aid was almost unavoidable to carryout its development activities (Sharma-2000). If we observe the Table no.10 we can find the real situation of the state's dependency on foreign aid. The foreign aid components have invariably determined the content of the ambitions reflected in each plan. No plan periods are exceptional. If we looked at the appendix no-1 then we can find out two major characteristics. First, the aid in the first seven years of the planed development (till 1956- 1963/64) was only grants. Then there has been a substantial change in the composition of foreign aid. Since 1963/64, Government accepted loan from the highly developed countries and International Financial agencies (IFA) although the component of loan portion was less than grants. But in 1983/84 the fraction of loan becomes higher than grants.

Table No: 2.8

Share in Foreign Aid in Development

Plan	1st. Plan	No plan	2nd. plan	3rd. plan	4th. Plan	5th. Plan	6th. Plan	7th. Plan	8th. Plan	9th. Plan
Plan period	1956 -61	1961 -62	1962 -65	1965 -70	1970 -75	1975 -80	1980 -85	1985 -90	1992 -97	1997 -00
Foreign aid %in Development	100	81.9	77.8	56.1	45.1	48	47.9	70.6	55.7	58.8

Source: Various Plan documents.

Second, foreign aid becomes an essential component of the national socio-economic development. Till 1985/86 loan component amounted Rs.10302.38 million.

Foreign Aid and trends of development

Lots of people came in to Nepal as advisors, exports, and technicians with aid, mainly in the fields of agriculture, engineering, education, and resource management. American aid focussed primarily on agriculture, health and education; Indian aid focused on administrative reform, transportation and, irrigation, drinking water and education. Since 1960s Chinese were involved in transportation and industrial development (particularly import- substitution types aimed at reducing Nepal's dependence on Indian consumer items). Chinese help was also strategic one because Nepal has been continuing supportive its position on Tibet and maintaining strict neutrality during the Indo- china conflict during the 1962 (Sudhindra Sharma 2002). Similarly, several country focused varieties of development projects. Foreign aid in Nepal has been employed in three major directions: infrastructure development (including power), health/education, and rural development (Mishra and Sharma 1983). Keshab Acharya remarks,

"In 1951, Nepal had 276 kilometers of motorable roads, 6.2 thousands hectares of irrigated land, 1.1 MW of electricity, two hospitals, 300 schools and 25 telephone lines. Fifty years later, the road network had reached 15,308 km; irrigation capacity 716 thousands hectares and electricity generation had gone up to 368 MW. Similarly, the number of hospitals had increased to 83, schools numbered 38,500, and there were 255,800 telephone lines. Much of the achievement has

been possible through foreign aid" (Acharya Keshav.p.2002:4, the figure Acharya cites has been derived from the Economic servey1999/2000).

But if we look at the next part of the coin then we can find out different result. Stephen Kosak question himself, "does aid work?" He argues research over the last few decades has provided ambiguous answers to the familiar question. The general finding however, seems to be that aid is not effective: a few specific projects may provide some, even a great deal of benefit to specific people in specific countries or regimes, but in the whole a policy of dumping pots of money into the development country (Kosak 2003). In his research work he applied the same tool of the UN which has developed to find out the Human Development Index (HDI). He argued that country's development should me measured by the actual quality of life of its citizen rather than simply how much money each would have if the total production were divided equally among them (ibid). In the per capita sense, only half of a kilometer of road for every ten thousand of Nepali population, almost ninety people share one telephone line, sixty percent of the population is illiterate, eighty five percent of population has no excess of electricity, seventy one percent of cultivated land still depends on monsoon, life expectancy at birth (nearly 58 years) is among the lowest in the world (Acharya 2002:15).

Why this is the case then after so much foreign aid investment? There is no easy answer to this. If we concretized as a whole the process of beginning and implementation of foreign assistance then we can reach the following conclusion.

First, the character of regime which had highly feudalistic and autocratic, that regime was not prepared for structural changes. As Dilli Ram Dahal explains -

"During the Panchayat regime (1960-1990) the king was absolute monarch and the political, social, economic power to rule the nation was virtually centralized in the palace itself. Altogether seventeen powerful people ruled this poor country during the Panchayat regime that had the direct connection with the palace. The king was placed on the top in this power hierarchical model where as deputy chief of staff of the Army staff was listed 17th, the bottom of the list in this power structure. Most of the ministries and ministers had little power to make effective decisions without seeking approval from the palace." (Dahal

2000:122).

This highly autocratic and centralized Government maximizes the welfare of ruling elite. Secondly, when donors serve their own political and strategic interest, that also created stagnation as different donors were trying go to different directions. The recipient country (or ruler) who would not try to mobilize its own minimum resources then that aid is fungible: it ends up simply substituting for government spending which would have occurred anyway, and thereby frees up government money to be spent on whatever the government wants (Kosak 2003). Therefore, the aid serve basically to the elite class of the state and foreign assistance has little or no effect on poverty and investment. In the case of Nepal if aid implied for structural change - such as radical land reform and proper distribution of land- even that foreign assistance amount spent for paying confiscated property owners, which could help to the country's people on both ways. First, most of the landless people have had a land for livelihood, second the property owner shifted towards industrialization as it was proposed as the aim at the beginning of so-called land reform in 1964, and third, that might be effective in improving the quality of life. In addition, even if it is allowed for a real increase in the resource allocated effectively to life quality enhancing programs and projects. Similarly, aid was not given for the improvement of institutionalization of governance, which could have strengthened the democratic process. But aid was given for strategic, cultural, or historical (e.g. colonial) rather than humanitarian reason (ibid). Neal P. Cohen (an USAID Mission Economist) realized:

"The most extreme example was our experience with Panchayat development, we believed, at first, Panchayat could be a useful tool for decentralizing development and involving more people in the process of decision making. Time proved us wrong." (Cohen 1992: 368(Four Decades of Development).

But it was a late realization and things had already gone on wrong track. From the very beginning, Nepal became highly dependent on foreign assistance and loan. By late seventies, crisis began to loom large. The development expenditure was higher than the proportionate of own resources mobilization. Thus, State is always searching the international financial aid and loan irrespective of the conditionality or cost it would entail in the future. It is because of slow growth rate of the national economy, low level of revenue generation internally, low rate of saving, inability to exploit existing natural resources, lack of skilled manpower and technical expertise, a low institutional capacity at the national and local levels, unfavorable balance of payment situation (Sharma, Suman K. 2000). The table no 11 shows the position of Internal and External debt servicing.

Table no 2.9:

Internal and External Debt servicing of the Government

Item/period	1981-85	1986-90	1991-95	1996-97
Total Debt Servicing (nominal growth rate in %)	27.3	8	23.02	12
External debt servicing	59	44.3	22.9	7.7
Internal Debt Servicing	24	20	23.6	16.2
Total Debt Servicing (real growth rate in %)	17.3	14	10.2	2.4
External debt servicing	46.4	28.6	10.2	-1.5
Internal Debt Servicing	24	20	23.6	16.2
Total debt servicing (as % of regular expenditure)	18.4	30.5	36.1	29.6
External debt servicing	5.2	12.3	17.1	13.2
Internal Debt Servicing	13.3	18.2	19.1	16.4
Total Debt servicing(as % of total expenditure)	5.8	10.4	13.9	14
External debt servicing	1.6	4.2	6.6	6.2
Internal Debt Servicing	4.2	6.2	7.3	7.7
Total Debt servicing (as % of GDP	1.1	2	2.6	2.6
External debt servicing	0.3	0.8	1.2	1.2
Internal Debt Servicing	0.8	1.2	1.4	1.5

Source: Sharma, Suman K. 2000, [Sharma, in turn, derives the data from various issues of Budget speeches and economic surveys.]

The annual budgets always remained in high-level deficit because of low level of revenue generation and high expenditure in social and economic infrastructure. Foreign debt rose from 2.1 percent of GDP in 1975 to 50.9 percent in 2000. It means the foreign loan which was beginning 13.44 million in 1963/65 reached 10302.38 million in 1986/87 and reached 134081.2 million in 2000/01.(see last Table). The per capita burden of foreign loans increased from 2.54 dollars in 1975 to 110.0 US dollars in 2000. From this debt servicing of foreign loan entails a double burden to the state. First, debt servicing reduces the amount of resources that are available to the national budget. To this point, it will impact on the priority economic activities including irrigation, drinking water, health, education, road and electricity. Secondly, for debt servicing there is need of hard currency, to achieve this much amount of foreign exchange hampers the import of very important materials such as medicine, books, raw materials, machinery and other capital goods (Acharya 2002).

In Nepal foreign assistance influenced development in four ways. First, donors selected specific projects and gave special attention to particular sector or kind of activities in hope of improving practices in those areas and initiating developments that eventually become self-sustaining. Second, there was a lack of knowledge and coordination on technical assistance. In greatest weaknesses was evident in the area of problem identification. The urban-based Nepalese officials were less conversant with the realities of their own country. This lack of knowledge with local problems went to the extent that foreigners after a brief visit could consider themselves authorities on Nepalese problem to be quoted, in due course by native official. Similarly, among and between major donors could not agree on similar type of project to do with mutual consultation. However, it was not a fault of donors but recipient country's lack of coordination. Third, major donors aid influences development is the most diffuse but perhaps the most powerful. The international aid establishment directly and indirectly supports the larger group of intellectuals (university scholars, professional consultants, aid administrators, and others) who conceive and eventually popularize their new thinking about development issues. Such as most of the intellectuals supported neo-liberalization policy. Fourth, the development of Nepal is rapidly influenced by the donor's conditionality because of its dependency on foreign borrowing. They tide some conditions to assistance do not advance balance development. In our practice, both bi-lateral and multilateral donors used aid to induce the government to change its development policies. And what donors' believe to be the Nepal's own best interest, such as, conditioning aid on economic reform, currency devaluation, market liberalization, and changes in tax system, adoption of new wages and income policies, cutting subsidies and adjustment in food and other agricultural prices and many other policy actions.

Dependency on foreign assistance, dependency on imported development commodities and then after huge trade deficit appeared serious balance of payment during mid-eighties. Then major donors began to talk about the need for economic reform and suggested the then government for policy shift to encouraging macro economic reform to achieve broad based economic growth. Then the government adopted neo- liberal policy under the guideline of International Monetary Fund.

Land Reform

Michael Lipton define land reform as,

"Land Reform (agrarian reform) comprises (1) compulsory take-over of land, usually (a) by the state, (b) from the biggest landowners, and (c) with partial compensation; and (2) the farming of that land in such a way as to spread the benefits of the man-land relationship more widely than before the takeover. The state may give, sell or rent such land for private cultivation in smaller units than hitherto (distributivist reform); or land may be jointly farmed and its usufruct shared, through cooperative, collective or state farming (collective reform).

Land reform, so defined, is by definition an equalizing policy, at least in intention. It may also foment growth, but its primary motivation is to reduce poverty by reducing inequality, though not necessarily through helping the very poorest, or all the poor. This may be achieved by distributist or collectivist means. Collectivization may be used solely to extract a cheap food surplus for the cities, but this is not necessary concomitant, and it may serve other aim" (Lipton 1974: 272).

However, in the case of Nepal, the nature of the state was very different; the power of state had taken by the autocratic ruler (monarch) with the help of military coup in 1960 however, King Mahendra had claimed he had been going to change overall structure of landownership through radical land reform (Bhushal 2002). Nevertheless, later he changed his mind because after radical change it would be dangerous for the collapse of his own class and political support base. It means he did not want to disestablish feudal production order. 'Land Reform' was his compulsion to conduct because there were heavy internal and external socio-economic and political pressures. Democratic land reform was not possible for the state, because it could not pay the full compensation from its own state treasury. Then there was need of confiscation or in other word only 'expropriation without compensation' or with low price of compensation which had not been favorable of his political and economic interest. Therefore, shifting land relation in favor of tenants was not the internal motto of land -reform of 1964, just the protection of tenant's right. Even in later year, it had not effectively implemented.

Land reform had introduced in three stages from 1964 to 1966 (from the middle of the second plan to the first half of the third plan period). In 1964, the Land Reform program had introduced in 16 districts including in the Katmandu valley and some parts of Tarai. That extended until November 1965. The reform programs into the remaining 34 districts completed in 1966 (A.N. Seth report on land reform in Nepal, FAO regional office for Asia and the Far-east, Bangkok, Thailand 1967 pp6).

The ownership of land was highly concentrated in the hand of very few people, while the majority of the cultivators were exploited which was inimical to both economic development and democracy (Regmi 1976: 201). The 1964 law however imposed the following ceiling on land holding:

Katmandu valley : 3.1 hectares
Hill regions : 4.9 hectares
Tarai : 18.4 hectares

Similarly, compensation was also set and announced over the landholding to the landholders on the basis of the land revenue at the following rates:

Cultivated land : 10 to 30 times the annual land revenue.
Grass and bush land : 5 to 10 times the annual land revenue.
Waste land : One-year's land revenue.

The government had also promised to distribute the excess land on the following priority basis (1) Sitting tenants (2) farmers with adjacent land (3) other tillers in the area and (4) landless area citizens. The distributed allotment was also set up on the following regional ceiling:

Tarai- 2.7 hectares,
Katmandu- 0.5 hectares,
Hills - 1.0 hectares.

It is often believed that land-reform would lead to the equalization process by reform the tenancy condition, settlement of new lands, direction of new inputs to small farmers, and progressive taxation on land holdings. But the three stages provided the landlords to hide extra land above the ceiling with the help of districts as well as central level political and legal institutions. Even landlords took over the land of potentially troublesome tenants, divided into several non-existent sub-ceiling holdings (for wife, children, cousin, aunts and believable servants) and continued personal cultivation - effectively turning tenants into laborers (Bhushal 2002). Similarly, tenancy reform may induce them to shift around tenants every year or even every season, so that no single tenants could cultivate a piece of land long enough to establish a claim to rent reduction, prior right of purchase or security of tenure. That became common practice because tenants dared not imperil their access to patronage (loans, job, and help in dealing with government officials) (Lipton 1974). Regmi remarks, "By July 1972, the government of Nepal had acquired a total area approximately 50,000 hectares of surplus of land under this program. This accounts to approximately 3 percent of the cultivated area. Only 22 thousands hectares however have actually been redistributed to about 10,000 peasant's families (Regmi 1976:201). More than 60 percent of excess of land were identified were still with landlords. Most of the land was not distributed. In addition, wherever, land was redistributed, these were mostly allotted to the government officials or their relatives or friends. Thus, the marginal and landless peasants could hardly receive and benefit from the programme.

The Table2-10 shows the distribution of the operation holdings and distribution of tenure status which is decreasing per decade.

Table2.10

Distribution of Tenanted land

Source and Date	Tenants Families as % of Total Farm Families Tenant cultivated lands % of	Tenant cultivated lands % of Total Cultivated Land
Agricultural census 1961	40.4	25.5
During land reform 1964-66	28.3	4.9
Agricultural census o 1971	18.9	15.8
Agricultural census 1981	8.2	4.5
Agricultural census1991	16.45	8.78

Source: High level Land Reform Commission 1995pp39

The main reasons of decreasing pattern of the tenancy were increasing population and fragmentation of tenant's lands. Secondly, tenants themselves became small holders and thirdly, they were increasingly driven out from the tenancy right. After the land reform program.Zaman- who was also an appointee of the Government of Nepal for evaluation of land reform had presented the position of land occupation in his report as;

Table- 2.11

Land Tenure Distribution after Land Reform

Land Related Groups	Family Percentage		Cultivated Area%	Average Tenancy, Hectare
	Total Family	Land own Family		
A, Land owner Families	92.2	100	100	
1, Landlords	1.8	3.31	26.91	18.33
2,owner cultivator	62	65.22	49.11	1.67
3, owner -cum-tenants	19.1	20.7	15.36	1.64
4, Tenant cultivator	2.3	10.7	8.62	1.74
B, land less family	7.8		0	0
Total	100	100	100	100

Source: Zaman (1973).

From this table we can understand that after land reform about 27 percent of land was seen in the hand of landlords and area of cultivation was also higher. The average area they covered 18.33 hectares. Where tenancy decreased and remained only 2.3 percent in one hand, in the other hand owner cultivator reached 62 percent which was out of expectation. It is because (we mention above) large area of land were occupied by the bogus sub-ceilings. These all were the action of big landlords and they did with the help of state machinery.

Tenant's security was another major goal of the land reform. But, out of 1.8 million individuals who were issued for tenancy identification slips, certifications of the tenancy were awarded to only 300,000. In 1967 there was a general feeling that "about 50 percent of the area in the valley, 60 percent of the eastern Tarai, and 70 percent of the western Tarai was tenant-cultivated (Zaman 1973). The third goal of Land Reform was rent control. According to Land act of 1957, the land lord was prohibited from charging rent in excess of 50 percent of the total produce in cash or in kinds. The 1964 act retained this provision for all parts of the country except the Kathmandu valley where it fixed the rents according to land quality. In 1968, the rents were reduced to 50 percent of the value of the main agricultural crops, a figure which the government retained the right to determine.

Another goal of Land reform was towards the redemption of the old debts and fixation of interest and to provide special aid to small farmers. It was proclaimed principally that government would facilitate the small farmers with special credit facilities, input subsidies, and marketing or delivery arrangements. The idea behind this was to shift agricultural capital in favour of those families with greater number of unemployed and under employed labour; and it was expected that they would use more capital per labour per unit of land and thus raise overall yield. A few institutions were also developed like Agriculture Development Bank, Agriculture Cooperatives; Small Farmers Credit Scheme and so on. But the goal remained a pipedream as in Michael Lipton's words –

"*What is more, these benefits tend not to reach really small farmers for whom they are designed; secretaries of credit cooperatives, for example, notoriously are big farmers or money lenders or their relatives and clients, and credit intended for small farmers thus finds its way via the rural elite high interest private money lending cycle. The heavy administrative burden of reaching really small farmers, especially in an agrarian system dominated and structured (as regards credit, inputs extension and marketing) by big commercial farmers or land lord, predisposes governments to accentuate such biases*" (Lipton 1974: 280). That exactly happened in Nepal in real practices.

