

# **Economic Development Of Nepal During Democratic System : A Comparative Study With Pre-Democracy**

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## **INTRODUCTION**

With the dawn of democracy in Nepal, the aspirations of Nepalese citizens soared to a Himalayan height like in other aspiring nations for democracy. Nepalese citizens were expecting all round political, economic and social development under multi-party democratic system. But the operation of an effective democratic system depends upon the manner in which the democratic government faces the emerging challenges and issues and has control over them. The objective of this paper is to high-light the changes in various economic issues during democratic system in comparison to pre-democracy in Nepal. It will also seek a way out for improvement.

The success or failure of a government largely depends upon its success or failure in accelerating economic development of an economy. It would be in teresting to see whether the change in political system of Nepal has shown any perceptible impact on the Nepalese economy.

## **COMPARATIVE STUDY**

In order to examine the impact of democratic system in comparison to pre-democracy in Nepal, we have selected a number of economic indicators, such as GDP at constant and current prices, per capita GDP at constant prices, share of agriculture, industry and service to GDP at constant prices and share of agriculture, industry and services in expenditure of the government shares of imports and exports to GDP and balance of trade and payments position. Further, the pace of economic development also depends to a large extent on the development of social

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services, such as health, education, etc. Hence, in the present study some indicators pertaining to social service are also taken into account.

Table 1 comprises various economic indicators pertaining to Nepalese economy. In the present analysis we have taken the period of 1985-90 for pre-democracy and 1991-96 for democratic period in order to make a comparative study of the performance of Nepalese economy between these two polar systems. The comparative study has been made taking into account the annual average percentage change figures of these two periods.

The Table 1 shows that GDP at current prices increased by 15.6 percent in 1991-96, while it had soared in an average by 18.2 percent in 1985-90. But if we take an increase of GDP at constant prices, then it becomes very small. GDP at constant prices increased by 5.22 percent in 1991-96 period, whereas it was more 4.58 percent in an average during the period of 1985-90. Such a difference between changes in GDP at current prices and constant prices can be attributed to rise in prices. Similarly, per capita GDP at constant prices showed a very small rise of 2.57 percent in 1991-96 in an average while it had increased by 2.43 percent per annum during 1985-90. Thus, the study reveals that rise in per capita GDP at constant prices during the democratic system as compared to pre-democracy is very small due to rise in population. The average percentage change in the primary sector at constant prices shows a declining change between 1985-90 and 1991-96, while that of secondary and tertiary sectors a rising trends, which shows good prospects. For instance, the annual average change in agriculture at constant prices rose to 4.10 percent per annum in 1985-90, while it increased mere by 2.03 percent per year in democratic system, 1991-96, showing a slow percentage change in the growth of primary sector. On the other hand, in the democratic system the secondary sector of the Nepalese economy showed a good performance as is evident from the figures between 1985-90 and 1991-96. The percentage change in secondary sector increased by 12.73 percent per annum in 1991-96 while its rise was 5.16 percent per annum in 1985-90. The similar trend is observed with respect to change in tertiary sector at constant prices. The percentage change in tertiary sector rose by 7.13 percent per annum in 1991-96, while there was a slow percentage change of 5.08 percent per year during 1985-90. The rise in growth of industry and service sectors is an indication of march towards economic development, but it needs further strengthening. The index number of agriculture production showed a significant decrease between 1985-90 to 1991-96. The annual average increase in index number of agricultural production of all commodities in 1985-90 was 4.31 percent which decreased to 1.70 percent in 1991-96, showing a fall of more than 100 percent. Similarly, average percentage change in food production per capita became negative by 0.90 percent in 1991-96 from 1.96 percent in 1985-90 period, which may be the outcome of growth of population. But index number of industrial production,



manufacturing, with base 1986-87 = 100 indicates a significant growth. The annual average percentage growth in industrial production was 0.45 percent during 1985-90 which considerably increased to 10.57 percent during 1991-96. Such a rise in industrial production is a good sign of progress of Nepalese economy under democratic system.

