

# The Political Economy of Civil War in Nepal

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**Summary.** — It is argued that development failure, together with corruption and shortsightedness of the ruling elite, has provided fertile grounds for the civil war in Nepal. Development efforts in Nepal in the past five decades have failed to touch the poor and have contributed to a rise in unemployment, poverty, and rural–urban inequality, which significantly increased frustration and resentment among disadvantaged youth in the rural and remote areas, leading to the eruption of the civil war. The war could have been avoided if political leaders and ruling elite had a vision for the country, intellectual depth to understand the consequences of socio-economic exclusion, and appropriate strategy to address them.

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## 1. INTRODUCTION

For decades, political scientists and anthropologists have argued that the lack of political freedom and ethnic discrimination can increase the intensity of grievances, leading to civil unrest. While there might be some truth in this, the causation running from failed development strategies to political tension and ethnic discrimination has been largely ignored in the debate. Economists have recently argued that failed development strategies perhaps contribute to political greed and ethnic discrimination, which then turn into civil unrest (Abeyratne, 2004; Bardhan, 1997; Collier, 1999; Collier *et al.*, 2003; FitzGerald, 2001, chap. 8; Richardson, 2005; UNCTAD, 2004). However, studies investigating the causes of civil war in developing countries are sparse. To the best of our knowledge, Collier and Hoeffler (2002) is the first comprehensive study to address this issue in the cross-sectional framework using the literature from political science, anthropology, and economics.<sup>1</sup> Their results suggest that economic factors are the major predictors of civil war, not ethnic diversity, and/or political suppression. While cross-country studies are useful in providing an “average” picture, their findings must be taken with caution, given that developing countries in general and least developed countries (LDCs) in particular differ significantly among themselves (Appendix A

presents key features of LDCs that have experienced civil war since 1990s). What may be true for one country may not hold for another. This problem associated with the cross-sectional studies can be overcome through the case study approach, which can provide useful insights for the policy debate, taking into account each country’s structural features and policy history.

The purpose of this paper is to redress this gap through a case study of Nepal, which has been going through civil unrest since the mid-1990s. Nepal, a land-locked country with a population of about 24 million, lies between India in the East, West, and South, and the People’s Republic of China in the North. While development policies of the past have contributed to some growth in the modern sector largely based in urban areas, the growth in agriculture has stagnated for about five decades.<sup>2</sup> Since a large majority of the population (87%) live in the rural areas and rely on agriculture

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for living, development has failed to touch the poor.

Nepal has an ethnically and religiously diversified population, but ethnic and religious harmony has been the feature of the Nepalese society.<sup>3</sup> Until the current war – led by the Communist Party of Nepal (Maoist) – broke out in the mid-1990s, it was known as a peaceful country. In fact, in 1970s, the late King Birendra even declared Nepal as a “Zone of Peace,” perhaps to reduce the risk of military invasion from either India or China during the cold war era. So, what has gone wrong in what was once a peaceful country?

Unlike civil war in neighboring Afghanistan, the civil unrest in Nepal is not caused by ethnic and/or religious tension as the rebellion group (Maoists) includes people from all ethnic and religious backgrounds. It is not either a political war motivated by lack of freedom, because war broke out despite improvements in political rights and civil liberties with the reinstatement of democracy in the early 1990s (Appendix B). So, if it is not motivated by political suppression and/or ethnic and religious tension, then what has contributed to civil unrest? According to the Maoists, social and economic injustice against the poor, particularly in rural and remote areas, is the reason for their fight against the government.<sup>4</sup>

Our aim in this paper is to show how the development failure has created fertile grounds for the emergence of civil war in Nepal. The paper is organized as follows. Section 2 presents an analytical framework to place the Nepalese experience with civil war in context. A brief profile of the Nepalese economy is presented in Section 3. The political economy of the ongoing conflict is discussed in Section 4. The paper concludes with policy recommendations in Section 5.

## 2. ANALYTICAL FRAMEWORK

Developing countries are prone to civil unrest. The risk of occurrence of civil war in these countries is about 17 times higher than in developed countries (Collier *et al.*, 2003). Why are they so prone to conflicts? To answer this, one has to look at the basic features of these countries.

Most developing countries that are trapped in civil unrest have low per capita income, high poverty and inequality, high unemployment, and heavy reliance on the exports of primary

products. Furthermore, they have poor governance and they experience frequent changes in government. These features point to the fact that political conflicts are multi-dimensional processes, and they tend to erupt due to underdevelopment, poor governance, and political instability. Sustained growth, together with good governance and political stability, reduces poverty and inequalities, increases access to basic necessities for all groups in society, and eliminates religious and ethnic hatred. There is overwhelming evidence to suggest that when development fails and justice is denied, civil unrest erupts. Clearly, well-designed policies have the ability to facilitate development and avoid the possibility of civil war by maintaining peace and stability in the society (Athukorala & Jayasuriya, 1994; Collier *et al.*, 2003; Uvin, 1998; Arunailake, Jayasuriya, & Kelegamma, 2001).

This argument is very much in line with Collier and Hoeffler (2002) who have found that economic factors are the most influential predictors of civil war. For instance, the level of per capita income, its growth rate, and the structure of the economy are significant predictors of civil unrest in developing countries. Doubling per capita income approximately halves the risk of war, each additional point of economic growth reduces the possibility of war by about one percentage point, and primary commodity dependence has effects only when such exports are about 30% of GDP. Risks of civil war increase as the population grows and reduce as male secondary education enrollment increases. Collier and Hoeffler (2002) did not find statistically significant links between civil unrest and economic inequality, political rights, and ethnic polarization. Their study did point to the fact that excessive reliance on natural resources can trigger war, and diversification of the export-base could avoid this. However, this would require not only financial resources but also good policies and institutions. Since most developing countries lack these essential ingredients, linking foreign aid with good policies and institutions can help sustain economic growth, which is crucial for the reduction of poverty and thereby the likelihood of civil unrest (Collier & Hoeffler, 2001).

There is a growing consensus that most civil wars that have erupted in the LDCs since the early 1990s were underpinned by economic failure. Economic failure reduces the revenue-base of the government, leading to a fall in social, welfare, and infrastructure investment. This in turn discourages productive investment, which

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