There was a dream of "green revolution" too after the completion of Land Reform program, mostly with the help of American Aid. They tried to bring improvement in farming pattern using new technology, new seeds, and uses of chemical fertilizers. But it was not achieved. Without changes in structure of land or without redistribution of land it was not possible to elevate the agriculture to a new high.

In actual practices, land reform law 1964 did not make any change in the agrarian structure of the country. ARTEP study of 1982 concludes, "The conclusion... seems inescapable that despite the reform of the 1960's there has been no reduction in the degree of inequality in the distribution of landholdings in rural Nepal. It is possible that, there has been a gradual worsening of the situation during the last two decades." [ARTEP, (Employment and Development in Nepal), Bangkok: 1982:41]. Even the failure of the land reform clearly showed from the following comment made by IDS, "It shows larger representation in terms of families and area in the middle size (1to 3 hectare) farm in 1962 than in 1981, but the smallest farms in 1962 had became even smaller by 1981. Large farmers over 19 hectares dropped somewhat in percent of families and land area, though in absolute terms the average size for those over ten hectares in 1962 and nearly 22 hectares in 1981 (Integrated Data Systems, The Land tenure System in Nepal, Katmandu, IDS 1986: 27-28).

The failure of Land Reform impacts very badly in agricultural society in Nepal which has been lifeline of Nepalese economy. The performance of the agriculture sector in Nepal has been lacking energy and effort. However, large investment was made in agricultural development since the beginning of state modernization. Yet agricultural growth has been far too small: 1.5 percent in 1965-73 period, almost 0 percent in 1973-80 period, and 3.9 percent in 1980-87 period. This is less then population growth rate.

There was a good chance to transform the structure of Nepali society during that decade when so-called land reform was introduced. Government could have paid partial compensation to the land owners since so many donors were ready to help for the structural change especially in land. During the mid eighties most of the remote part of Nepal had confronted with severe famine, and Nepal forced to import huge amount of food grains from outside. This is the one side of the story which had a bad impact on agricultural based export. There was a big exodus of people from villages to different cities of Nepal and neighbouring Indian towns. But the Government has adopted Neo-liberalism without caring for much needed fresh re-structuring of the society.

Industry and Manufacturing

Industry and manufacturing was a small component of GDP during the entire period but made a considerable contribution to diversify the exports. This contribution appears to have come largely from the small scale and the handicraft sector. The high transportation costs associated with the landlocked situation of Nepal required a special industrialization strategy. It included the emphasis on small scale forms geared to the internal market, where demand grows with the agricultural development and the satisfaction of the basic needs. In 1970-75 only one percent of the total workforce was engaged in industries. This remained constant in 1980-85.

Table2.10

Sector and GDP

Years	1964-65	1969-70	1974-75	1979-80	1984-85
GDP	6274	9820	16571	23351	44441
Manufacturing	83	195	664	936	2511
cottage industries	423	687	224	318	884
% share of mfg in GDP	1.32	2.oo	4.00	5.66	5.65
% share of cottage in GDP	6.7	7.1	1.35	1.36	2.00

Source: Ministry of Finance, economic- survey 1987

The cottage and village industry was the second largest source of employment after agriculture but after 1969-70. But its share declined in the subsequent periods. Cottage industries could not compete and began to collapse. Despite various programs to develop small industries, the small industries could not survive because of unavailability of raw materials, flows of mass-produced goods from India through the open border.

The modern manufacturing sector was primarily an extension of agricultural sector and consists mainly of cottage and other small-scale plants, particularly the food processing mills. It was increased by 65 percent to 76 percent during the period between 1965-66 and 1972-73.

The manufacturing sector grew at a comparatively high rate during the period from 1974-75 to 1983-84. The industrial output for selected industries grew at 7 percent. But its share in GDP was not more than 3 percent. The main products were jute, sugar, tobacco, textile, leather goods, cement and plywood. Public enterprises constituted an important component of the medium and large scale manufacturing industries. There were 53 public enterprises by the end of 1983-84, producing mainly cement, sugar, cigarette, leather, agricultural tools and other public utilities. Their performance remained poor. The internal rates of return were very low or negative, and many enterprises had to rely on government loans and subsidies for their survival. The industrial sector, which was highly protected till 1980's, did not create the base for its future development (Pandey 1999:51).

Government had a dream of industrialization and urbanization without changing any structure of the society. Genuine land reform and its proper management, confiscating wealth of the past autocrats and lending for institutional building, providing education and health to the people, which could open the door for said dream to fulfillment, required commitment to structural transformation of society and its institutions. This was clearly not the aim of the ruling class. Industrialization and urbanization were seen to happen automatically through modernization process. According to them, only through material advancement could political, cultural, social progress be achieved. This view determined the belief that capital investment was the most important ingredients in economic growth and development but they did not think the supply side of the capital which basically comes from the internal saving and mass scale skill mobilization towards industrialization.

Table-2.11

The manufacturing sector - Output and employment Growth, (output in Rs. Millions, current price)

	1966/67		1981/82		1986/87		Average annual employment and Growth		
	Gross Output	Employment	Gross output	Employment	Gross output	Employment	1976-82	1982-87	1976-87
Food	3394	20835	4185	25463	4940	32124	4	5	5
Drink	134	6887	987	11087	363	11195	10		5
Textile	174	8323	655	13911	2154	35557	11	20	16
wood/paper	144	5970	612	7267	605	11829	4	10	8
Plastcs,etc.	16	740	195	830	863	7360	3	55	25
Non-metallic	59	7550	130	16640	938	45490	16	22	18
Metallic	46	1390	192	3843	771	5810	23	9	15
Total	4338	59037	7062	80150	13537	152579	6	14	10

Source: Nepal relieving poverty, 1990: table 4.1pp192.

Foreign Trades:

Foreign trade in Nepal relates basically to trade with India. Nobody can measure the actual volume of trade with India done across 500 miles long open border. ARTEP imagined that one third of total volume would not be recorded (ARTEP1974, A challenge to Nepal Trade and Economic Relation, B.R publishing house, Delhi). From the following table it shows that the volume of trade with India in 1950 was 96.35 percent of the total trade volume of Nepal. It declined to 44.22 in the 1980s.

Table 2.12

(a) Nepal's Foreign Trade, volume and direction (.in million)

	IMPORT				EXPORT			
country	1950s	1960s	1970s	1980s	1950s	1960s	1970s	1980s
India	105.86	363.35	556.36	1381.81	212.83	643.24	1634.08	4042.89
	(-98.33)	(-74.94)	(47,78)	(-47.05)	(-95.4)	-92.32	(-55.49)	(-43.33)
Tibet(china)	1.5	2.99	---*	----*	1.49	5.01	---*	----*
	-1.39	-0.62			-0.67	-0.72		
Third country	0.296	118.53	608.12	1554.89	8.77	48.53	1310.77	5286.61
	-0.27	-24.45	-52.22	-52.95	-3.93	-6.96	-44.51	-56.67
All	107.66	484.87	1164.49	2936.7	223.09	696.77	2944.85	9329.85

Note: For all decades only three yearly intervals have been taken.

* Non available.

Source: (Baburam Bhattarai, 1998:202).

The slow growth of economy, lack of processing industry meant that the quality of industrializations in Nepal remained rather low. In addition, declining agricultural production relative to population growth, environmental degradation and inefficient government bureaucracy was a nature of economy during the entire period. One major implication of this continuously manifested low economic achievement has been the systematically unfavorable foreign trade balance, characterized by very low level of export trade and increasing volume of imports of both consumption goods and investment items, largely financed through foreign loan (Sharma 1999).

Nepal's foreign trade was highly limited to the one with India till 1960. In 1960 a trade and transit treaty was signed between the two countries, which opened a new chapter in the history of Indo-Nepalese economic relations. Nepal was now free to establish commercial contacts according to her own choice and India was to cooperate in this task by providing transport facilities through her territories. It had threefold objective: (1) to expand the exchange of goods between their respective territories, (2) encourage collaboration in economic development and (3) facilitate trade with third countries (Rawat 1974: 73). After this treaty, Nepal introduced industrial legislation in 1961 with the aim of revitalizing the sick industries -which were opened between the first and the second world war- and to established industries producing basic consumer goods.

Through this act government started to regulate industrial investment and protected domestic industries from external competition. Again it provided protection for a minimum of five years through protective import tariffs and quotas and through licensing. During this period some public enterprises were established with the help of donors. Exports of agricultural products were regulated through the export license and export tax (Sharma Kishore, ed. Ric Shand, Economic liberalization In South Asia, 1999: 297). In 1962, the Nepali government introduced the Exporters Exchange Entitle (EEE) scheme to encourage export earnings. This scheme allowed overseas exporters a bonus in the form of convertible currency, which could be used to import a wide range of goods, except for some restricted items.

This encouraged the import of luxurious and semi-luxurious items for smuggling in India. Thus to control the smuggling this scheme was abolished in 1978 and the government introduced dual exchange system but it was also replaced by unified exchange rate in 1981. To allow flexibility in the exchange rate of the Nepalese currency, the government introduced the basket system in July, 1983. Under this system the Nepal Rastra Bank fixed the exchange rate between Nepalese currency vis-à-vis foreign currencies, including US dollars, in accordance with the changes in the international money market. In 1981 the Nepali Government announced a new industrial policy with a view of attracting investment in export oriented industries. Except for defense, all industries were open to the private sector but policy failed to attract substantial investment, especially in export oriented industries. By the mid eighties the trade and payment situation had substantially deteriorated and the government budget deficit had rapidly expanded. The current account deficit and budget deficit had reached 4.2 percent and 8 percent of real GDP respectively by 1985. This was the background when the government announced the liberalization policy.

Several policies implemented by the government could not encourage the export-oriented industries. Thus country had only a few export items, namely processed jute and carpets. Low investment in export oriented activities led to decline in export. The export performance ratio (i.e. ratio of export to GDP) declined from 0.06 in the mid 1960's to 0.05 by the mid 1980s. At the same time, the import requirements of the incentive structure industries grew rapidly, leading to a dramatic increase in the import dependence ratio, i.e. the ratio of imports to GDP. The import dependence ratio, which was only 50 percent higher than the export performance ratio during 1964/65 -1970/71, expanded rapidly and became 100 percent higher in the 1970s and 240 percent higher by the mid 1980s (Kishore Sharma 1999). Most of the exports were those of primary goods. These were jute raw jute, hide/skin, pulses rice, timber, and dried ginger. Table 2.11 shows the real export items of Nepal till 1985.

Table 2-11

Share of Selected Commodities in Total Exports (Average Annual Share)

commodity	1974-/80	1980-1985
Jute goods	16.3	14.7
Raw jute	12.7	11.4
Hide/skin	8.4	11.7
Handicraft	3.0	12.1
Garments	2.9	2.6
Pulses	1.0	4.2
Rice	5.6	11.0
Timber	26.0	7.1
Dried ginger	Neg.	2.3
others	4.7	19.9
Total	100.00	100.00

Source: Economic survey Ministry of Finance 1987.

The import from India and other countries consisted mainly of the finished goods. In the 50s, 60s, 70s and 80s finished products consisted of 47.25, 64.03, 73.40, and 71.79 percent of the total imports respectively. Trade deficit problem was a natural outcome of this situation.

Table 2-12 External Trade and Balance of Payments

Year	Balance of Payment	Trade Balance		
		Import	Export	Deficit
1979	-7	254	109	-145
1980	-53	345	97	-248
1981	-19	195	63	-132
1982	-86	252	46	-206
1983	-143	464	94	-370
1984	-102	437	111	326

Source: IBRD, World Development Report, 1987.

Conclusion

Nepalese economy was on the decline during the last five decades. This was largely due to Nepal's inability to change socioeconomic structure. It could confiscate neither extra land nor wealth of the richest people nor could it launch a pro-poor public policy in other matters. Nepal had a chance of transforming from a needy country to a well-developed one, if government had a new policy of its own. Overall structure remained the same. The result was stagnation of production in agriculture and manufacturing both. However, the need for foreign currency was increasing due to import surge of luxury items and government expenditures. The rise of Regan in the USA and Thatcher in the UK provided the right context in which countries dependent on foreign aid asked to follow neo-liberal policies as conditions for receiving loans. That combined with the need of the ruling class. For them whom it did not matter whether the new policies affected the poor and marginalized negatively or not. What mattered was theirs own survival.

Chapter – 3
Shifting Paradigm

"The single thought of capitalist political economy has always been based on an imperialist world view, in accord with the development of capitalism which, by its every nature, has always been uneven and polarizing on the world scale during the monopolistic nationalist liberal phase (from 1880 to 1945), imperialism was (or rather imperialism were) synonymous with conflict among imperialist power, in the Leninist sense. In contrast, the social and national post war phase (1945 to 1980) was characterized on the one hand by the strategic convergence of the national imperialism under the discipline of a hegemonic United States, and on the other by a retreat of imperialism, which was forced to withdraw from regions of 'real socialism'(the USSR, Eastern Europe, China) and to bargain with national liberation movements over the terms under which it would maintain its position in its Asian, African, and Latin American peripheries. Now that 'really existing socialism' and Third World radical populism have met their ruin, imperialism is once again on the offensive. The 'Globalization' thesis proclaimed so arrogantly by the current ideology is nothing but a new way in which the inherently imperialist natures of system assert itself. In this sense, it can be said that 'Globalization' is the euphemism for that forbidden word imperialism."

Samir Amin on Spectres of Capitalism (1999: 38-39)

Structural Adjustment Program (SAP) and Nepal: the Genesis

The oil shock in 1973 by oil importing developing countries and their option of finance or immediate adjustment create a rational response for the use of external borrowing. Especially because the market supply of finance was favourable and interest costs were low. It evolved as an accidental way, private capital markets assumed new responsibilities in underwriting the economic growth of developing countries. During the debt crisis of early 1980s, several external factors contributed to the deterioration of the balance of payments of developing countries ; these includes the second round of oil price increases, rising interest rates and recession in industrial countries. The form and adequacy of the restructuring of international economic policy that took place in the aftermath of the Mexican default in

1982 are addressed next [1]. The International Monetary Fund (IMF) emerged from the crisis with a new central role; private banks recognized their ways of doing business. On the other side, developing countries have experienced the most dramatic declined of living standards since the depression of mid seventies; for some countries the decline has been even lower. Much needed adoption of positive adjustment for these countries is becoming an increasing political reality (Fishlow1988). These countries needed most to borrow from international banks, but the traditional conservative attitude of bankers had forced them from extending further loan pro-cyclically, instead they wanted back their already lent money along with interest, and were not willing to take any further risk in this volatile financial situation. Besides this, the credit rating of less developed countries too deteriorated badly and thus further loan denied. It became much worse after Ronald Regan and Margaret Thatcher came into power, they prescribed the higher interest rate and curtailed the country-to-country assistance, which accentuated the debt burden (Dasgupta 1997). Some argues that the genuine objectives of Structural Adjustment lending were in first place to ensure that the disbursement of general programme funds which would contribute to the creation of domestic economic capacity. Secondly, starting from an initial situation with many policy-instruments geared to control and regulates the markets, whereas reform attempts to increase welfare through eliminating some of these controls may, particularly during the transitory phases, decrease socials welfare, worsen poverty incidence and also fail to mobilize resources for short or long term investment. Third, for the execution and implementation of a pre-designed adjustment programme extensive government resources and capable executives are required, which are not available in a minimalist governmental setup that too in a third world country; thus the private and government partnership is essentials (Geest 1994). According to Robert Cassen, Structural Adjustment lending the necessary for two reasons; one is developmental reason and second for donors reason. Clearly part of the impetus to the adjustment lending came from the nature of development finance. Much of the past aids had utilized in the form of projects, and when these projects were looking less viable and under-utilized then there was no point of continuing with these kinds of projects.

[1] When Mexico informed the US in 1982 that it could no longer service its huge debt, the Federal Reserve launched a concerted effort to contain the crises so as to preserve damage to the American Banking system and extension of the crisis to other debtor countries in Latin America. While the federal arranged for short term loans to prevent a Mexican default, the IMF assumed responsibility for working out a long term solution. Then the arrangement for dealing with the Mexican debt crisis became the model followed with other Least Developing countries (Gilpin, Robert 2001, on Global Political economy).

To make these projects viable, extra lending was a pre-requisite. To bring the economy in a good track, at first it should concentrate on stabilization programme so as to strike a balance between basic macro and monetary variables, using mainly demand contraction and devaluation to reduce domestic and external deficits and debts. Through stabilization, they expected to increase the incentives, especially the relative advantages of importing technology, substituting exporting, and boosting domestic production. That accelerates further reform on deep-seated problems such as – the reform of state owned enterprises, and a variety of actions to enhance the role of market signals, and promotion of private sector, and trade and financial liberalization. Then these functions further emphasize for further changes such as broader institutional reform, capacity building, and governance. From the donors' point of view, the debt problem in many countries was, in fact, of insolvency. They were not in a position to service their debt, without major economic and structural reforms - rather than a liquidity problem - that could be solved by the short-term lending and policy adjustments. Many debtors could not possibly repay or even service (pay the interest on) their debts under the best of circumstances. It becomes obvious that a long term financial solution to the debt problem was required (Cassen 1994).