Similarly, the external sector of Nepal also shows a significant change under democratic system. For example, import in Nepal at current prices recorded an increase at annual average of 18.90 percent in 1985-90 which increased to 29.12 percent in 1991-96, while exports increased by 31.86 percent in 1991-96 from 13.87 percent in 1985-90. Thus, it is clear from the analysis that the percentage rate of increase in exports has been more than that in imports mainly due to rapid rise in exports of synthetic textiles to India. The high rate of increase in exports as compared to that of imports is a healthy sign of success of the democratic system in Nepal.

Despite high rate of increase in exports as compared to imports, there has been persistent deficit in trade balance and BOP on current account in Nepalese economy during the period under study, which indicates a gloomy picture of the Nepalese economy. The calculations show that deficit in balance of trade increased at an annual average of 29.99 percent during 1991-96 from 21.60 percent in 1985-90, showing a rise of 8.39 percent during the corresponding period. Although, the overall BOP of Nepal has been in equilibrium, but BOP on current account shows persistent deficit. The annual average percentage change of deficit in BOP on current account amounted to 26.03 in 1985-90 which considerably decreased to 6.44 in 1991-96. Despite the fall in the growth of deficit in BOP on current account under democratic system of Nepal as compared to pre-democracy, it is still too much. If it is not balanced, severe economic crises are sure to arise. In addition to, the position of foreign exchange reserves in Nepal has also not been very satisfactory. Though it has increased in actual amount but its annual average growth has declined substantially under democratic system against pre-democracy. The annual average growth of foreign exchange reserves amounted to 47.11 percent in 1985-90 which fell down to 13.57 percent in 1991-96. Another way to look at the performance of an economy is the allocation of resources to different sectors. In an economy expenditure on agriculture, industry transport and communication and health should constitute a major portion of total expenditure as these sectors are significant for economic development of any nation. Unfortunately, in Nepal the percentage of annual average growth of expenditure on these four sectors to total expenditure has declined during 1991-96 as compared to 1985-90 as is indicated in the Table 1. It shows that prospects of future economic development of Nepal is not rosy. It may generate unemployment, food crisis and adverse effect on tourism industry, etc. Apart, future development of an economy largely depends on the advancement of the social sector as it improves the quality of life

which is the real indicator of the economic development. Now, it would be relevant to find out the changes in the availability of factors pertaining to social services and expenditure on them, encouraging an improvement in quality of life.

In Nepal, although the numbers of schools, teaching staffs and hospital beds have increased, but its annual average percentage change has declined to 4.60 in 1991-96 from 7.29 percent in 1985-90, to 4.34 percent from 6.25 percent and to 1.38 percent from 6.04 percent, respectively during corresponding period. A welcome aspect of social sector in Nepal is the decline of population per physician and an increase in annual average growth of the number of physicians, but a matter of great concern is the low rate of increase in expenditure on education to total expenditure as is evident from an annual average growth of 11.16 percent in 1985-90 to 12.77 percent in 1991-96. It would adversely effect the future development of the economy of Nepal due to insignificant improvement in human capital formation.

The above discussion shows that under the present democratic system in Nepal some significant favourable changes took place in annual average growth of GDP at constant prices, per capita GDP, industrial production, exports and physicians but in other areas some negative and insignificant indications are perceived, revealing somewhat ineffectiveness of the present democratic system.

#### FACTORS RESPONSIBLE FOR POOR PERFORMANCES

The areas which show the gravity of crises are relating to per capita availability of agricultural production, balance of trade, expenditure on agriculture, transport and communication as well as health and growth in population. The poor performance of Nepalese economy regarding these aspects can be attributed to a number of constraints which need to be redressed by the present government., otherwise the crisis will become more serious hampering democratic system itself. The factors responsible for these are as follow :

— **Corruption** : there are a number of writings such as, (Poudyal 1993), (Zivetz 1992), (Guru Gharana 1996) which show that corruption prevailed under both the systems of the government in Nepal. Guru Gharana (1996) rightly quoted, the study made by him as a member of national planning commission, "Corruption is an inverted tree with roots higher up". The roots of corruption have been left untouched by all governments so far. Transparency is lacking in procurement, recruitment, awarding contracts, appointments, hiring, firing or even selling public properties, e.g., public enterprise. This has not changed a bit after the restoration of democracy. The impact of this corruption is reflected as an impediment to economic development in Nepal. This can be seen from the loss of faith of entrepreneurs in the government policies and statements. Consequently,



the entrepreneurs have sifted their investment activities in land speculations, trade, etc. which provide quick profit (Lama 1984).