In 1985, responding to these assessments of the nature of the debt crisis, US secretary of Treasury, James Baker initiated the policy of Structural Adjustment. He assumed that the debtor countries persistent trade and fiscal imbalances have deep structural causes. Therefore, along with the change in macroeconomic policies, such as initiating a shift towards export led growth through structural reforms, reduction of the role of the state in the economy and public sector reforms were required (Nelson 1990). The doctrine of Structural Adjustment meant that a debtor country applying for financial assistance from the IMF and or World Bank had to commit itself a rigorous economic and structural reform. Over the short term, these reforms were intended to achieve balance of payment adjustment; over the long term, restructuring of these economies would be necessary if they were too returned to successful economic development. Adjustment loans are also meant to compel financial reforms. Interest rate control and credit rationing are to be abolished; interest rates are to be allowed to find their 'real' levels to exceed the rate of inflation, its major purpose of such decontrol being to increase private saving and private investment, which presumably would ensure sustained growth. Although there is no guarantee of sustainable growth but the decontrol interest rate redistributes income to more wealthy persons and the elimination of credit rationing channels funds in to investments that are not necessarily productive. Furthermore, an adjustment loan promotes trade reform in which tariff reductions are passed in the country and export is intensified, exposing industry to greater domestic and foreign competition. Such measures depress wages and salaries, and are intended to so (Brand 1994). This doctrine of structural Adjustment was based on what John Williamson called 'Washington consensus'. In his writings, Williamson includes following ten points.

(1) Fiscal Discipline, (2) Reordering public expenditure priorities, (3) Tax reform, (4) Liberalizing Interest rates, (5) A competitive Exchange Rate, (6) Trade Liberalization, (7) Liberalization of Inward Foreign Direct Investment, (8) Privatization, (9) Deregulation and (10) Property right (Williamson in Economic and Political weekly, April 12, 2003)

Role of IMF

The IMF was established to underpin a stable international monetary order, and thus to avoid any repeat of severe economic and social dislocations that had devastated the apparent stability in the mid 1920s. The IMF original mandate was to ensure monetary stability in a war-devastated world economy as a substitute for the gold standard, which was quite successful until the First World War. This implied that the IMF interventions were to impose an adjustment on all parties on their balance of payments- be it surplus or deficit. IMF effectively helped to re-establish the convertibility of different the then European currencies (1948-57). Its main task was to maintain a stable system of fixed exchange rates through short-term lending. When that was abolished in 1971 the Fund reoriented itself to the role of quasi-leader of last resort to debt laden countries in need of hard currency. As the developing world required increasing amount of capital for growth programmes, the IMF adopted a more proactive role and with the approach of its structural adjustment policies, became a macroeconomic leader (Amin 1997, Stevenson 2000).

Role of World Bank

The World Bank established with the idea to help in reconstruction and development of war-ravaged European countries and for the development of other member countries. After 1950 Bank focus was on fight poverty, though the focus of task changed. During the 1960s, it was involved in development planning, during the 1970s toward fulfilling basic needs on good governance. It was believed that World Bank was more practical and pro-people compared to IMF before 1980s. Traditionally, the World Bank has made project loans - loans for specific purposes, mostly infrastructural investments. Their basic purpose is to stimulate private investment and to broaden the tax base. The Bank goes through economic feasibility studies before granting such loans, and closely monitors their implementation and effectiveness. It also looks after that the loans granted are paid back, repayment being important not only for its own funding but for its standing in world capital markets and the congress (Brand 1994). Since the early 1980s, the World Bank has been providing structural adjustment loan (SAL) on highly favourable terms. These aim to address borrowing countries' macroeconomic difficulties, mainly concerning inflation and growth, and structural problems, mainly through market liberalization and privatization. It makes structural adjustment loans on both market based on concessional terms, and extends interest free credits to poor countries through the International Development Association (IDA) (Stevenson 2000).

When during 80s World Bank started its structural- adjustment facility (SAF) to provide money to developing countries on concessional terms, the IMF moved towards to the enhanced structural adjustment facility (ESAF) in 1987. The prime goals of ESAF are to improve a country's balance of payments, and to promote long-term growth.

Pre-condition and Process:

The conditionalities accompanying the loans of these two organizations reflect their common market oriented approach. IMF emphasises on demand constraints, the World Bank operates on the supply side, and there is a broad consensus that the former would precede the later, in the sequencing programmes. The formal loans applications are preceded by detailed negotiation between the two and the government concerned. Eventually a policy framework paper (PFP) are drafted by Fund and Bank side and dispute on those are resolved.(Dasgupta 1997).IMF and World Bank financing including structural adjustment lending is subject to several types of conditionalities. First, country must execute before a loan is approved and the first trench of funds released. Second, there are structural and quantitative performance criteria that are used as objective measures of whether an agreed reform programme on track. These must be fulfilled to trigger access to successive trenches. Third, there are quantitative aspect of policy reform that are specified in the letter if 'intent', in the case of the Fund, or 'letter of development policy' in the case of the Bank, that a government sign to secure the release of IFI funds. Prior actions and performance criteria constitute 'hardcore' conditionality in that they must be fulfilled before a country can begin, or continue, drawing in a given IFI facility (Stevenson 2000). Similarly the IMF programmes are conducted in seven stages: inception, blueprint, negotiation, approval, monitoring, revisions and/or suspension and completion.

It is said that for both World Bank and IMF, the package of conditionalities varies according to the quantum of loan sought, the economic position of the recipient country, the purpose for which the loan is being asked for and the character (political and otherwise) of its government. Both the IFIs were much interested to care on the lending amount or loan, other things remaining the same, the greater is the number of conditions and the rigour with which it is monitored. Nepal adopted neo-liberal policy within this ideological and political framework since November 1985 in the country with the policy level intervention of IMF and World Bank.

Nepal, Under Structural Adjustment Program:

After thirty years, the Nepalese economy became rather stagnant. Agricultural production began to decline and industrial production could not grow as was expected and needed. Consequently, poverty spread among the rural masses, unemployment and underemployment increased rapidly, inequality became far more deep-rooted. Due to famine and other difficulties, migration intensified. During the First (1956-1961) and Second five year plans (1962-65), the GDP growth hardly kept pace with the annual population growth of around 2 %. The third plan growth rate was 2.7 %, slightly higher than country's population growth. The fourth and fifth plan performance was below the population growth, which was 1.8 and 2.3 respectively (Shrestha 1993). It meant that all sectors of economic development were stagnant, and some of them were in decline. Further it means that all programs of health, education and other basic needs provisions were weakened. The combination of unsustainable balance of payments deficits, excessive external borrowing, inflation, and public sector deficits was leading to the virtual collapse of the economy.

The root cause of the failure of economy lay in the failure of redistributive programs such as the land reforms and progressive taxation. The absolutist monarchy followed donor led macroeconomic reform programs; instead, emphasizing the need for accelerated economic growth to achieve national development. The donors, especially US aid agencies and IFIs were eager to endorse IMF-led structural adjustment programmes. Skerry et.al remark:

"Massive structural reforms were required to stabilize the situation in the short term, and to improve economic practices for the long term. The International Monetary Fund initiated with a stand-by an arrangement to stabilize the economy in 1985; shortly after the World Bank introduced a long term Structural Adjustment Program. The structural adjustment programme was intended to 'accelerate sustained economic growth by reorienting the economy towards a path relying more on the private sector, and on improved allocation of public and financial resources. The programme was concentrated in five sectors: macroeconomic management, agriculture and forestry, industry and trade, public sector enterprises and development administration" (Skerry et.al 1992).

It was said that the macroeconomic policy reform measures called for under the structural adjustment program were to increase real GDP growth by reducing government borrowing and deficits, restructuring public enterprises, and maintenance of foreign currency reserves at adequate levels. The influential donors and ensuring International Financial Institutions had a policy of reducing the government role in the economy and increasing the role of the private sector. Thus the government in Nepal began its 'economic stabilization programme' in 1985. It involved demand compression via squeezing excess liquidity in the economy by controlling domestic credit expansion in general and bank credit to the government in particular. It was supplemented by devaluation of the rupee, which was discouraging import growth (Achrarya et al 1998). Then Government provided greater space and role to the private sector. Especially SAP led to liberalization in two major sectors: foreign trade and foreign investment. At the beginning strict quantitative restrictions (QRs) were replaced with import licenses and an auction system and several items were replaced under the open general license (OGL)/ pass book system with duty drawback of exports. Government attempted liberalization on financial investment, and for the first time foreign banks were allowed to open their branches in joint ventures. A capital market for the sale of bonds and securities was developed with the help of USAID. Simultaneously, the private sector began to get involved in forest management and commercial exploitation of forest resources. In the agricultural sector, different rural development projects made efforts to establish private seed and fertilizer dealers. In addition, they also emphasized the promotion of small agribusiness.

On the advice of the World Bank, the Nepali government adopted a "Basic Needs Program" in December 1985. The aim of Basic need program was 'major improvement of the quality of life' by the year 2000. Under this program, government set out standards for food, firewood, drinking water, basic health services and sanitation, primary and adult education, and transportation and communication facilities. The Government hoped these would be achieved through massive decentralization and effective use of domestic as well as external resources. The Basic Needs program was prepared for the developing countries by the Institute of Development Studies (IDS), University of Sussex and International Labour Organization (ILO) and was adopted for operational purposes by the World Bank. The strategy involved improved employment opportunities for the poor under a broader strategy of redistribution with growth (RWG) (Please 1994).

In 1987, the stabilization programme was further developed in to a Structural adjustment Facility (SAF). It involved some structural efforts such as deregulation of state control over private sector's economic activities. It simplified licensing procedures for imports and industrial investment, increased freedom of the banks to set interest rates on credits and deposits, lowered on tariffs and reduced the magnitude of government deficit by curtailing government expenditure and budget deficits (Acharya et.al 1998). Trade sector reform had slowed because of trade and political conflict between India and Nepal. India had not yet adopted IMF led neo-liberal policies. However, earlier liberalization in Nepal gave a spac e for smuggling of foreign goods in to the Indian market, which resulted in Trade and transit disputes with India. That created economic hardships to Nepal. This event precedes the movement for multiparty system, which succeeded in overthrowing the autocratic Panchayat regime led by the active monarchy and reestablished Multi-Party democracy in 1990.

The second SAP expired in 1990 when the country underwent a fundamental change in the political system. In 1991 the Nepali congress party won the first general election with a clear majority and formed a single-party government. This government also accelerated the same agendas of neo-liberalism under their guiding principle of 'Democratic Socialism'. They defined their 'socialism' as not guided by the 'orthodoxy' type of socialism where the state dictates. In the Eighth Plan document they stated that the role of the state is that of a supporter of and not active participant in economic activities. Their view was guided by neo-classical monetarist theories. They explained " the supportive role of state will bring about social and economic justice through increasing production, creation of employment and special programmes directed towards the upliftment of the socially and economically deprived poor people who were left out of the mainstream of development'. They further pointed out that with the failure of socialist countries - USSR and Eastern European countries - the traditional state-directed socialism was no longer suited to the existing global economic scenario. Thus policies will be adapted to carry out development through a free market oriented liberal economic system (the Eighth Five Years Plan Document (1992-97; pp85).

Thus after a gap of two years, the newly elected government of the Nepali Congress again entered into an arrangement with IMF under the Enhanced Structural Adjustment Facility Programme(ESAFP). It was said that the step, represented a 'second generation of liberalization'. After the trade policy reform the peak tariff rate was lowered from 300 percent to 80 percent and the full convertibility of the rupee for all current account transactions began in early 1993. During 1992/93 several new acts were introduced and immediately activated such as the Industrial Enterprises Act (1992), Foreign Investment and Technology Transfer Act (1992) National aviation policy Act (1993), Privatization Act (1994). The Government initiated various other steps towards neo-liberal reform both policy wise, and institution wise. It opened the entire door for a fully liberal market oriented economy.

Under the reform, the Government gradually reduced the traditional role of the state. The role of the state was limited to the following: (1) the conventional regulatory role with law and order functions and activities. (2) the development role where it was believed that state had a major role to play in areas with natural monopoly, high risk, long gestation periods and wide spread externalities. (3) Probably the most controversial, the entrepreneurial role of the state that, to some extent, was related to the development and regulation role as well.[2] This limiting of the scope of the Government only to the some specific areas left open to the private sector the development and extension of other areas.

We will examine and evaluate here the entire period (1986-2000) using its major macroeconomic indicators such as: (a)Economic growth indicators (b) Investment and saving performance (c) Fiscal performance (d) Income poverty and human development indicators (e) External and internal debt indicators (f) Trade balance and balance of payments figures situation.

Economic Growth:

During the 15-year period between 1985/86 and 1999/2000 Nepalese economic growth in real terms remained at 4.9 percent per annum. The seventh Five-year Plan(1985-90) commenced within the framework structural reform. In this period, the county recorded average annual growth rate of 5.1 percent.

However, the agriculture sector saw unprecedented growth during the seventh five-year plan period. Nevertheless, records of cultivated areas previously left out were adjusted after cadastral surveys, which led to an increase in the crop farming areas giving rise to inflated estimate of agricultural production. It was not corrected at that time but if we look at the per capita income of these years it to be considerably lower than estimated. Similarly, the non-agricultural sectors contribution to GDP ought to have increased proportionate to the industrialization in the course of development. Nevertheless, it is estimated to have grown by merely 39 percent in 1989/90. The industrial and services sectors did not develop as

[2] See Mahesh Banskota ,1997 these three points are taken from "Balancing Internal and External factors" 'on liberalization and Development' edited by Devendra Raj Pandey and Ramesh Chandra Arya , NESAC, Kathmandu 1997.

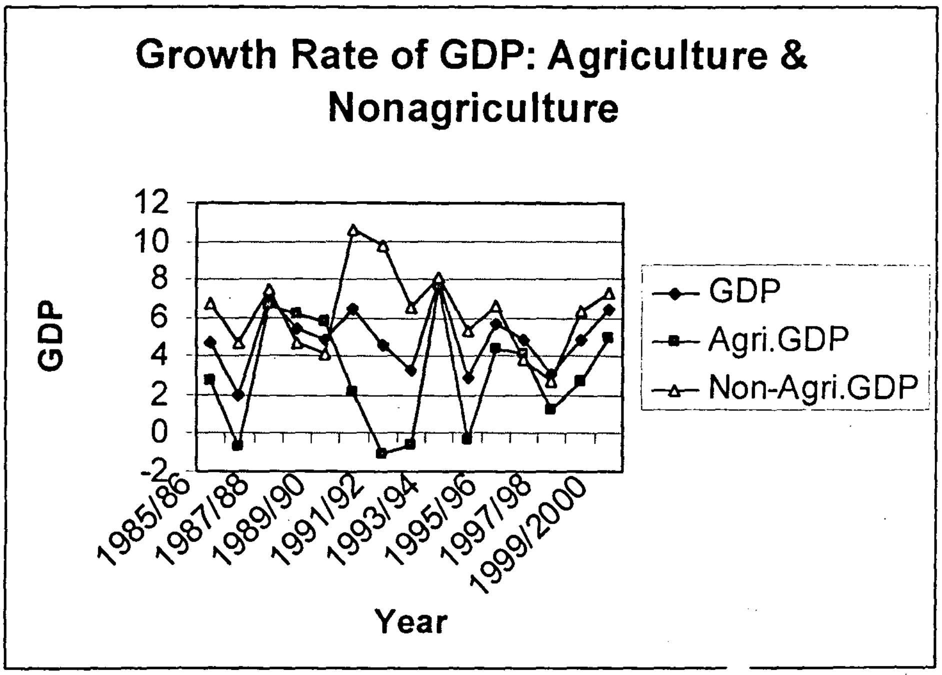
expected. Consequently, no substantial shift in the labour force from agriculture to the industrial and service sectors occurred during the seventh five-year plan period. The large labour force remaining in agriculture meant further fragmentation of smallholdings lending to lower labour productivity and further decline in per capita production in agriculture.

Table no 3.1

Growth Rates Of GDP Agriculture and Non Agriculture.			
Fiscal year	GDP	Agri.GDP	Non-Agri.GDP
1985/86	4.7	2.7	6.7
1986/87	2	-0.7	4.7
1987/88	7	6.6	7.5
1988/89	5.4	6.2	4.7
1989/90	4.9	5.8	4.1
1990/91	6.4	2.2	10.6
1991/92	4.6	-1.1	9.8
1992/93	3.3	-0.6	6.5
1993/94	7.9	7.6	8.1
1994/95	2.9	-0.3	5.3
1995/96	5.7	4.4	6.6
1996/97	4.9	4.1	3.8
1997/98	3.1	1.2	2.7
1998/99	4.9	2.7	6.3
1999/00	6.4	5	7.3

Source: Economic Survey, Fiscal year 1999-2000. HMG, Ministry of Finance- 2000, and the World Bank 2002.

Graph No-1



In the Eighth Five years Plan period (1992-1997), annual economic growth rate was targeted at 5.1 percent. To achieve this target, planners had estimated the growth of total value added agriculture at 3.7, and non-agriculture sector at 6.1percent, further they estimated population to growth at 2.1 percent and per capita income at 3 percent. After restoration of democracy in 1993/94 the overall growth rate was 7.9 % the highest in the entire plan history of Nepal. In that year, the growth rate of agriculture and non-agriculture stood at 7.6 and 8.1 respectively. But in following years that growth rate could not be sustained.

The fluctuation in over all growth was influenced by two factors. First, the higher growth in the first phase of the plan was due to development in the financial sector. Due to the liberalization policy, new banks, financial Institutions, insurance companies were established. Similarly, investment in the field of transportation, communication and energy development sector were possible. Secondly, in the first phase there were good weather conditions which led to good food grain production. But, in the following year the production of cereal, cash, and other crops declined by 1.3 percent owing to adverse weather conditions, lack of government investment in agriculture sector.

Further, the subsidies to agriculture field reduced during that plan period. The credit facility for agriculture decreased, and inflation rose. In the manufacturing sector could not compete with cheap imports flooding in after the opening of the market. The newly established banks were not of much help either. During this period, Government sold some profit making public enterprises to grow the productivity from that sector. Although targeted growth rate could not achieved. Only the financial sector gained but this sector could not help in reducing chronic unemployment and underemployment problem of the country because this growth was not based on employment generating activities.

In the earlier years of the Ninth plan period (1997-02), the government continued the same policy move forward liberalization of trade , investment, and foreign exchange regimes, unification of the exchange rate, rationalization of the tariff structure and the tax system, and promotion of export, strengthening of financial and capital markets, and encouraging private sector development. Real economic growth in the nonagricultural sector was 5.6

percent and the annual agricultural sector growth rate stood at 2.9 percent, which was just above the population growth.

However, the share of non-agricultural sector in GDP rose from 51 percent to 59 percent during that period. At the start of the Ninth Five-year plan, the growth rate was estimated to be around six per cent. One major question arises here: why did Nepal's planners always miss the target? Why did they become over-ambitious when forecasting growth? There are two reasons; first, planners do not have adequate information of the ground reality. Second, they overlooked the custom, habit and situation of the economic actors. For example, they overestimated the capacity and skills of entrepreneurship of the private sector, and neglected the overwhelming necessity of radical change in overall structure.

1: Per capita GDP and Poverty

The overall per capita income in these 15 years (1986-2000) grew only by 2.2 percent annually. Before 1990 it was only 2.3 percent and since 1991 it grew only by 2.05 annually. Meanwhile population grew by 2.3 percent annually during the same period. If this rate continues then it will take Nepal around thirty-one years to double its per capita income level. Moreover, the growth occurred only in urban areas particularly in Kathmandu Valley, and excluded more than 86 percent of the national population, which lives in the rural areas and in the peripheries.

However, the government and donor agencies are claiming that good progress was made in some aspects of human development in the nineties: such as reducing infant and maternal mortality, increasing primary school enrolment, reducing the gender gap in education and increasing access to drinking water. But these indicators are still poor.

Table no 3.2:

Growth of per capita GDP (At 1984/85 Price)

Fiscal year	Per capita GDP In NRs	Growth Rate
1984-85	2883	
1985-86	2953	2.4
1986-87	2941	-0.4
1987-88	3103	5.5
1988-89	3171	2.2
1989-90	3249	2.5
1990-91	3385	4.2
1991-92	3452	2.0
1992-93	3502	1.4
1993-94	3701	5.7
1994-95	3740	1.1
1995-96	3847	2.9
1996-97	3909	1.6
1997-98	3889	-0.5
1998-99		2.2
1999-00		3.9

Source: Economic Survey, Fiscal year 1999-2000. HMG, Ministry of Finance- 2000, Sri Ram Poudyal (1999).

2: Capital Formation and Infrastructure;

Capital formation is important for economic growth. Agriculture continues to be the major sector of Nepal. In 2000 the share of agriculture in GDP was 39.1 compared with 51.2 percent in 1984/85. The contribution of industrial and manufacturing sectors to GDP increased from 5.7 in 1984/85 to 9.7 in 1999/2000. The growth rate of this sector has been generally higher than that of agriculture, although it fluctuated widely from year to year. After 1993/94 the growth rate of this sector has slowed down. The share of construction in the GDP was 8.5 per cent in 1984/85; and reached 10 percent in 2000. But its growth rate decreased in 1990 by minus 2 percent and remained stagnant till 1997/98, but it grew by 8.8 percent in 2000.

The growth, transportation, and communications have also not been smooth. Its share in GDP did not grow much. It was 6 percent in 1984/85, and it reached only 8 percent at present. Trade, Restaurant and Hotel is contributing 11.8 percent of the GDP. Tourism related services were adversely affected by continuing problems such as the hijacking of the Indian Airlines plane, continuing Maoist insurgency, and the palace massacre in June 2001. Finance and Real estate, and community and Social services' share in GDP grew only by one percent between1984 and 2000.

Table no 3.3:

GDP by Sectoral origin and Sectoral Growth Rate (In percentage)

Year	Agri.	Non - Agri.	Manufacturing		Construction		Trade Restru.Hotel		Trans-commun.		Fina.&Realest		Com-social serv.	
			Share	Growth	Share	Growth	Share	Growth	Share	Growth	Share	Growth	Share	Growth
1984/85	51.2	48.8	5.7		8.5		10.3		6.0		9.0		8.6	
1985/86	51	49	6.1	15.2	8.6	7.9	10.6	6.8	5.8	5.0	8.9	3.0	8.0	4..2
1986/87	50.1	49.9	6.1	2.3	8.4	1.6	11.2	7.1	5..9	5.7	9.3	5..2	8.0	4..9
1987/88	50.2	49.8	6.3	5.7	8.6	11.7	11.1	4.7	5.8	3.8	9.1	4..5	7.8	13.5
1988/89	49.6	50.4	5.7	-7.1	9.6	13.6	10.5	0.9	5..5	1..3	9.4	6.7	8.7	8..9
1989/90	50.6	49.4	6	9.6	9	-2	10.5	2.3	5.7	10.7	9.3	6.7	7..9	1.8
1990/91	47.7	52.3	6.8	17.7	9.5	8.1	11.1	11.5	5..6	13.2	9.4	10.1	8.6	5.4
1991/92	45	55	8.8	32	10.2	7.8	11.4	5..9	5..9	8..9	9.1	5..3	8.1	6.8
1992/93	42.4	57.6	8.8	6.2	10.5	4.8	11.6	6.4	5..5	8.4	9.5	5..8	9.1	9.1
1993/94	42.1	57.9	9.3	12.3	10.2	6.6	11.7	8..5	6.6	8.0	9.5	6..3	8..9	7.8
1994/95	40.6	59.2	9.3	2	12.4	5.2	11.6	5..5	6.7	10.6	9.8	4..3	9.0	4.8
1995/96	40.3	59.7	9.4	9	10.9	6.6	11.8	4..2	6.6	5..5	0.8	7.6	8..9	6.0
1996/97	40.3	59.7	9.1	5.7	10.3	1.4	11.7	3.7	7..3	4.0	10	4.8	8..9	2.7
1997/98	38.8	62.2	9.3	2.4	9.7	0	12.1	5.5	7..9	6..9	10.5	5..3	9..2	6..2
1998/99	40.1	59.9	9.2	9.7	9.9	6.7	11.9	4	7..5	7..3	10.1	6.0	9..3	5.8
1999/00	39.1	58.9	9.7	9.9	10	8.8	11.8	6.8	8.0	7.0	10.1	5..2	10.4	7.6

Source: Economic Update 2002, the World Bank January 30, 2002.
ADB Report on "Country Economic Review Nepal": Report prepared by Sung sup Ra, Economist, SAOC, South Asia Department, with contributions Nepal Resident Mission.
Sri Ram Poudyal (1999).

However, the Government has given much more importance to the non-agriculture sectors. At present, the process of economic liberalization has set industry, trade and services free from government intervention. Most prices have been deregulated but these sectors are not performing well. After long years of implementation of neo-liberal policies no sectors of the economy has emerged as the driving sector (poudyal 1999).

3. Investment and Savings

In Nepal, the saving rate is very low. In both public and private sectors, the rate of saving was only 7.9 per cent of GDP in 1989/90.. In 2000 the saving rate reached just 15 percent.

Table no 3.4:

Saving and Investment Rate (% of GDP)

FISCAL YEAR	INVESTMENT/GDP	SAVING/GDP	Saving gap
1985/86	19	10.6	8.4
1986/87	20.2	11.5	8.7
1987/88	19.8	9.9	9.9
1988/89	21.7	11.4	10.3
1989/90	18.4	7.9	10.5
1990/91	20.8	9.6	11.2
1991/92	21.2	10.8	10.4
1992/93	23.1	13.6	9.5
1993/94	22.4	14.7	7.7
1994/95	25.2	14.8	10.4
1995/96	27.3	13.8	13.5
1996/97	25.3	14	11.3
1997/98	24.8	13.8	11
1998/99	20.5	13.6	6.9
1999/00	24.2	15	9.2

Source: Economic Survey, Ministry of Finance 2002.

The saving rate in Nepal is the lowest in South Asia. The investment rate, however is roughly on a par with Bangladesh and India- with fixed capital investment rates, respectively; of 22 and 21 percent of GDP but much lower than in Sri Lanka (it has 27 percent saving rate). Table 3.4 than the saving rate further the figure shows that the investment rate fluctuated firms a low in 1989/90 of just 18.4 percent of GDP a high of 27.3 in the year 1995/96. Thus, the investment rate in Nepal depends not on domestic savings, but on how much donor countries disburse as loan and grants. The saving rate after 1994 is continuously growing because of increase in private saving. This was largely because remittances grew sharply.

Table no 3.5:

Incremental Capital Output Ratio

Fiscal Year	One year lag	Three year lag	Five year lag
1986/87			
1987/88			
1988/89	4.3		
1989/90	3.8		
1990/91	3.9	4	
1991/92	4.1	3.8	
1992/93	4.3	4.1	4
1993/94	4	4.1	4
1994/95	4.3	4.3	4.1
1995/96	4.2	4.2	4.2
1996/97	5.8	4.7	5
1997/98	7	5.5	5
1998/99			
1999/00			

Source: Sri Ram Poudyal, Trends in Nepalese Economy pp11.

Sri Ram Poudyal has computed the Incremental capital output ratio (ICOR) on an annual basis for the period 1987/88 to 1997/98 with one three year and five year gestation lags. The estimation with one year lag shows that the ICOR has increased from 4.2 in 1995/96 to 5.8 in 1996/97 and to 7.0 in 1997/98. Computation based on three-year lag gestation lag show an increase from 4.2 in 1995/96 to 4.7 in 1996/97 and to 5.5 in 1997/98. When the gestation lag of five years is assumed, the ratio turns out to be 4.2 validating the ICOR of 4.1 used in the Ninth Plan. The situation appears to be one of deterioration in the efficiency of investment as a result of rampant leakages and misuse of resources (Poudyal 1999).

The policy makers expected high Foreign Direct Investment (FDI) inflow. They were expecting investment especially in the area of trade, water resources, communication, electricity etc. The government expressed its commitment to the private sector led growth and market decision making process confining itself to the role creating a good atmosphere for market regulated economic decision making process. In this regard the government has introduced various acts and initiated the process of privatization of public enterprises.

But flow of foreign direct investment had not more encouraging so far. As of December end 1998, there were altogether 214 ventures with foreign participations operating in the country.

Of these 51 are in the construction phase, 37 are in the process of obtaining license, and 128 had taken licensees but have not yet started construction work (Dabadi 1999). The total cost of the licensed projects adds up to Rs. 52.4 billion out of which the share of foreign partners is to be only Rs. 11.6 billion or 22% of the total cost (Pandey 1999). However, Nepali growth performance did not make that warranted by its investment rate because of misallocation of investment.

4. External and Internal Debt

On the one hand it is said that over the past forty years Nepal has achieved significant progress in the field of agriculture, health, education, and other physical infrastructure. On the other hand, it is also said that still there is low agriculture productivity, limited rural resources, environmental degradation, inadequate and deteriorating physical infrastructure, weak administrative and institutional structures, insufficient human resource development, and inadequate domestic resources mobilization. Evaluating over all development Ragab Dhoj Panta remarks,

"Past development efforts have had little impact in changing the structure of economic and socio-economic relations among the various agents of production. The overall production capacity has remained unaltered or even declined, notwithstanding the expansion of the size of the domestic market." (Quoted in 'Nepal's Failed Development' by Devendra Raj Pandey1999: pp 47).

Without any change in the socio economic structure, the growth or development effort depends highly on external loans and grants. Between 1985 and 2000, large proportion of budgetary deficits was financed by foreign borrowings. Nepal's external debts stood at NRs. 197,195 millions ($2.6 billions) as of 30th September 2001. The central government carries out most external borrowing; the private share was less than 2 percent. Loans contracted are primarily long term, and held by public authorities or guaranteed by them. External borrowing was 39.2 percent of GDP in 1984 -85 that expanded to 57 percent of GDP in fiscal year 1993. Total disbursed outstanding external debt was 52 percent of GDP in Fiscal Year 2001. The fiscal burden of debt servicing, both internal and external, is high. The total debt service burden was 47 percent of current revenue in FY 2001, down slightly from 49 percent in FY 1993.

Similarly, total outstanding domestic debt stood at NRs. 56576 million at the end of Fiscal year 2001 of which bonds accounted for 32.2 percent, deposits 23.5 percent, treasury bills 14.9 percent and other securities 29.4 percent. Among holders of internal debt instruments, the share of the Rastra Bank (central Bank) was 16 percent, commercial Banks 23 percent, the public 1.2 percent and others 58 percent. The domestic debt service burden was high at 33-35 percent of government revenue.

Both external and internal debt stood at the end of Fiscal year 2001 at NRs. 248313 million. However, public debt as a share of GDP declined from 71 percent in FY 1992 to 65 percent in FY 2001, and as a share of government revenue from 794 percent to 527 percent. During the 1990s total public debt service burden was estimated at 4 to 6 percent of GDP and at 49 to 47 percent of government revenue (the figures has been taken from ADB 2001, Public Debt Sustainability Analysis for Nepal, unpublished report). These figures indicate that the adoption of the stabilization programme within SAP under the advice of the International Monetary Fund and World Bank did not help in gaining self-sustainability of the economy of the country. (See Appendix)

5. Fiscal Performance

We observed above that there is a huge savings and investment gap. There is huge gap between government revenue and expenditure as well. However there has been a decrease in the GDP-deficit balance ratio over the last decade. The deficit in the period 1986-90 was almost 7 percent of GDP. It declined to 5.9 in the period of 1991-96 and 3.9 during 1997-2000. In comparison, domestic revenue generation in other neighboring South Asian Countries is much higher than in Nepal: 15.3 percent of GDP in India, 16.1 percent in Pakistan, and 18.5 percent in Sri-lanka. Only Bangladesh has lower revenue to GDP ratio than Nepal. It has 9.5 percent of GDP.

Nepal introduced a Value Added Tax (VAT) in November 1997 to improve the tax system. However, the rate for VAT was reduced to 10 percent from the 15 percent originally envisaged. Further, the government faced a huge problem of implementation of VAT because traders have no habit of maintenance of proper accounts and keeping fake records is a rule rather than an exception. The main source of revenue is customs duties. These are also collected according to official valuation rather than purchase price, while income tax is levied on a negotiated amount rather than on the basis of accounts, both of which lead to under invoicing.

Table no 3.6: Government Finance 1986-2000(Percent of GDP at market prices)

Items	AverageFY1986-90	Average FY 1991-96	Average FY1997-00
Revenues and Grants	**11.0**	**10.8**	**12.2**
Domestic Revenues	8.9	9.2	10.5
Tax revenue	7.1	7.4	8.6
Grants	2.1	1.6	1.7
Expenditure and Net lending	**18.1**	**16.7**	**16.1**
Regular Expenditures	5.7	6	7.6
Development Expenditures	12.5	11.1	9.0
Lending less Repayments	-0.2	-0.4	-0.5
Overall Balances	**-7**	**-5.9**	**-3.9**
Foreign Financing	4.9	3.7	2.6
Domestic finances	2.1	2.2	1.5
Bank finances	1.6	1.7	1.0
Memorandum item			
Foreign funds/Dev.exp. (%)	55.6	47.8	46.3

The Country's revenue is largely dependent on indirect taxes especially on excise duty but and 63 percent of collection from this source is still dependent on the duty on tobacco and alcoholic products alone (Pandey1999). The above data show that, the government revenue (domestic revenue) increased slightly between 1991/96 and 1996 /2000, which 10.5 percent of GDP is. Government expenditure, however, has remained stagnant over the same period. Consequently, the budget deficit has marginally declined of tax revenue is very low especially direct tax on property which is nearly one percent. There is no income tax on agriculture incomes. The revenue from direct tax has remained stagnant between 1986-90 and 1991-96 period. Regular expenditure has grown with a concurrent fall in development expenditure. It is argued that this due in part to a reclassification of expenditure items. In fiscal year 1995, some recurrent expenses previously included with development expenditure were reclassified as a regular expenditure. Further the Government is claiming that social sectc: spending increased in the 1990s, including on education, health, and drinking waters.

6. Poverty, unemployment and remittances

The population census 2001 shows that the annual compound growth rate of population is 2.3 percent, up from 2.1 percent in 1991. Given the high rate of population growth the country faces a huge challenge from as young people numbering 300,000 entered the country's labour market each year. It is said that there are already 47 percent underemployed people living out of the total employed labour force. According to the Nepal Labour Force Survey (1998/99) about 86 percents of the population aged 15 and over were economically active. Although urban unemployment was about 7 percent, the unemployment rate for the country as a whole was less than 2 percent as 87 percent of the working population lived in rural areas attached to agriculture the primary source of livelihood.

Table no3.7: Key Labour Force Indicators (FY 1999)

Economic Activity (%)	Male	Female	Total	Male	Female	Total	Male	Female	Total
Labour Force Participation rate	91.1	84.5	87.7	83.9	62.9	73.3	90.2	81.9	85.8
Unemployment Rate	1.5	0.8	1.2	5.9	9.3	7.3	2	1.7	1.8
Employment Distribution by sector (%)									
Agriculture	72.2	87.9	80.2	28.2	56.9	40.5	67.1	85.2	76.1
of which: subsistence Agriculture	61.5	80.3	71	23.4	50.6	34.9	57	77.7	67.3
Industry	13.4	4.3	8.8	22.9	13.1	18.7	14.5	5.1	9.8
of which: manufacturing	6.8	3.2	5	14.5	11.2	13.2	7.7	3.9	5.8
Services	14.3	7.7	11	48.9	29.7	40.8	18.4	9.7	14.1
Memorandum Items:									
Working-Age population('000)1	4,652	51.51	9,803	709	720	1,429	5,361	5,871	11,232
Employed('000)	4176	4,316	8,492	560	411	971	4,736	4,727	9,463

1, Refers to individuals age 15 and above.
Source: National Labour Force Survey 1998/99, Kathmandu.

Usually women workers are employed in agriculture. Even now, 76 percent of the labour force is employed in agriculture (85 percent for women); and the vast majority is engaged in subsistence agriculture. The services sector is the next largest employer, accounting for 14 percent of all workers and 41 percent of urban employment, mainly in wholesale and retail trade. About 6 percent of total employment is generated in manufacturing sectors. About 71 percent of the work force in the rural area and 34.9 percent in urban and total 67.3 percent nationwide is engaged in subsistence agriculture. Thus, only 16 percent of the over all work forces are paid as employees among them only 8 percent of women are working for pay.