— For economic development, means of transport and communication are essential. Nepal is far behind in this respect. For instance, it has hardly 10, 200 kms. of total road facilities, out of which, 3,432 kms. are black topped, 2,439 kms. are gravelled, and 4,238 kms. are fair weather. (MOF 1995). Although the length of roads is increasing yet, the expansion of the road network is very poor preventing the entrepreneurs from investment. Further, the distribution of road is uneven resulting into lopsided development.

Means of communication is also a serious hurdle for economic development in Nepal. Though these facilities have been increasing in the last few years, yet their concentration is uneven. Most of them are located in the Kathmandu Valley. For example, in 1975, 13 towns were covered by the extension of telephone facilities with 8,703 lines which increased to 47 towns and 96,593 telephone lines. Due to concentration of communication facilities in certain areas, industries as well as tourists concentrate in those places only creating environmental pollution and evils of industrialisation.

- The policies of the government of Nepal are inconsistent, resources are not allocated according to priorities, there are loopholes in policies and monitoring mechanism is inadequate to prevent the misuse of civil service privileges. All these factors prevent the investors from long term investment in priority sectors. Most of them try to invest in those areas where profit is quick and high. Probably all these problems are due to frequent changes in the government.
- Lack of finances is perhaps the most important bottleneck in the development of the Nepalese economy. Nepal is largely depending on foreign aid for it. Generation of financial resources within the country is very slow and inadequate. It is because of the rudimentary development of the capital market, where the foreigners are not allowed to invest. Because of the inadequate finances, even the small scale industries are suffering from shortage of funds.
- In Nepal more emphasis is being paid on the development of tourism industry. It is no doubt that this is a positive effort for the foreign exchange earning, which is essential for economic development, but the problem which arises is that the earnings so obtained are not gainfully utilised. Moreover, due to overemphasis accorded to tourism sector, other important industries like jute, other agro, and forest based industries and small scale industries have not been given priority in allocation of resources. Expenditure made on agriculture and industry has been relatively falling over the years. It would create food crisis, employment crisis as well as lopsided development. etc.

- The democratic government is providing loans at low rate of interest, encouraging investment in fixed assets on the one hand and on the other hand, import of capital goods is also being encouraged. These are resulting into capital intensive lines of production. Thus, the adoption of capital intensive production is sure to create unemployment, which would be aggravated further due to unabated rise in population of Nepal.
- Another burning problem which Nepal is facing is ever widening gap in balance of trade and payments due to existence of large scale smuggling across borders, increase in domestic demand for imported commodities for development as well as for consumption and switch trading. Further, limited commodity and market concentration in foreign trade is acting as obstacles to improvement in balance of trade and payments.

### CONCLUSION

The democratic government of Nepal as stated earlier has inherited a slow growing economy, encompassing slow increase in GDP and per capita GDP, deficit in balance of trade and payments, low level of expenditure on agriculture and industry, lopsided development, poor social sector, more dependence on foreign aid and underdeveloped capital market, etc.

It was expected on the restoration of democratic system that the Nepalese economy will soon be transformed into high growing economy. But it did not materialise till now due to certain bottlenecks. The need is to mitigate these bottlenecks. In this light the following suggestions are worth while to follow.

Firstly, there has been a rise and fall of several democratic governments in Nepal during a short period of nearly one decade, which adversely affected the economic development of the country. In order to solve this problem, there should be a national agenda for action. This agenda should comprise priority sectors of development, priorities for allocation of funds, work culture and national character building, etc.

Secondly, democratic government should accord highest priority to the development of the social services, agriculture and industry, balanced and rapid development of infrastructures, etc.