Average monthly earnings among paid employees was NRs. 2143 ($32) including both cash and kind payments.

Poverty

In popular understanding, poverty is identified as low income which prevents a family from obtaining and enjoying the basic needs of life, including a minimum of food, clothing, shelters and water (Dev& Ravi 2003). For a more comprehensive picture of poverty other deprivations, such as in relation to health, education, sanitation and insurance against mishaps, must be taken into account (Chellaiah and Sudarshan 1999). Under this definition, 42 percent of the population of Nepal lives in a state of absolute poverty. According to government statistics, this number has remained constant for 25 years. As of 2001, the number of poor persons exceeded 9.5 million (Nepal south Asia Centre 2002). From the headcount index 42 percent people are remain below the poverty line. However, this number will double if it is calculated on a under the 2 dollars per-day income basis.

Table no 3.8

Poverty Measures for Nepal, 1995-96

	Head count Index below poverty line	Poverty gap-Index	Square Poverty-Gap Index
Ecological Zone			
Mountain	.056(0.059)	0.185(0.027)	0.082(0.015)
Hills	0.41(0.031)	0.136(0.014)	0.061(0.008)
Tarai	0.42(0.025)	0.099(0.009)	0.034(0.004)
Nature of Residence			
Urban	.023(0.058)	0.070(0.025)	0.028(0.012)
Rural	0.44(0.020)	0.125(0.008)	0.051(0.004)
National average	0.42(0.019)	0.121(0.008)	0.050(0.004)

Source: Review Of poverty Alleviation Initiatives in Nepal, Nepal South Asia Centre (NESAC), 2002.

The main causes of poverty in Nepal are the unequal distribution of land holdings, low agricultural productivity, low economic growth, restricted nature of the labour market, very high underemployment rate, low level of education and skills, and limited access to social services- particularly in the rural areas. Among them the unequal distribution of land and faulty government policies are the two main causes of poverty. After adopting its liberalization policy, the government focused on urban centered development projects, which benefited mostly the wealthier groups in the country. In the name of structural change, government privatized the state enterprises, which also contributed to unemployment.

Remittances

The subsistence agricultural economy is under strain when a society is being modernized. The modernization process increases household expenses for non landholders, small land holders and even for rural middleclass people. Expenses grew for children's education, clothes, medicines and renewal of old debts to landlords increases, and the cost of cultivation rise due to reduction of subsidies on water, on fertilizers, electricity and on seeds. To meet their annual expenses, Nepalese especially from hills go to India for seasonal and temporary work. Now the trend has developed to go to the 'third countries' for work in East- Asia, South-East- Asia and the Middle East. Government of Nepal has also formulated a special policy for labour export.

Since 1997/98, migration to foreign lands has continued to increase. One preliminary estimate suggests that 1.15 million Nepalese were working abroad and bringing back remittances worth anything between NRs. 35 billion and Rs.70 billion (as compared with the official figure of 3 billion). This figure is hardly likely to be smaller years later (Seddon et.al 2001).

Tableno3.9: Remittance (in million us $)

Year	1995/96	1996/97	1997/98	1998/99	1999/2000
India	31	64	46	56	79
Third countries	94	181	168	110	221
Total	125	213	245	166	300

Source: Nepal Development Forum, Economic Update 2002.

The remittances contributed 27 percent of average total household incomes. In 1996/97, National GDP was estimated at Rs. 250 billion. The conservative or minimum figure for remittances represents the equivalent of about 13 percent of GDP (ibid: pp35). But the consequences of the exodus of young people have been adverse for agricultural productivity on the one hand, while on the other, the government has no proper policy for utilizing the remittances.

Private Sector Development and Privatisation

After adopting neo-liberalization policy, the ministers and top officials often stated publicly that the government has no business to be in business. Since 1992 privatization of state owned enterprises, strengthening market forces, increasing competition and refocusing the role of the state became the catchword. Most of the mainstream political parties, their leaders, top bureaucrats, businesspersons, and called intellectuals have reached an agreement in one point or in strange consensus that development can happen only through privatization of public enterprises.

The main argument put forward in favour of liberalization policies ran like this: private sector development is needed for poverty reduction; which can be achieved through development; development can be achieved through rapid economic growth; economic growth is best achieved through private sector; and for this government should play a positive role towards nurturing private sector. With these arguments, the government encouraged private sector investment in the area of education, health, operation in imports, and distribution of the fertilizer and physical infrastructure developments.

However, Nepalese economy is dominated by almost the private sector, agricultural land remains private property. Individual entrepreneurs own all the small-scale retail and wholesale shops. Large private companies owned by a few rich families conduct most of the manufacturing and industrial works. The share of private sector output is more than 90percent. The private sector has been generally free to invest its resources anywhere at its will. However, domestically owned large enterprises mainly concentrated in sectors with easy returns: mostly on capital intensive, import dependent.

Government allowed private sector to involve in essential social sector like education, health and public distribution system. There were 10,833 private schools established till 2000 in Nepal where, 30 thousand teachers are employed and have 70 thousands students. 1 hundred and 58 private colleges and campuses were established and were affiliated to

Tribhuvan University. There are approximately 40 private hospitals, nursing homes, and thousands of private health clinics and laboratories offering conventional medicine. These facilities are mainly concentrated in urban areas (Ghimire 2001).

Government had allowed private sector in the import and distribution of chemical fertilizer. Before implementing liberal reform, it was only authorized government owned Agricultural Input Corporation (AIC). Simultaneously, government had invited private sector investment for drinking water supply to fulfill the scarcity of drinking water at the capital city. The 'Melamchi' multibillion projects has been constructing in joint venture. The road transportations for the common mass are in the hands of privately run syndicates all over the country. In the field of communication several radio stations, TV. Channels are operating under private sector distributors. Government brought out new national aviation policy in 1993. Now about 13 private airlines companies are operating airlines services. Similarly, Government has opened up the electricity generation to the private sector. It has invited domestic as well as foreign investment with guarantees of purchasing powers in foreign currencies. Now several power companies and corporation engaged on constructions phase and some of them successfully completed their short and medium scale generation and started to supply in national greed.

People are expressing the unsatisfactory quality of public education and schools for over a decade since 1987. The pass percentage of public school in school leaving certificate (SLC) examination has been very poor during the period in comparison with private schools. Public schools were not sufficiently equipped. They have poor infrastructure, lack of qualified teachers, and lack of proper monitoring system. On the other hand, since early eighties private owned schools are rapidly increasing in numbers because of the failure of public schools. They maintained quality at the high cost. Therefore, these schools are more expensive and remained out of reach of ordinary poor people both in the urban and rural areas. Macroeconomic liberalization has given opportunities to rise in urban employment and urban household incomes, thus most of the employees, such as government and private firm's employees, bureaucrats, leaders, businesspersons are able to pay high cost of private schools. Therefore, two different classes with huge qualitative gap have been growing within one education policy; one is being ruler and other being ruled.

Table no3.10:

Price Index for Education and Public Health (in % change)

	1985	1990	1993	1995	1996	1985-96
Education	105.1	170.9	248.8	258.4	267	154
Public Health	109.4	165.1	227.5	304.8	326.5	198

Similarly, privately run hospitals and nursing homes are useful for affluent classes not very much useful for poor people. The above table shows the trend of expensiveness of education and health. It is not possible for those majorities of poor people to afford these expenses.

The entrance of private sector in import and distribution of chemical fertilizer brought down the quality of fertilizer. Moreover, the government heavily curtails subsidies on the fertilizer supplied to remote areas. That resulted, the cost of the fertilizer increased by 163 percent during the period 1986 to 2000. Coming to the newly privatized power sector government is paying huge per unit cost of electricity due to guaranteed purchase of electricity in US dollars while the foreign firms get licenses to electricity generation. Of late, the exchange rate between dollars and Nepali increased more than two folds compared to the then exchange rate, but government cannot sell electricity according to the incremental dollars exchange rate. Thus, government has a compulsion to bear heavy losses in this regards.

Privatisation

Government has generally sought to justify privatization in relation to certain objectives; 1) Increase productivity of the enterprises by enhancing their efficiency; (2) reduce the financial and administrative burden of the government; (3) promote private participation in the national development and (4) generate additional revenue (Acharya et.al 1998).

Public enterprises in Nepal were established during 1960s and 70s. The government believing that establishments would be able to import substitution established these public enterprises. In addition, there was belief that the private sector had neither resources nor the motivation to develop large capital-intensive industries (Poudyal & Sigdel 2001). Therefore, public enterprises in Nepal did not come with the nationalization of private sector enterprises; rather they were set up with foreign assistance with the objectives of (1) Promote business and industries ;(2)Generate employment opportunities; (3) Secure the smooth supply of industrial and essential goods and services and Generate revenue for government (Acharya et.al 1998).

There were 61 public enterprises till 1992 (before privatization). Among them, 21 were in the manufacturing sector, 10 in public utilities, 8 in finances, 15 in trading and 7 in social services. They have increased Nepal's self-sufficiency in construction materials such as cement, bricks, rods, tiles, and for consumer goods such as sugar, leathers shoes, purified ghee, cigarettes and petroleum products and employment for more than 70 thousands people (Poudyal and Sigdel 2001). However, later years most of these enterprises suffered from a range of problems such as over staffing, poor financials management, operational inefficiencies and governmental interferences.

The government of Nepal began to privatize public undertakings in 1992. During the first phase Harisiddhi Brick and Tile factory, Bansbari leather and shoe factory, and Bhrikuti Paper mills were privatized without any specific laws (Privatization Act was introduced only in January 1994). Later privatization cell was established in the Ministry of Finance, the technical arm and secretariat of the committee. Since 1997, the MOF has been supported by the British organization, The Adam Smith Institute (ASI), to establish an institutional framework for privatization in Nepal (ibid). From 1992 to 2000, government privatized 15public enterprises, 2 liquidated and other 29s proposed for privatization.

Table no 3.11:

Privatized Public Enterprises in Nepal

Enterprises	Date privatized	Privatisation method	Sales proceeds (NRs000)	Mgmt Share (%)	Employee's share (%)	Public Share (%)
Bhrikuti Paper mills	oct.1992	Assets & business	229,800	70	5	25
Hari siddhi Tile &brick factory	oct.1992	Assets & business	226,900	72	5	23
Bansbari Leather and shoe factory	Mar.1992	Assets & business	22,400	75	5	20
Nepal film and Development corp.	Nov.1992	Share sales	64,662	51	5	44
Balaju Textile Industry	Dec.1993	Share sales	17,716	70	5	25
Raw Hide Collection &dev. Corp.	Dec.1993	Share sales	3,990			100
Nepal Bitumen &Barrel Industry	Jan.1994	Share sales	11,640	65	5	30
Nepal Lube Oil ltd.	1993	Share sales	30,425	40	5	33[3]
Nepal Jute trade and development co.	1994	liquidated				
Tobacco Development Corporation	Mar.1996	liquidated				
Nepal Foundry Industry	Aug.1996	Share sales	14,473	51	5	44
Raghupati Jute mills	Dec.1996	Share sales	82,204	65	5	30
Biratnagar Jute mill	Mar.1997	management contract	business			
Nepal Bank ltd[4].	Mar.1997	Share sales	12,514		5	5[5]
Agriculture Tools Factory	May. 1997	Share sales	95,100	65	5	30
Bhaktapur Brick Factory	Aug.1997	lease ten years	20,300			100
Nepal Tea Development Corp.	2000					

Source: MOF1999.

[3] Other shares with various corporation
[4] HMGN became a minority share holders when it sold off 10% of its 51% share in Nepal Bank.
[5] Held by other private banks.

Most of the privatized enterprises reduced the number of employees. One study shows that eight out of ten enterprises reduced their employees. Some enterprises have increased their output by introducing new technology and better managerial skills. However, some of them could not improve but price of the goods produced by these enterprises has increased since privatization from 50 percent to 142 percents. Government had estimated that from the privatisation, government would save more than 25 percent of GDP accounted for capital investment in public enterprises, which is possible to invest in other productive sector but it became a mirage. State could not gain in terms of monetary value because these were sold undervalued. The governments did not maintain the normal ethic at the time of sales such as invitation for competition on proper bidding and not fair and transparent. The privatization of public enterprises created neither wealth nor employment.

Social sector and poverty

In 1984, the share of the Community and Social service sector was 8.6 per cent of GDP. In 2000 it stood at 10.4 (see Table3-3). Since 1961 the number of primary schools has increased by nearly 5 times, the number of primary teachers by 10 times, the number of enrolled students by 18 times, but the poor state of literacy continues to be a problem. There is huge lack of skilled workers due to deprivation and poverty (Pandey 1999).

In the health sector, hospital beds increased 5 times, number of health posts increased 14 times but inequality in access to health service remains severe. Most of the doctors and major hospitals are concentrated in Kathmandu and other large cities. The poor people do not have the means to 'buy' health in the high-tech and high price market. Majority of women in rural area are dying because of maternity problems. Children are dying of common illnesses such as fever and dysentery.

It has been reported that 100,000 to 200,000 women from Nepal, from poor and poorly educated families are currently forced into prostitution in several Indian cities. In addition, 5000 from Nepal enter in such trade annually in India (ibid: pp83).

Conclusion to Macroeconomic Analysis

The rulers and policy makers believed that after the implementation of the structural adjustment policy poverty would be reduced by increasing the volume of investment, promoting export, generating employment and increasing the incomes of majority of the people. But from the overall study of macroeconomic performance during 1985/86 to 2000 no sectors appear to have performed well. During this period the rate of poverty rose, unemployment and underemployment is continuously growing, economic, political dependency is growing, and the gap between rich and poor increased. Due to the huge gap (political, social, economic, and cultural) between rich and poor or between ruling elite class and deprived masses, dissatisfaction has increased, and, since the last six years, the country is going through a situation of virtual civil war.

Sectoral Growth Pattern under Structural Adjustment Policy

From the above discussion, we knew about the overall macroeconomic performance. The country's economic position is not looking good. In what follows, we examine the sectoral development performance of the economy.

Agricultural Growth

Agricultural land is the major natural resource of Nepal and major determinant of economic activities and national socio-political identity. However, the share of agriculture in GDP has come down from 60 percent to about 40 percent within the last two decades. But 80.2 percent of workforce still remains attached to agriculture as the primary source of livelihood. The real GDP growth rate during the 1985/86 to 1999/2000 was 4.9 percent. Even then agricultural GDP grew only by 3 percent. Moreover, the increase GDP in the Fiscal year 1987/88 to 1988/89 looked high because of double counting. Between 1992 and 2000, the real GDP growth rate was 4.8 percent per annum but agriculture grew only by 2.5 percent per year during the same period. This, in other words, was barely in keeping with the 2.3 percent population growth. In per capita terms, therefore, the rate of agriculture growth remained close to nil. In the past five years (1996/97 to 2001/02) the performance of agriculture has further deteriorated, with only 1.3 percent growth per annum (NPC 2003: PP 7 to 14). This is below the population growth rate. For majority of the people, the per capita income has in fact declined during this period.

In mid 1980s when structural adjustment policies were being adopted, they did not touch agricultural sector. In first phase, they addressed trade, finance and fiscal areas. People were hopeful because in the name of structural adjustment the World Bank had recommended the Basic-Needs program aim at improved living standards of the people with economic growth. There were expectation of progressive distribution of land and other means of production. But the expectation failed when the so called 'structural Adjustment did not bring about any structural change in the traditional assets of the country. Government tried to develop the economy without developing its own socio-economic resources but with the injection of external loans and grants. In the second phase of SAP the government further liberalized and addressed the issue of equity, regional and sectoral allocation, good governance, institutional changes, competition policy, labour policy, divestment and privatization of public enterprises.

The government investment concentrated on urban development. It was not realized by the government that agriculture is the only sector that produced food and feed all the people of the country. The reduction in productivity in the agriculture sector helps neither in foreign trade nor in industrial sector. In the absence of radical land reform and proper distribution of wealth, the productivity of land dropped into the zero growth and the primary export affected badly.

Table no 3.12:Area, production& Yield of Principal Food crops (Production: thousand M.T. Area: Thousand Hectares Yield: MT/ hectare)

Years	Paddy			Maize			Wheat			Barley			Millet			total	total
	P	A	Y	P	A	Y	P	A	Y	P	A	Y	P	A	Y	P	Y
1985-90	2998	1436	2.1	1073.6	746.8	1.44	782	569.8	1.37	26.2	29.8	0.88	192.6	196.4	0.98	5084	1.7
1991-95	3229	1413	2.3	1241.4	762.6	1.62	668	606.4	1.1	28.6	30.2	0.95	247.8	220.4	1.12	5522	1.8
1996-00	3732	1515	2.5	1360.2	801	1.7	1086	653.4	1.63	36	35	1.03	258.4	261.8	1.12	6484	2

Source: Economic Survey 1999/2000, 2001/2002, HMG, MOF.

Table 3-10 show the trends in production of major crops between 1985/90 and 1996/2000. The yield slightly grew in points. However, this growth occurred due to the expansion of cultivated area. The expansion of area means huge deforestation for new cultivation. Table show the total production and yield it was average 5084 thousands Metric Tones per annum during the period 1985/86 to 1990 .It increased average of 6484 thousands MT per annum at the period of 1996-2000. Similarly, the yield grew from 1.7 percent to 1.98percent only during the same period. This is below population growth of 2.3 percents during the period. It means the major agriculture production not only stagnated but also declined in per capita terms.

Nepal is facing severe food deficit. One decade ago, only 32 districts had food deficit. Now almost all districts are in facing famine-like situation. The per capita food grain production decreased from 376 kg to 277kg in 1991/92. This production of 277 kg Grain per capita (nearly 190 kg of food in edible form) would meet the minimum per capita food requirement. There has been surge in both import and export of food, but the gap has widened significantly between 1984 and 2000. The government had imported foodstuff in 1984 worth NRs. 728 million and exported NRs.584 million in 1984 now in 2000 export reached NRs. 4,240 million and import by NRs.10, 839 millions. There has net deficit of NRs 6,599 millions rupees (ADB 2003: 282).

Supportive programme

In general, every country gives more importance to agriculture because it is the major source of feeding people. For developing countries, agriculture is the major source of capital in the early stage of development. Newly industrialized countries of East and Southeast Asia are the good example for it. They implemented radical land reform to increase productivity of land. Moreover, agriculture provided crucial support to the process of industrialization. However, the so-called Land Reform programme of 1964 in Nepal could not follow the successful example from these countries because today, smallholders dominate agriculture land ownership although the figures show still a few people are occupying huge area of land. The bottom 44 percent of agriculture household operates only 14 percent of the total agricultural land area, while the top 5 percent occupy 27 percent. The concentration index for agricultural land is 0.54 reflecting highly uneven distribution of farm land (Shiva Sharma'2000). Nevertheless, it seems the era of radical, even liberal - land reform is over under these neo-liberal policies.

During the time of budget speech, it is announced that government had given higher priority to agriculture. In the seventh plan period (1985-1990), the government allocated 24.5 percent of the budget on agriculture and aimed to the growth rate to 4.3 percent per annum. This was followed by initiating 'Basic Needs Programme'. However, not successful because the then government had not basic public institutions (like a village level elected body like Village Development committee(VDC) and District development committee(DDC) which were accountable for their electoral.

In Eighth five-year plan, (1992-1997) government allocated 25.8 percent of the budget targeting 4 percent growth of cereals and 9.1 percent for cash crops, at the same time introduced Agricultural prospective plan (APP) for twenty years with the association of John Mellor Associates. The APP has identified priorities involving four essential inputs - fertilizers, irrigation, road, and power- and four extension services- and four priority outputs livestock, high valued crops, agribusiness and forestry. The underlying premises of the APP are also based on neo-liberal agenda. It also assumes that the entire obstacles to realizing rapid economic growth can be removed by focusing on private enterprises with the help and combination of technological change and infrastructure development. The policy propositions of the APP include a concentration on small and medium farmers to commit themselves to produce for the market, and support for strategic agricultural research, the development of agricultural roads and swallow tube-well irrigation and greater use of chemical fertilizers. The composers of APP had a dream of 'green revolution' but after its implementation since 1996, not looking any positive indication to fulfill the dream. The government has decreased budgetary allocation to agriculture and fell to 5.4 percent of the total outlays in 2000 from 9 percent in 1991. Even this reduced outlay was not distributed equally.

Absentee landlordism, uneven distribution of land and lacking technical and mechanical support are the major identified problem in agriculture. Without correcting these all in policy level or implementation level, such APP programme would not be successful.

Rural Banks and credit cooperatives

Nepal Bank limited is the first Bank in Nepal, which was established in 1937. Then, Nepal Rastra Bank (Nepal's central Bank) was established in 1957. Later, other banks such as Nepal Industrial Development cooperation(NIDC), The Land Reform Saving Cooperation (LRSC), The Cooperative Banks (renamed The Agricultural Development Bank 1968), were established within the 1960s. Therefore, the credit flow from the formal sector to the agriculture sector has been historically very low. Nepal Rastra Bank undertook the first Agriculture Credit Survey in 1969/70, that show that about 80 percent of agriculture credit supply was met from the informal sources such as money lenders and merchants. Agricultural Development Bank Nepal (ADB/N) started Small Farmers Development

Project (SFDP) in 1975. This scheme was aimed to improve social and economic condition of the small and landless farmers and has been extended to all 75 districts of the kingdom. The number of ADB/N offices involved in the SFDP total 422 (Acharya et.al 1998).

After financial sector reform in mid-eighties, the number of banking and non-banking financial institutions has grown rapidly. Now there are 14 commercial Banks, 10 development banks, 46 finance companies and greater numbers of NGO-run savings and credit groups. Structural Adjustment policy liberalized interest rates. Between 1986 and 1989, commercial banks were allowed even higher liberty in fixing both the deposits and lending rates. However, commercials banks are biased against the rural masses and state agricultural sector in their lending practices. In 1975 its outstanding loans in agriculture was just 0.1 percent, in 1980, it was 0.9, 1985 3.2 in 1990, 13 in 1995 12.1 and 8.9 in 2000 (NSAC2002: pp95). The agricultural Bank provides short, medium and long-term agricultural credit to individual farmers, small farmers group and cooperative societies for a variety of activities, including for purchasing farm inputs, livestock rising, cottage and small-scale industries, cold storage, warehousing, alternative energy sources. Recently this has also converted the SFDP into the Small Farmers Cooperative Limited (SFCL).

SFDP programme has been frequently criticized for wrong-targeting, low outreach and low recovery rate. It has also been criticized for not providing credit on a group assurance basis and insisting on collateral, in that way depriving the large number of resource poor households from credit. Moreover, they are staff intensive and usually fail to make use of local intermediaries who could potentially be more effective and efficient in implementing mobilization, training group formation and other activities (ibid).

Small Farmers Co-operative Limited (SFCL) operates with a lower overhead cost compared to its predecessors, the SFDP. It operates with a three-tier structure: at the settlement level among farmers groups, the "inter-group" at the ward level and the farmer's cooperative at the village level. This is gaining popularity among women and poor farmers groups. There are several other projects which started on small scale like Production Credit for Rural Women (PCRW), Micro Credit Project for Women (MCPW), Saving and Credit Cooperatives (SCCs), Rural Micro Finance Development Centre (RMDC), Grameen Bank

Replicators, Regional Rural Development Banks (RRDBs), Niradhan Utthan Bank (NUB) and Centre For Self- Help Development (CSD). However, these all are playing limited role on providing credits. Still small farmers and deprived people have no excess with these reputed organizations.

Table no 3.13: Access of Borrowings of Small and Marginal Households

	Marginal Farmers			Consumption Quintiles(1995/96)	
YEAR	1969/70	1976/77	1991/92	lowest	second lowest
Formal	15.23	16.86	16.43	8.28	15.06
Banks	1.72	4.79	na	8.28	15.06
Cooperatives. Ward committees etc	13.51	12.07	------	-----	
Informal	82.94	82.57	83.47	88.07	81.53
Relatives and Friends	31.07	26.53	na	38.46	36.53
Money lenders/landlords/Traders	51.87	56.04	na	49.61	45.9
others	1.82	0.56	na	3.72**	2.51**
Total	100	100	100	100	100
Percent Borrowings	76.3	64.45	39	na	na

Source: Review from Poverty Alleviation Initiatives in Nepal, November 2002, Nepal South Asia Centre, and Kathmandu pp99. (They have taken from NRB, Rural Credit Surveys, 1981 and 1994(vol.IV.PP.70-98): NLSS 1996 and Data reprocessed)
** Includes NGOs/INGOs, local groups etc.

Borrowing from informal sector is still higher than formal sector. The contribution of informal sources of supply of credit remained more than 80 percent throughout the period. Therefore, the majority of the credit-based programmes suffer from inadequate participation in local levels. That failed to reach among the majority of resource poor households. There are three reasons; first, there are lack of sufficient branches of ADB/N and other commercial Banks and credit cooperatives. Second, due to corrupt bank officials and anti poor laws, general people do not have easy access among the bankers and other financial institutions. Moreover, the third, in the name of rural poor, influential people are massively using comparatively less expensive credit facilities in the name of farmers, and there is no effective monitoring system developed.

Real Public works projects

Nepal has poor physical infrastructure. Many districts headquarters has no road connection with other economically active parts of the country. Electricity facility is available only for 15 percent the total population. Most of the available electricity is consumed in urban area. People in most of the rural area are using either kerosene or wood. Only around 1.1million hectare of land has irrigation facility out of total arable land of 264.2 million hectare in the country (Economic Survey 2002 pp.93). Most of the cultivated lands depend on monsoon. Due to lack of proper irrigation, most of the land produce only one crop a in a year. In some area where seasonal irrigation facility is available, farmers produced two seaso nal crops. All time irrigation is also available in some area (which is in significant in terms of the land area coverage) where farmers produce three seasonal crops or more. There is no more new technology introduced in agriculture. A few landlords- those who live in Tarai- have some tractors, threshing machines and a few modern agriculture tools. However, more than 99 percent farmers do not have any kind of access. Therefore, in the off- season, it means more than six month most of the labour force in the rural areas is either unemployed or underemployed. The government has a chance to use that labour force in several public works projects such as to build rural roads (environmental roads), canals, small dams and other physical infrastructure. If people who own the nearby lands are also those who did the construction work, then there is direct relation between efforts and rewards. Nevertheless, unfortunately, the rulers never used such idle reserved force properly.

In some places government conducted 'Food for works' programs association with world Bank and UNFPA, but the results were not fruitful and successful. Because such programmes are usually selected for the political purposes and for selected constituency to gain popular mass support rather than to fulfill people need. Secondly, at the period of project selection, people not consulted this results wrong priority setting. Thirdly, such programs are implemented using contractor, which meant local people has not preferred. Moreover, embezzlement is high in the contract-system.

Agriculture Subsidies/ Supportive price and mass exodus

When neo-liberal reform adopted as a national policy then agricultural subsidies were gradually reduced. One of the preconditions of IMF was that the government should decrease fiscal deficit. According to IMF, budget deficit occurs when the government revenue falls short of government expenditure. To reduce deficit, government initiates tax reform and strengthen the tax administration to increase revenue or such measure fails then it should curtail its expenditure. The first function is not usually possible for Third World's conservative government because of class characteristics of the ruling class. The unproductive expenditure such as spent in security and defense not possible to curtail because of power relationship. Therefore, the government cut back the subsidies given to the poor rural agriculture sector. Previously, Governnment had been providing subsidies for a number of areas such as chemical fertilizer, improved seed, petroleum products, food, and bank interest subsidy to low income people, micro-hydro, biogas projects launched with bank loans by farmer, education and public health, pumping set and irrigation water (Acharya et al 1998). The government has withdrawn all subsidies except for the last. Limited food transport subsidies to the remote mountains and hill regions have been further reduced (NESAC 2002).

Government had no policy of fixing supportive price for agriculture production on major food grains. Formerly, there were several state-owned companies (Nepal Dhan Chamal Companies) doing business in food sector. At the harvesting season, these companies announced the supportive price for food grains based on of cost of production and minimum benefit. Later in plantation season, same government companies supplied food grains in subsidized rates to the remote areas where food deficit take place. Such welfare measures minimized the role of food monopolist and smugglers but later year government closed these companies under internal pressure from the monopolist. Lack of government support in food distribution created serious food crisis in some areas of the country particularly in the North West, Karnali region have been going through famine-lie situation since several years.

Since 1993, agriculture sector was much neglected. Lack of radical land reform, unequal distribution and lack of local control on natural resources and wealth, then after curtail down the subsidies not helped to the general people. The large section of the people then migrated from their village in search of livelihood.

Industry

Nepal developed and protected its import substitution industries from outer competition till before the implementation of neo-liberal reform. Under stabilization programme the government, simplified the registration procedures, and extended incentives to export oriented industries. Those incentives regarding industrials reforms were the following:

(1) For entitlement to the governments incentives and facilities, the minimum value added required was fixed at 15 percent for the import competition industries- was only 10 percent in the case of industries exporting more than 50 percent of their output.

(2) Provision of pre-export loans to exporters;

(3) Provision of duty draw back (custom and excise and sales tax) to export- oriented industries, and supplementary industries to the extent of export volume; and

(4) Boarded warehouse facilities to assist the operation of export industries, including establishment of Export Processing Zone (EPZ)(Sharma 1999).

In 1990-91 government reduced sales tax and excise duties on locally produced goods. In March 1992, several changes were introduced, such as partial convertibility in the current account, which replaced the system of government control over import. Under this mechanism, government cut-down the items under the import auction licenses from 143 to 43 and put other items under the OGL. Tariffs on intermediate inputs, machinery and equipment became nominal and provision was made to refund custom duty, excise duty and sales tax levied on intermediate inputs or export oriented industries within 60 days. Besides exports income has been exempted from income tax and all industries on the priority list are exempted from income tax for five to seven years. Similarly, double taxation has also been abolished (ibid).

The shortage of capital investments and introduction of new technologies always have had a demand of the country, to fulfill these demands government introduced "The Foreign Investment and Technology Transfer Act-1992". According to this new Act, the licensing decision to the investment involving foreign collaboration would be made within 30 days immediately. As regards the equity participation, foreign investors are allowed to own up to 25 percent to 100 percent as long as capital investment exceeded US $ 400,000. Government fully assured repatriation of return on investment, dividend from foreign investment to attract foreign capital investment. Similarly, amount received as payment of principal and interest on foreign loans in convertible currencies is also guaranteed and all facilities can enjoyed by the foreign enterprises under one window system as other Nepali investor are enjoying (Acharya et.al 1998).

In the seventh Five-Year plan period (1986-90) exports with significant contributions from the readymade garments and woolen carpets. Similarly, production of some commodities grew satisfactorily. Nevertheless, the performance of Public Enterprises' decreased. Out of 23 public sector industries reviewed at that period, only seven were found to have run in profit and rest were in losses. However, between 1985/86 to 1990/91 the manufacturing sector grew at 8 percent per annum.

In **Eighth Five year plan** (1992-1997) period the government had an expectation of 12.4 percent growth rate of industrial production. This was not to be. The industrial sector grew only by 5.23 percent. Similarly, the share of industrial sector in National GDP was expected to reach 8.5 percent but remained 6.8 percent. However, in this plan period 5202 private limited companies and 612 public limited companies were registered. Similarly, 240 joint stock Companies and foreign joint ventures Investments Company registered. There was an estimation of NRs.9732 million rupees invested during the period. After the renewal of Trade and Transit Treaty with India in 1991, the access of Nepal's manufacturing products increased in the Indian market. Even after getting access to use Calcutta seaport as a port for own use helped Nepal for making transactions with other third countries. In the **Ninth Five-year plan** (1997-2001) period manufacturing grew at the rate of 5.75 averages annually in first four years. However, it was less than government estimation.

Domestic and Foreign Direct Investment

By the mid 1980s, Nepal had developed number of industries such as textile, confectionery, footwear and beverage industries. In 1988/89 private sector share was about half of the total capital formation in the country. In 1992, the government started to privatized public enterprises then the share of private sector in gross domestic fixed investment reached 67.8 percent in 1996. This figure was higher than that of India, Pakistan and Bangladesh (World Development Report 1998).

Foreign Direct Investment (FDI) is not a current phenomenon Nepal. Indian Industrialists have been involved in the industrialization process since 1936. Collaboration, joint venture, and sole business production activities were allowed for Indian Nationals. The friendship treaty of 1950s further helped to the Indian merchants to involve in all kind of business. However, after mid sixties government tried to implement some protectionist measure in manufacturing sector. But, after the adaptation of neo-liberal reform all windows were opened for foreign capital investment.

That policy encouraged FDI inflow after 1992, 239 operational enterprises with the foreign investment amounting to NRs. 3957 million have been registered as of September 2000.

Table no: 3-14

Operation Joint Venture Industries in Nepal in 1999 (Rs in million)

Country	No of Industries(%)	Total project cost	Fixed Investment	Foreign Investment	Employment (%)
India	156(32.2)	21508	17978	4870	27525(40.5)
Japan	58(12)	2087	1751	712	4152(6.1)
USA	49(10)	8690	8087	2633	5459(8)
China	31(6.4)	2255	1874	779	2766(4.1)
Germany	23(4.8)	440	360	187	1833(2.7)
South Korea	19(3.9)	1329	1101	565	2124(3.1)
United Kingdom	15(3.1)	1610	1439	59	4810(7.1)
France	14(2.9)	243	212	48	476(0.7)
Switzerland	12(2.5)	178	146	80	219(0.32)
Pakistan	6(1.2)	262	197	106	2166(3.2)
Total	484	59373	51628	14057	67890

Source: Dr. Mahendra P Lama. "India and Nepal, The Intricacies of Free Trade" (Draft Paper) prepared for Institute for Asian Studies, New Delhi

India, Japan, USA, China, Germany, South Korea, United Kingdom, France Switzerland, Pakistan are investing in 484 projects in Nepal until 2000. Amongst them India had the largest share (32.2 percentage) of the total foreign investment and it covered 17.2 perce nt of the total cost of these projects. Between July 1993 and September 2000, 138 new foreign investment projects came into operation. Most of these are promoted by individual and small companies rather than by established large companies. At present 239 a re operating, 50 are under constructions, 139 has licenses and 100 more have been approved for licensing.

Table no 3.15

Sector-wise Distribution of Joint ventures

Type of Industries	No of Industries
Agriculture and Forestry	10(2.0)
Manufacturing	245(50.6)
Electricity, water and Gas	7(104)
Construction	11(2.3)
Hotel and Resort	119(24.6)
Transportation and Communication	16(3.3)
Housing Apartments	11(2.3)
Service Industries	65(13.4)
Total	484

Source: Dr. Mahendra P Lama. "India and Nepal, The Intricacies of Free Trade" (Draft Paper) prepared for Institute for Asian Studies, New Delhi;

Most of the industries are service oriented therefore there is little chance of export potential. The flow of FDI however it is very low compared to other South Asian countries.

Manufacturing sector increased three times in absolute volume within the last thirty years but its share in national GDP is still less then 10 percent. According to the Industrial and commercial census of 1997, the main manufacturing industries are textiles, apparel, and footwear and food beverages and tobacco. Together these industries account for nearly half of all manufacturing establishments and almost 70 percent of value addition in this sector. Even within these broad aggregates, manufacturing activity tends to be concentrated in relatively few industries. Carpet and rugs, apparel –two major exports to countries other than India- account for bulk of the firms, employees, and value added within textiles, apparel, and footwear sub-sectors.