Thirdly, Nepal is in initial stage of development which requires inputs, not domestically available. It can be obtained through imports financed by foreign assistance, but the attention should be on its proper utilisation.

Fourthly, although almost all the development indicators of the economy of Nepal have shown significant changes, yet the per capita income and amenities are not indicating any perceptible change. It is because of high growth rate of population which is eating all the positive changes in the economy. Neither the Monarchism nor the Democratic Governments have seriously tackled this problem. Perhaps it is the most

important failure of the successive governments which neither adopted proper population policy nor intended to have control over it. It should be noted that this problem should be tackled most seriously, otherwise it would not only cause danger to the democratic system but also to the population, which will kill itself by its own numerical weight.

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## ANNEX

Table 1  
SELECTED ECONOMIC INDICATORS AND ISSUES

Indicators / Years	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
(1) GDP (at current prices)	45026	56734	63864	76906	89269	103416	120371	149485	171386	199216	219118	245997
% Change		26.00	12.57	20.42	16.08	15.85	16.39	24.19	14.65	16.24	9.99	12.27
AVE. % Change						18.2						15.6
(2) GDP (at constant prices)	46587	48714	49540	53354	55663	58243	61952	64496	66979	72482	74982	78989
% Change		4.57	1.70	7.70	4.33	4.64	6.37	4.11	3.85	8.22	3.45	5.34
AVE. % Change						4.58						5.22
(3) GDP (Per-capita) at constant prices	2854	2922	2911	3072	3138	3216	3350	3416	3474	3468	3494	3738
% Change		2.38	-0.38	5.53	2.15	2.49	4.17	1.97	1.70	-0.17	0.75	6.98
AVE % Change						2.43						2.03
(4) Share-Primary Sect. (at constant prices)	22761	23376	23213	24735	26260	27774	28372	28070	27896	30017	29917	31239
% Change		2.70	-0.70	6.56	6.17	5.77	2.15	-1.06	-0.62	7.60	-0.33	4.42
AVE % Change						4.10						2.03
(5) Share-Secondary Sect. (at Constant price)	2704	3099	3166	3359	3170	3441	4027	5251	5566	6233	6360	6929
% Change		14.61	2.16	6.10	-5.63	8.55	17.03	30.39	6.00	11.98	2.04	8.95
AVE % Change						5.16						12.73
(6) Share-Tertiary sect. (at constant prices)	2704	3099	3166	3359	3170	34412	4027	5251	5566	6233	6360	6929
% Change		5.29	4.15	9.06	3.85	3.03	9.34	5.49	7.51	8.10	6.83	5.49
AVE % Change						5.08						7.13

Contd.



Table 1 contd.

(7) Ag. Pd. (All)	83	80	88	92	98	102	100	97	107	104	105	112
% Change		-3.61	10.00	4.55	6.52	4.08	-1.96	-3.00	10.31	-2.80	0.96	6.67
AVE. % Change						4.31						1.70
(8) Agri. Pd. (per-capita)	93	88	95	97	101	102	98	92	98	94	92	96
% Change		-5.38	7.95	2.11	4.12	0.99	-3.92	-6.12	6.52	-4.08	-2.13	4.35
AVE. % Change						1.96						-0.90
(9) Indus. Pd. (Index)			100	107	102	101	130	142	144	150	164	
% Change				7	-4.67	-0.98	28.71	9.23	1.41	4.17	9.33	
AVE. % Change						0.45					10.57	
(10) Import (in NC) (curr.pr)	7742	9341	10905	13870	16254	18325	23226	31940	39206	51571	65526	
% Change		20.65	16.74	27.19	17.19	12.74	26.74	37.52	22.75	31.54	27.06	
AVE. % Change						18.90					29.12	
(11) Export (in NC) (curr.pri)	2741	3078	3192	4115	4295	5156	7388	13706	17267	19293	17899	
% Change		12.29	3.70	28.92	4.37	20.05	43.29	85.52	25.98	11.73	-7.23	
AVE. % Change						13.87					31.86	
(12) Trade Bal. (in NC)	-5001	-6263	-7713	-9755	-11959	-13219	-15838	-18234	-21939	-32278	-47628	
% Change		-25.23	-23.15	-26.47	-22.59	-10.54	-19.81	-15.13	-20.32	-47.13	-47.56	
AVE. % Change						-21.60					-29.99	
(13) BOP (current a/c (in\$))	-121.6	-119.2	-123.3	-271.5	-243.3	-289.2	-304.4	-181.3	-222.5	-351.9	-356.4	-326.6
% Change		-1.97	-3.44	-120.19	-10.39	-18.87	-5.26	-40.44	-22.72	-58.16	-1.28	-8.36
AVE. % Change						-26.03						-6.44
(14) FER (in mil.\$)	49.7	79.7	170.3	212.5	203.9	287	388.7	459.4	632.3	685.1	577.9	563.1
% Change		60.36	113.68	24.78	-4.05	40.76	35.44	18.19	37.64	8.35	-15.65	-2.56
AVE. % Change						47.11						13.57