Despite high level of investment, this sector has not been able to create much employment. The economic survey of 1997/98 reveals that the bulk of bank credit went to industry and trade (43 and 33 percent respectively) whereas important sectors, like agriculture got a mere 9 percent of total banks loan. Similarly, NIDC has disbursed its loan to tourism and manufacturing (41 and 34 percent) respectively. However, these industries are not able to generate proportionate employment. Table 3-14 shows the employment growth rate, which were 0.2, 0.31, 0.17 and 0.01 percent respectively during the periods.

Table no 3.16

Structure of Employment

Industry	1986/87	1990/91	1993/94	1996/97
Food and allied	18454	17789	31717	21931
Drinks and Tobacco	8446	6945	10379	5193
Textile and wearing apparel	35639	55649	96993	92559
Wood, paper and printing	11829	7799	8882	9698
Plastic, chemicals, & pharmaceuticals	7361	7445	11151	8656
Non metallic mineral products	45757	58792	390	43978
Metallic products	5540	3259	1890	6727
Electrical Machinery and supplies	838	843	4962	1921
Activities n.e.c1	888	1089	62537	5276
Grand Total	134758	159610	228901	195939

Source: Labour Market Development and Poverty, 2000. Dr. Meena Acharya has taken these data from Annual survey of Manufacturing Establishment,CBS, 1986/87, 1990/91, 1993/94, and 1996-97
*Grand Total estimated only (Economic Survey 2002)
1 not elsewhere classified.

Government also realizes the failure of industrial sector specially on employment. In one of the budget books explained: "*Despite all efforts and investment so far made, the base for industrial development has not become stable. Industrial development is lagging behind due to the lack of adequate infrastructure like transport, skilled manpower power supply raw materials and capital and also due to the lack of adequate level of comparative advantage, entrepreneurship and management*"(Quote by Devendra Raj Pandey from MOF 1996:53)

The government is not looking in the pattern of investment. Less than twenty percent of the total capital formation is made by way of adding machinery and equipment in the production system of the economy, which is very low. This is not enough to promote manufacturing and employment.

Domestic investors want quick and high return from their investment, which are the general characteristics of comprador bourgeoisies. By nature, such bourgeoisies would not prefer to invest in long-term foundation for manufacturing industries. The comprador bourgeoisies' attitude has reflected from their attraction only on carpet and apparel industries following the introduction of OGL system. These industries are not based on indigenous labour, machinery and raw materials. Every thing imported from other countries. In addition, major export industries have no basic linkages with agricultural sector. Government tried to initiate through infrastructure projects but the linkage between the agriculture and manufacturing was not properly established. In fact, it is not a failure of inadequate infrastructure and capital but failure of policies.

Trade policy Reform

In 30th November 1985, Nepal Government began trade reform under Economic stabilization programme supported by the 18-month standby arrangement reached with the IMF. Devaluated the Nepali currency against the US dollars by 14.7 percent was the first step towards policy reform. In July 1986, the system of import license auction commenced. By 1987-88, substantial progress was made in liberalizing Quantitative Restriction (QRs) through the Open General Licenses (OGL) and by expanding the import license auction system. There were three other objectives of removal of quantitative restrictions

(1) *discourage rent seeking activities;*
(2) *Improve resource allocation; and*
(3) *Help improves the smooth supply of raw materials for industries and exports.* (Acharya et.al. 1998 pp 47).

In 1987, the government evaluated the over all economic performance. It was fully satisfied from the policy reform then government agreed to launch second round of three-year structural Adjustment Programme supported by IMF and World Bank. Under this programme OGL system was expanded and import license categorize in to

(1) Industrial OGL ;

(2) Commercial OGL;

(3) Import license auction.

Industrial OGL was aim at improving industrial production by importing industrial raw materials. License holders were provided with easy excess for foreign exchange for the import of raw material. The purpose of commercial OGL was to improve the supply of raw materials such as raw wool became favourable impact on the production and export of woolen carpet.

On March 4, 1992 partial convertibility was allowed in the current account. Before this convertibility there were about 143 commodities requiring import license; this number was gradually brought down to 43 under the OGL and government further taken out other 12 items from the licensing system at he end of the year. Simultaneously, the convertibility ratio was also raised from 75: 25 to 65:35. On 12 February 1992 Nepalese currency was made convertible, with this number of items puts under the import auction was further cut-down to six. Later, in July 1993 the new budget abolished the import auction license altogether. These auctions completely avoid the quantitative restriction on import (Acharya et.al 1998, Sharma 1999). Nevertheless, a tariff reform was very slow. Kishore Sharma remarks, "*It was slow due to the possibility of smuggling to India*" (Sharma 1999). In the side of export, government introduced Export duties draw back system in 1987, Boarded warehouse scheme in 1988, Export Service Fees[6] in 1993/94 and value added Tax in 1997.

Reform in Exchange rate policy

The reform in exchange system was first introduced in 1983 using 'basket system'. Under this system, Nepal Rastra Bank fixed the exchange rate between Nepalese currency vis-à-vis foreign currencies. From 1986, Indian rupee was also included in the currency basket to determine the exchange rate. Later in 1992, partial convertibility was introduced. Under this system, commercial banks had a provision to deposit 35 percent of their total foreign

[6] It means there is no tax other than export service fees charged on export.

exchange earning to NRB and they were free to sell the rest 65 percent at the market exchange rate. Later the proportion was again reduced and fixed at 25 and 75 percent respectively. The idea was made for the balance of payments self-correcting through the operation of market forces. Furthermore, such action would enhance Nepalese trade flows with overseas countries. However, the Indian currency still remained fixed (ibid).

Table no 3.17:
Changes of Exchange Rate of Nepali Rs. With the US$ and IRs.

Fiscal year	In terms of NRs per unit of		In terms of foreign currencies per unit of NRs.		Rate of change (%)	
	US$	Irs	US$	Irs	US$	Irs
1985	17.6	1.45	0.0568	0.6896	-	-
1990	29.1	1.68	0.0343	0.5952	-39.4	-13.7
1995	50.5	1.6	0.0198	0.625	-42.4	5
1997	56.8	1.6	0.0176	0.625	-11.1	-
1985/97	-	-	-	-	-69	-9.4

Source: Economic Liberalization in Nepal, 1998 pp49.

Table3.16 shows the depreciation of Nepali Rupee against US dollar and Indian Rupee by 69.0 and 9.4 respectively during the period of 1985-1997. However, the depreciation of Nepali rupee against US dollars is not only its weakness but reflects the weaknesses of the Indian currency also. This is the manifestation of fixed exchange rate regime with the Indian currency.

Trade Treaties

In 1988/89, India refused to renew the Trade and Transit treaty with Nepal due to political and economic reason. When new government came into the power then a more comprehensive treaty was signed with India. Both countries reached on an agreement, unconditionally putting each other as most favored nation. They also exempted import of primary products from duties of any form of quantitative restrictions on a reciprocal basis in the context of their broader trade (Sharma: 1999). This treaty also has given opportunity of more production of export oriented commodities.

For the first time Nepal's government allowed import from India with the payment of convertible currencies. Under this arrangement, the registered Nepali industrial firms could make imports directly from Indian producers, firms or company for that nine items were selected. In 1993 and 1994 clothing yarn was also allowed to import from India on payment of convertible currencies. This action helped garment industries to flourish. In 1997, other items were also included in the list and reached 29. The rationale of this provision was to make Nepali goods cheaper and competitive even in India, as the Indian government would waive certain taxes such as excise and sale taxes on such imports.

The trade and transit treaty further developed in 1999. From this recent treatment there is a provision of automatic renewal of Transit treaty in every seven years. Nepal has also made trade agreement with other seventeen countries. Most trading partners are Germany (33%), USA (25%), India (25%), Bangladesh (2.15%), Italy (1.5%), Switzerland (1.4%), Austria (1.2%), U.K. (1.04), France and Belgium. On import side, major trading partners are India(27.5%), Hong Kong(21.5%), Singapore(10.5%), UAE(5.9%), Japan(4.2%), U.K.(3.35%), China(3.2%), Switzerland(2.47%), and New Zealand(3.3%),etc. Nepal has trade with more than 50 other countries of the world (cited from Sharma 1999).

Direction of Foreign Trade

A customs duty (about 26 percent) is one of the major sources of total revenue of Nepal. When stabilization programme was implemented, its major aim was to boost trade. In the previous decade export/Import ratio was more than 50 percent. After reform the trend has changed and the Balance of payment (BOP) situation has become manageable.

Table no 3.18:
Share of custom Duty in Total Tax-and Total Revenue in Nepal (Rs. in million)

Year	Total Tax revenue	Total non Tax Revenue	Total Revenue	Total custom	Share of custom	
					In tax revenue	In total Revenue
1980-81	2035.7	383.5	2419.2	815.8	40.1	33.7
1985-86	3659.3	985.2	4644.5	1231.0	33.6	26.5
1990-91	8176.3	2553.5	10729.8	3044.3	37.2	28.4
1995-96	21668.0	6225.1	27893.1	7327.4	33.8	26.3
2000-01	38770.0	8315.5	47086.3	12277.8	31.7	26.1

Source: Nepal Rastra Bank, Nepal and Economic Report, 2000-01.

Table 3.17 shows the real trade position of Nepal. The deficit has been increasing over all periods. From 1986 to 2000, export had grown and increased by around 23.74 percent. Import increased by 19.70 percent per annum during the same period.

Table no 3.19: Direction of Foreign Trade (Rs.in million)

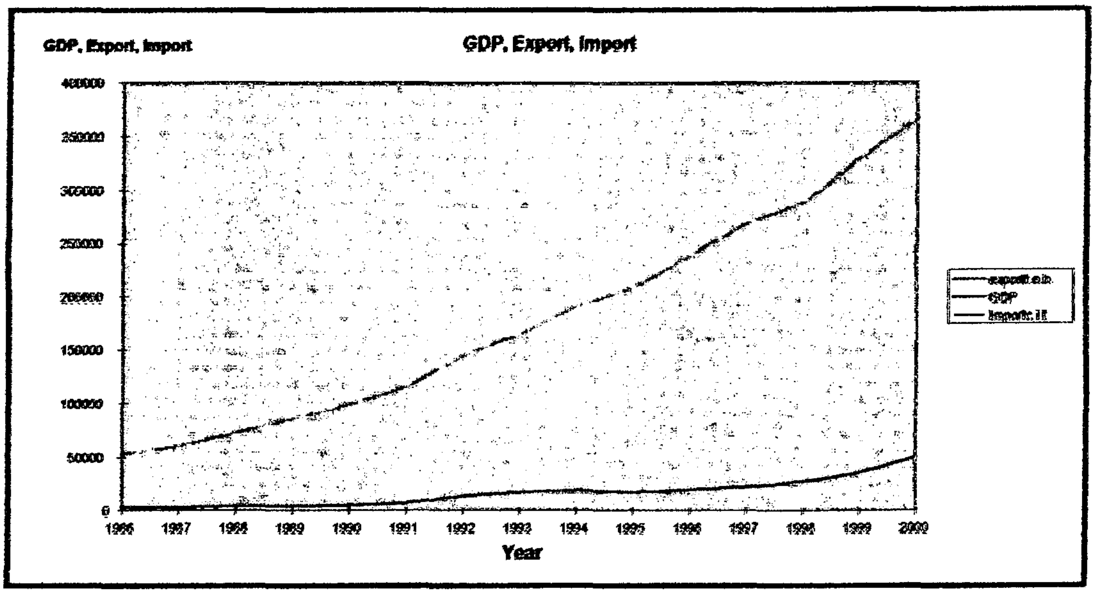
Years	Export f.o.b.	Export Growth Rate	GDP	Growth rate	Export / GDP	Import c.i.f.	Import Growth rate	Import / GDP	(X-M)	(M-X)/ GDP
1986	3078		53215		5.78	9341		17.55	-6263	-0.12
1987	3192	3.70	61140	14.89	5.22	10905	16.74	17.84	-7713	-0.13
1988	4115	28.92	73170	19.68	5.62	13870	27.19	18.96	-9755	-0.13
1989	4295	4.37	85831	17.30	5.00	16254	17.19	18.94	-11959	-0.14
1990	5156	20.05	99702	16.16	5.17	18325	12.74	18.38	-13169	-0.13
1991	7388	43.29	116127	16.47	6.36	23226	26.74	20.00	-15838	-0.14
1992	13706	85.52	144933	24.81	9.46	31940	37.52	22.04	-18234	-0.13
1993	17267	25.98	165350	14.09	10.44	39206	22.75	23.71	-21939	-0.13
1994	19293	11.73	191596	15.87	10.07	51571	31.54	26.92	-32278	-0.17
1995	17639	-8.57	209974	9.59	8.40	63679	23.48	30.33	-46040	-0.22
1996	19881	12.71	239388	14.01	8.30	74454	16.92	31.10	-54573	-0.23
1997	22636	13.86	269570	12.61	8.40	93553	25.65	34.70	-70917	-0.26
1998	27514	21.55	289798	7.50	9.49	89002	-4.86	30.71	-61488	-0.21
1999	35676	29.66	330018	13.88	10.81	87525	-1.66	26.52	-51849	-0.16
2000	49823	39.65	366284	10.99	13.60	108505	23.97	29.62	-58682	-0.16

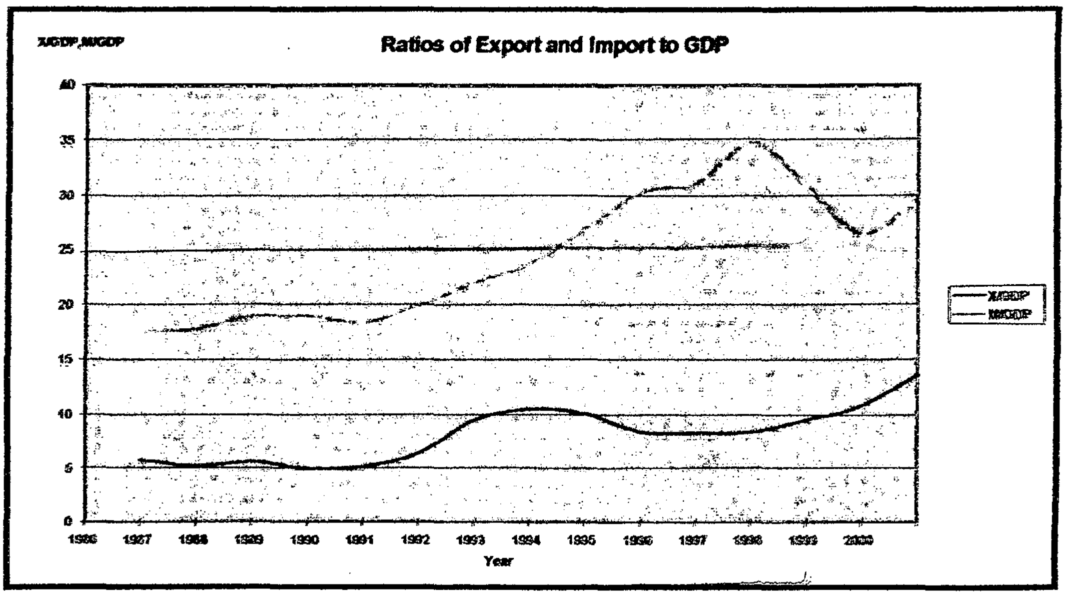
Note: the number of the parentheses is percentage.
Source: Economic Survey 2051-52, 2003, MOF, HMG.

The trade deficit was around 13 percent till 1993 which jumped 26 percent in 1997 and remains constant in 1999 and 2000 at 16 percent. Figure 2-2 shows the trend of exort growth from 1992.

Figure 3.2 & 3.3

Direction of Export, Import and GDP





Since 1995 import grew but export declined slightly, which slowly improved after 1999. The trend of import to GDP ratio (figure3-2) is higher. It was more than 15 percent, reached 37.5 in 1998, and began to slow down.

Trade with India and third countries

Till mid sixties Nepal's trade with India constituted almost 98 percent of it's over all foreign trade. This began to diversify then after 1989-90, it came down to as low as 22.5 percent. During that period, Nepali government had made a policy of diversification of trade with third countries. For many years, this took place mainly in terms of its export to overseas countries and not in terms of import from India. However, after political change the trend of trade has also been changing. Trade with India increased in the 1990s and reached 46.7 percent of total trade in 2000-01. During 1991-2000 periods, Nepal export to India increased 16.76 fold and this accounted for the increase in volume of trade with India. Similarly, Nepal imports from India has also increased by many fold and reached 31 to 39 percent during the same period. In total global trade of Nepal, share of India reached 46.16 percent (Lama 1993).

Table no 3.20

Trade Share with India & Third Countries (Rs.in million)

	Export		Imports		Total Trade		
Year	India's Share%	Overseas Share%	India's Share%	Overseas Share%	Total Trade	India's Share%	Overseas Share%
1986-87	43.5	56.5	39.1	60.9	13896.2	40	60
1989-90	11.7	88.3	25.5	74.5	23481.1	22.5	77.5
1990-91	21	79	31.5	69.5	30614	28.9	71.1
1995-96	18.5	81.5	26.6	73.4	94335.6	29.8	70.2
2000-01	46.7	53.3	39.1	60.9	171341	41.6	58.4

Source: Dr. Mahendra P Lama. "India and Nepal, the Intricacies of Free Trade" (Draft Paper) prepared for Institute for Asian Studies, New Delhi

The increase in Nepal-India trade was possible after the treaty of 1991 and 1996. Under these new treaties, India removed various restrictions on Nepali goods. For example, India insisting for a long time that the Nepali goods should be based on traditional raw materials and indigenous labour force. When India adopted free trade in its economic policy then it became easier for Nepali to enter in to the Indian market.

Export Trend and Items

The major export items of Nepal are woolen carpet, readymade garments, pulses, hides and skin, polyester yarn and handicrafts. During 1986-90 around 70 percent of Nepal's total exports comprised of primary commodities, with 30 percent manufactured goods. But after 1992 the export of primary goods declined and shares of manufacturing goods increased. During 1986-95, the export of Carpet, garments, pluses and jute goods increased by the percentages such as 83.57, 75.28, 74.41, 40.74 percent respectively. However, after 1995 the export of carpet decreased. The other items also not performed satisfactorily after 1991. Nevertheless, these all-manufacturing goods are exported to third countries. The primary commodities are largely exported to India, which are live animals, jute and jute goods, dried ginger, agro-forestry products, cardamoms, rice bran oil, pulses, oil cake, and after 1996 polyester yarns and other manufacturing items such as tooth paste, vegetable ghee, noodles, biscuits are the exporting items. Such composition of export has given relief to the surplus producers in the country.

Table no 3.21: Exports, by Principal Commodities (Value in million NRs)

					Percentage change in	
S.No	Description	1986-90	1991-1995	1996-2000	1986/95	1991-2001
1	Carpet	1236.2	7525.4	7338	83.57	-2.55
2	garment	969.8	3923.4	8397.8	75.28	53.28
3	pulses	166.8	651.8	1002.8	74.41	35
4	jute goods	131.8	222.4	742.8	40.74	70.06
5	Raw jute &Jute cuttings	47	35.4	9.8	-32.77	-261.22

Source: Economic Survey -1985-86 and 2002, MOF, HMG.

Nepalese export is highly dominated by the Carpet and ready-made garments, but these two products have no certain future. The third countries are raising several issues on Nepali carpet production related to child labour, product quality, and environment, among others. This has become competitive new producers are entering the limited market of the Europe and USA.

Similarly, garment also do not seem to have good future as the multi-fiber agreement is being phased out and the concession available to Nepal as a least developed country is no longer available. Government also has not given any special attention to grow its own raw material-based industry. Since 1986/87 the liberalization policies have not helped much. The magnitude deficit in the balance of trade (BOT) has been widening in an unprecedented scale. In 1984-85 it was NRs. 5001.5 million. This went up to NRs. 56585.5 million in 1995/96. It further increased to NRs. 60033 million in 2000-01.

Summary and Conclusion

The history of modern Nepal began with the take-over of King Prithivi Narayan Saha of the Kathmandu Valley in 1768. The process of unification was an ambitious project of king of Gorkha. This process brought in major shifts to strong feudal order from the primitive level of feudalism. In the first phase of modern history, there were two major tasks for rulers: first, the expansion of territory and full control over the annexed land, and second, fight or preparation of war against the strong invaders from the south as well as from the north. During the unification period the state had two major constraints. First, it had lacking natural resources and secondly it had lower level of storage of food-grains because it had shortages of productive cultivated lands. The new warring state produced new class, which was feudal warrior, for a resource constraints state that is why all the expenses of war or burden have to be covered by the people.

In the first chapter, we tried to analyse the economic position of the state. We make simple observation on the nature of agrarian condition, burden of war, land taxes, and compulsory labour obligation implemented by the state. Over tax burden, compelled to work for the government without wages, excessive interest rate on debt and more pressure over the cultivated land by landowner and moneylenders was the general phenomenon of the Gorkha Raj. That was the major cause of exodus of hill people towards eastern and western India.

After the humiliating defeat from the war of 1814-16 with the British India, administrative functions were restricted to defense against external attacks, maintenance of law and order and collection of revenue. Expenditure outside of these fields for public welfare activities was negligible. The economic growth was not in the priority list. Even after the defeat, all state treasuries, human resources and available material resources were mobilized for the preparation of war.

We tried to analyze the emergence and longevity of the Rana family autocratic rule. The economic orientation of the Rana rulers remained the same as those of their predecessors. We can say they were more inhuman, selfish, and exploitative than their predecessors. Their continued hold in state power was possible due to the alliance with British Imperialist force. The country became semi-periphery during their rule, which supplied the most vital national human resources for the British

Imperial army. That feudal-imperialist alliance provided them with unprecedented opportunities for exploitation of the resources of the state for the personal enrichment of the Rana prime ministers and their relatives and supporters. When British imperialism- the primary patron and guardian of Rana rules- quit India in 1947, the rule of Rana autocracy also crumbled in 1950 in Nepal. More than one century (1846-1950) was the very dark days for Nepali people.

The Delhi Agreement[1] brought in political change, while the Ranas left the national economy in shamble. There were rising expectations of the people. However, there was nothing in the treasury. More than 98 percent of the population was illiterate. The physical infrastructure remained virtually non-existent. There was also not much technical work forces were in the country. In essence, Ranas controlled all the wealth of the nation but did not use for the development purposes. They invested wealth of the country in building palaces, collecting jewelry, on foreign trips, and depositing in the foreign banks. They invested in Indian industries also. Delhi agreement prohibited state from confiscating wealth from the Ranas. It was not known how much money they looted from the nation within one century or more over in the power. A few palaces (like Singha Darbar, Sittal Niwas, Babar Mahal and Harihar Bhawan) began to be used by the then government after Rana's fall.

In fact, 1950s change was not a revolutionary one. It was a byproduct of international salvation movement against imperialism. Nepalese movement against Rana autocracy emerged when India got freedom from the British imperialism after a long battle. That struggle and achievement inspired the middle class elements of Nepal who were studying in various universities and colleges in India. However, the struggle reached in to the power sharing negotiation. Therefore, new power could not confiscate the looted wealth, and occupied lands. On the other side new power holder were not different from based on class and political attitude. In this sense, the battle between the two was not a clash for principle, which belongs to two different polarized classes. The winner chooses the democratic way rather than old power because of the international situation.

The new rulers found new advisors to run the country. The advisors were American who came to Nepal with the aid package of 22 thousands rupees replacing British imperialist force as an advisor

[1] Delhi Agreement was a tripartite agreement among three forces: Rana, King Tribhuvan and Nepali congress for sharing of state power, where India had played a mediatory role.

for modernization. They had a one-point agenda, which was to stop the Chinese type of agrarian communist revolution in Nepal. On that agenda, the then new Indian ruler had the similar view. Thus, the new ruling elite despite their strong feudal roots and tied the knot with the western style development pattern.

However, the reality was different. People were in extremely in dark situation. They wer e exploited in every sense from the state power. Most of the people had hand to mouth problem; they were not only out of education, health and other social infrastructure but also out of livelihood, out of land. They were hoping the new change precedes radical land reform, equity in distribution, and uplift their lives in every sense. Nevertheless, the new elite rulers and their new advisors had no such agenda of transformation. They had no belief on the mobilization on state's human and economic resources sufficient for the national development.

Foreign donors and their consultants never thought that Nepal - just a beginner in developmental process - was not a case of reconstruction like Western Europe after Second World War. Reconstruction work in those countries and a just beginner like Nepal have had lots of differences since the beginners require different kind of technical skills, educated manpower, and all kind of human development and capital investment and more over people's participation rather than reconstruction. Nevertheless, they applied same formula, same path of "Marshall Plan ", which was adopted by President Harry Truman for the reconstruction of western European countries. Thus, the first five-year plan in 1956 commenced with 100 percent foreign aid with a hope that only capital would be sufficient for the state advancement. Technically the plan was based on Indian Development model. However, in real practice that was neither democratic nor socialistic. Since then all the successive plans not only failed to achieve their goals, but also they isolated majority of the people. Every project was constructed without consulting concerning people and was not directly related to people's need. However, the plan procedures were repeated without proper evaluation behind this there were several benefits for the king and his advisor-cum-donors. Firstly, the rulers had an opportunity of maintaining a firm grip on development funds (foreign aid) for their own advancement. For example, foreign aid helped autocratic monarchy to control the advantage of political power and the treasury vaults to fulfill their economic interest and aspiration. Whereas for the advisor-cum-donors benefits were of two types. First, they could achieve political support in the international forum (if it is needed) from investing a negligible amount (as a few million is nothing for US treasury). Second, the western cultural habit (we can say colonial mind) could establish on the mind of ruling elite forever.

Land reform was rolled out in 1964 after 14 years of political change. The objectives of land reform were many. Firstly it was expected that the landlords would shift towards industrialization with their surplus amount (there was a provision of minimum payment on land after confiscation from landowner). Secondly, most of the people would get a piece of land and land productivity would increase. This would result in reduction in poverty. Thirdly, agriculture and industrial development would go hand in hand simultaneously and which would decrease the foreign dependency. But these objectives of land reform never been materialized. The state began to be involved in industrialization process. It had two major objectives: import substitution and the diversification on trade. Until the sixties, more than 80 percent of the foreign trade of Nepal was with India. So under import substitution objective, various industries were established with the help of foreign assistance and thus this process became successful to some extent.

In the mid seventies, several problems arose. The failure of the land reform led to underemployment and unemployment. In the name of diversification of trade, more of luxurious goods were imported. Following this smuggling of luxurious goods to India increased. These activities made those businessmen habituated for easy and prompt profit oriented business rather than productive industrial investment. And lastly, multilateral and bilateral donors decreased their grants, and the state started taking loans from the international financial institutions.

The shortages of foreign currencies became so acute that the reserves were not enough to maintain four-month imports of the country. The trade deficit widened and the import substituting industries could not compete with foreign goods. The state had realized the situation. There was need of serious reform on overall socio-economic structure and policies. Instead of socio-economic transformation, the IMF and World Bank prescribed neo-liberalism as state's socio-economic policy, which is based on centralization of all wealth.

The adoption of neo-liberal economic policy for the last 15 years could not lead to economically, socially and culturally. It did neither bring more rapid economic growth, nor reduced poverty, and not even make economy more stable as a whole. In fact, over the years, growth had slowed down, poverty has increased, and economic and financial crises have become epidemic. The convergence of national economy with the global capitalism could not be avoided by the technologically backward economy. Instead of development of rural raw material based manufacturing industries, state established assembling-industries for import substitution. The IMF and World Bank made the country to produce in accordance with its established comparative advantages in the international market. Therefore, Nepal again produced what already existed - a traditional, primary sector. Simultaneously, state did not give special priority on agriculture where more than 80 percent of the population lives on. There was no stimulation of modernization, or diversification towards new, more technologically intense agriculture and manufactured products and services. Thus again unemployment and underemployment grew tremendously, and widened the gap between rich and poor. Huge economic and social differences appeared between rural and urban areas. Rural people felt that they were highly discriminated by the state in every aspect. This has led to mass disappointment that has translated into violent struggle and the continuing civil war.

The IMF and the World Bank are trying to fit 'neo-liberalism' as a single development model all over the world. Now they are prescribing poverty reduction, transparency, and good governance through institutional reforms. It is far too insensitive to local context and needs and it does not correspond to the empirical reality of how development takes place. The neo- liberal agenda calls for trade and financial liberalization, privatization, deregulation, openness to foreign direct investment, a competitive exchange rate, fiscal discipline, lower taxes, and smaller government; but the empirical results show that none of which could plausibly lead to mass prosperity. The neo-liberal model could not be the 'model' of a very backward country like Nepal. For Nepal there might be many routes to reach the bliss, which have been a governmental support arrangements combining with unpredictable elements of sectoral specialization.

When Nepal adopted neo-liberal policy there was Panchyety rule prevailing in all over the country. Panchyat as a system could not sustain because it was not based on real democracy where people had the power of decision-making process. After a brief national movement, parliamentary democratic system replaced Panchayat in 1990. The new elected government followed the same policies in the name of Enhanced Structural Adjustment programme (ESAP).For the following twelve years several governments ran the country and but followed the same policies.

However, it was felt that the decision making power of the people were gradually cut down. In fact, there have been making alliance for special decision making on the fate of people between the national governing elite and the international financial institutions and other agencies. In many cases, the government themselves are so undemocratic that the people of the nation have little or no say as to what their own government say and do.

Due to economic and political failure, the parliamentary democratic model seems to be outdated in the country. King has again seized all power of the parliament through constitutional coup with the western help. Nowadays he himself and his puppet government officials are talking about 'corporate governance' and strong implementation of the same neo- liberal economic policies.

At present no country can sustain living in isolation. Nepal is surrounded by China and India, both of which are practicing neo-liberal economic policies. China is implementing the policy in the name of socialist market economy and India in the name of Second generation of economic liberalization. In this situation Nepal can not protect herself from the regional impact. However, Nepal should explore strong reform measure progressively on economic, social and political field. Such type of reform programme which really would provide social justice on distribution of power and wealth of the nation. State power should protect its people; it should redistribute land and other wealth on equality basis. People should be empowered and involved in decision making on the use of natural resources at least in their localities.

Democracy can be measured in other terms: the extent of the people's active participation in decision-making and state's economic development. In the real sense, there should be democratization and decentralization. The development process has been dependent on foreign funding and its stake and terms, which weakened the decision-making process of the people of the soil. That dependency - on political, economic, social and cultural level - cannot be taken away to empower the lives of the people. The failure of the governance of various Third World countries gave us the experiences that any kind of democratic system would not be successful and sustainable without translating democracy in real political, economic and social terms. Today, greater majority of the people of Nepal are underprivileged, development victim and waiting real economic and social justice since its unification.

Appendix-1

Foreign Aid in Nepal (in millions)

year	Grants	Loans	Total	National	Foreign	Exchange	Total foreign	Budget
1950/51	1.01	-	1.01	24.69	4.09	7.68	0.13	3.21
1951/52	1.01	-	1.01	52.52	1.92	7.68	0 13	6.84
1952/53		-	-	52.93	0	7.68	0	6.89
1953/54		-	-	66.66				
1954/55		-	-	63.46				
1955/56	0.01	-	0.01	69.46	0.01	7.68	0	9.04
1956/57	1	-	1	44.44	2.25	7.68	0.13	5.79
1957/58	1	-	1	55.71	1.8	7.68	0.13	7.25
1958/59	86.42	-	86.42	112.52	76.8	7.68	11.25	14.65
1959/60	111.69	-	111.69	248.96	44.86	7.68	14.54	32.42
1960/61	227.5	-	227.5	377.2	60.31	7.68	29.62	49.11
1961/62	128.84	-	128.84	304.36	42.33	7.68	16.78	39.63
1962/63	128.36	-	128.36	297.85	43.1	7.68	16.71	38.78
1963/64	125	13.44	138.44	295.43	46.86	7.68	18.03	38.47
1964/65	141.05	5.86	146.91	249.85	41.99	7.68	19.13	45.55
1965/66	175.3	3.3	178.6	428.11	41.72	7.68	23.26	55.74
1966/67	142.23	3.7	145.93	438.84	33.25	7.68	19	57.14
1967/68	167.6	-	167.6	481.1	34.84	10.2	16.43	47.17
1968/69	185.9	-	185.9	537.21	34.6	10.2	18.23	52.67
1969/70	243.74	7.55	251.3	683.83	36.75	10.2	24.64	67.04
1970/71	270.69	32.46	303.14	769.5	39.39	10.2	29.72	75.44
1971/72	242.04	38.89	280.92	889.6	31.58	10.2	27.54	87.22
1972/73	180.26	47.38	227.64	982.8	23.16	10.6	21.48	92.72
1973/74	222.62	87.87	310.49	1226.31	25.32	10.6	29.29	115.69
1974/75	282.79	103.97	386.77	1513.7	25.55	10.6	36.49	142.8
1975/76	359.72	145.94	505.65	1913.3	26.43	12.55	40.29	152.45
1976/77	392.66	164.32	556.98	2330.4	23.9	12.55	44.38	185.69
1977/78	466.6	381.8	848.4	2674.9	31.72	12. 1	70.12	221.07
1978/79	599.3	390.1	989.4	3220.5	32.76	12.1	81.77	249.63
1979/80	805.6	534.9	1340.5	3470.7	38.62	12.1	110.79	286.83
1980/81	868.9	693.3	1562.2	4092.3	38.17	12.1	129.11	338.21
1981/82	993.3	729.9	1723.2	5361.3	32.14	13.3	129.56	403.11
1982/83	1090.1	985.8	2075.9	6979.2	29.74	14.6	142.18	478.03
1983/84	876.6	1670.9	2547.5	7437.3	34.25	16.5	154.39	450.75
1984/85	923.4	1753	2676.4	8394.8	31.88	17.8	150.36	471.62
1985/86	1172.9	2501.1	3674	9797.1	37.5	21.3	172.49	459.96
1986/87	1285.1	2705.8	3990.9	11513.2	35.66	22	181.4	523.33
1987/88	2076.8	3815.8	5892.6	14105	41.78	23.7	248.63	595.15
1988/89	1680.6	5666.4	7347	18005	40.81	27.6	266.2	652.36

1989/90	1975.4	5959.6	7935	19669.3	40.34	29.3	270.82	671.31
1990/91	2164.8	6256.7	8421.5	23594.8	35.69	42.9	196.31	550
1991/92	1643.8	6816.7	8460.7	26418.2	32.03	42.8	197.68	617.25
1992/93	3793.3	6920.9	10714.2	30897.7	34.68	49.48	216.54	624.45
1993/94	2393.6	9163.6	11557.2	33597.4	34.4	49.59	233.06	677.5
1994/95	3937.1	7312.3	11249.4	39060	28.8	50.94	220.84	766.78
1995/96	4825.1	9463.9	14289	46542.4	30.7	56.8	251.57	819.41
1996/97	5988.3	9043.6	15031.9	50723.7	29.63	57.3	262.34	885.23
1997/98	5402.6	11054.5	16457.12	56118.3	29.33	68.25	241.13	822.25
1998/99	4336.6	11852.4	16189	59579	27.17	68.8	235.31	865.97
1999/00	5711.7	11812.2	17523.9	66272.5	26.44	69.7	251.42	950.82
2000/01	9677.2	15941.06	25618.23	83224.8	30.78	74.4	344.33	1118.61
Total	68507.12	134081.2	202588.3				5215.68	15929.03

ources: Acharya, K.P.1992.acharya, in turn, derives the data from:

, budget in Nepal (an extract of budget tables, 1951/52-1981/82, HMG, M0F, Revenue ıdministration Training Centre, 1982.

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