Contd.

Table 1 contd.

(15) Total Expenditure (in NC)	8208.5	9445	11110	13644	17405	17811	22748	25134	29180	29309	38367	49485
% share of Expend.												
Education	12.07	11.51	11.51	10.91	10.01	10.95	9.15	11.41	14.22	14.62	13.33	13.29
AVE. % Change						11.16						12.77
Health	4.97	4.30	4.43	4.32	4.98	4.80	2.91	3.65	3.64	3.64	5.34	4.98
AVE. % Change						4.63						4.08
Agriculture	22.04	13.11	9.83	10.28	9.30	8.47	8.99	8.84	10.53	11.01	9.21	7.70
AVE. % Change						12.17						9.38
Transport	14.02	10.28	11.58	13.70	13.92	12.92	9.87	11.26	12.46	13.26	12.68	11.93
AVE % Change						12.74						11.91
Industry	4.78	4.28	3.47	4.54	3.27	4.47	7.77	9.74	3.80	2.55	1.39	1.64
AVE % Change						4.14						4.48
(16) Schools (Mumbers)	16772	17326	17816	18983	21566	23759	24818	26037	26835	28323	29739	-
% Change		3.30	2.83	6.55	13.61	10.17	4.46	4.91	3.06	5.54	5.00	4.60
AVE % Change						7.29						
(17) Teaching Staff (MOS.)	69628	75190	75869	78336	86397	94033	99127	103305	105893	110722	116258	-
% Change		7.99	0.90	3.25	10.29	8.84	5.42	4.21	2.51	4.56	5.00	4.34
AVE % Change						6.25						
(18) Physicians (Number)	692	710	863	379	879	951	1196	1497	-	-	1478	-
% Change		2.60	21.55	1.85	0.00	8.19	25.76	25.17	-	-	25.46	-
AVE % Change						6.84					25.46	
(19) Population per Physician	22584	23478	19722	19761	20182	19043	15460	12612	-	-	12500	-
% Change		3.96	-16.00	0.20	2.13	-5.64	-18.82	-18.42	-	-	-	-
AVE % Change						-3.07					-18.62	

Contd

Table 1 contd.

(20) Hospitals (Number)	81	89	91	96	101	123	111	114	-	-	84	-
% Change	9.88	2.25	5.49	5.21	21.78	-9.76	2.70	-	-	-	-	-
AVE % Change	-	-	-	-	-	8.92	-	-	-	-	-3.53	-
(21) Beds	3522	3752	3842	4153	4329	4717	4768	4848	-	-	3188	-
% Change	-	6.53	2.40	8.09	4.24	8.96	1.08	1.68	-	-	1.38	-
AVE % Change	-	-	-	-	-	6.04	-	-	-	-	1.38	-
(22) Population (Annual growth rate %)	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.7	-
Annual Average Growth Rate %	-	-	-	-	-	2.1	2.1	2.1	-	-	2.25	-

Source : Framed on the basis of data collected from World Development Report, 1998, World Bank.