

# 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

is crucial for sustaining higher growth and creating employment opportunities. Economic failure not only leads to the breakdown of state capabilities but also encourages corruption. Hence, development failure and state decay together contribute to the eruption of civil unrest (UNCTAD, 2004). While failed development strategies harm a large majority of the people, they can benefit a small number of the elite including politicians who can extract rent from weak institutions and governance. This further slows down growth and increases poverty and inequality, leading to civil unrest (Nafziger & Auvinen, 2002). In poor countries, corruption is so ingrained that ruling parties and bureaucrats use their position and access to resources to plunder the national economy through graft, corruption, and extortion (Holsti, 2000, p. 251). Since a large number of people are the losers when development fails, the legitimacy of governance and political systems is questioned; initially in the form of street protest, violence, and demonstration which later turns into organized militant movements that sustain civil war. By creating a shortage of trained arm forces and military supplies, development failure also contributes to conflict escalation.

Development failure can spur civil unrest by increasing the intensity of grievances through the following channels (FitzGerald, 2001): First, by widening inequalities between groups in a society, which can be vertical (income inequality between classes within a society) or horizontal (between territorial, ethnic, or religious groups). Higher inequalities regardless of growth rate can contribute to regional, ethnic, and class discrepancies, leading to social unrest. Second, by creating uncertainty about the economic prospects of dominant or subordinate groups (or both) in terms of employment prospects, owning of property, and maintaining minimum real income for survival. As a result, the legitimacy of existing institutions is questioned and social unrest is seen as a way out. Third, when development fails, the State becomes unable to provide basic public goods to a large majority due to lack of resources, which increases frustration and resentment among disadvantaged groups. This, together with poor governance and political instability, enables rebels to mobilize disadvantaged groups to fight against the political and economic system, leading to the eruption of civil unrest.

While some authors have argued that the Structural Adjustment Programs (SAPs) introduced under pressure from the International

Monetary Fund (IMF) and the World Bank can aggravate ethnic conflict because of the hardship, in reality, countries are forced to enter into such programs simply because of their own policy failure.<sup>5</sup> In any case, it is hard to find empirical evidence in support of this proposition simply because SAPs conditionality are seldom implemented to have the full impact.<sup>6</sup>

### 3. PROFILE OF THE NEPALESE ECONOMY

Nepal's landscape can be divided into three geographical regions: (i) the highest mountain region of Himalayas, (ii) valleys and hills, and (iii) the South Terai belt, which borders with India. About 70% of land area is covered by hills and high mountains, while the remaining 30% land is found in Terai, which is suitable for commercial agriculture. About 54% of the country's population lives in the hills (46%) and high mountains (8%) and relies on subsistence farming due to the lack of economic opportunities. In the absence of an efficient transport network, access to the hills and the mountain region is very difficult, particularly in the winter season. Since the Terai and valleys have highly fertile land, most economic activities are located here. This has encouraged a significant internal migration from the hills and mountains – where economic opportunities are extremely limited – toward Terai and valleys. This phenomenon is reflected by a high rate of population growth in the Terai belt – higher than the national average – except for 1952–61 (Table 1).

About 87% of Nepal's population live in rural areas (Table 2) and rely on agriculture as a major source of income and employment. It is the backbone of the economy, which presently contributes about 50% to GDP, although its share was as high as 80% in the late 1960s. While agricultural exports contributed significantly to export earnings by the late 1970s, it has experienced a significant decline since 1980s (Sharma, 1999). This appears to be partly due to population growth and partly due to poor agricultural performance (Tables 1 and 3). Over the years, Nepal's agriculture sector has performed poorly even among the South Asian countries (Table 3).

The manufacturing sector is still in its infancy and contributes about 10% to GDP employing less than 3% of the workforce (Oczkowski & Sharma, 2005). Over the years, a bias inherited

Table 1. *Population growth by geographical region, 1952–2001*

Region	1952–61		1961–71		1971–81		1981–91		1991–2001	
	Population (thousands)	Growth rate (%)								
Mountain and hills <sup>a</sup>	6,343	2.19	7,210	1.29	8,461	1.61	9,863	1.66	11,939	2.1
Terai belt	3,069	0.69	4,346	3.54	6,559	4.20	8,628	3.15	11,212	3.0
Nepal	9,412	1.68	11,556	2.07	15,020	2.66	18,491	2.33	23,151	2.24

*Source:* Central Bureau of Statistics (1998, 2003) for 1981–91 and 1991–2001, and Seddon (1987) for the rest.

Table 2. *Distribution of the population in rural and urban areas of Nepal, 1952–54 to 2001 (thousands)<sup>a</sup>*

	1952–54	1961	1971	1981	1991	2001
Urban	238	338	464	959	1,698	3,009
Rural	8,018	9,074	11,092	14,064	16,793	20,142
Total population	8,256	9,412	11,556	15,023	18,491	23,151
Urban % total	2.9	3.6	4.1	6.4	9.2	13

Source: Based on data from Central Bureau of Statistics (1998, 2003).

<sup>a</sup> All village panchayats are defined as rural areas, while all town panchayats are categorized as urban areas.

Table 3. *Annual growth rates (%) of agricultural output (major crops) in Nepal and other South Asian countries 1961–62 to 1991–93*

Country	All crops	Paddy	Wheat	Sugarcane
Nepal	-0.07	0.54	0.29	1.89
India	2.71	1.92	3.46	1.39
Bangladesh	1.59	1.55	3.59	0.27
Pakistan	3.27	1.92	2.89	0.92
Sri Lanka	1.75	1.57	–	2.45

Source: Agriculture Project Services Centre (1995).

in the policy regime has accelerated the growth of the modern sector – largely based in urban areas – which only employs less than one-quarter of the economically active work force. Clearly, the current development pattern has benefited those who live in cities and are engaged in the modern sector, but not in agriculture.

#### 4. THE POLITICAL ECONOMY OF THE NEPALESE CONFLICT

This section examines how failed development strategies, together with poor governance and political instability, have created fertile grounds for civil unrest in Nepal. Our analysis of development strategies is grouped into two broad periods: (i) from the mid-1950s to the early 1980s and (ii) from the mid-1980s onwards. In the Nepalese policy debate, the earlier period is regarded as a highly restrictive regime, while the latter is known as a market friendly regime.

##### (a) *Development strategy until the early 1980s*

With the introduction of the planned development strategy in 1956, Nepal formally embarked on the import substitution (IS) strategy with a view to creating employment opportunities and improving living standards. To

achieve these objectives, restrictions in trade and investment were seen as an effective means which resulted in the establishment of several large IS industries and trading corporations in the public sector.<sup>7</sup> To support industrialization, a significant amount of resources was diverted toward infrastructure development, particularly in the urban areas where these industries were located. Even foreign aid was allocated to achieve these objectives.<sup>8</sup> By the late 1970s, 55 public enterprises were created – almost half of these were IS industries. These enterprises were not only inefficient and absorbed a significant amount of resources, but also discouraged private sector-led growth, which could have created employment opportunities for a growing population. The bias in favor of urban-based industrialization attracted resources away from agriculture. Despite the importance of agriculture as a major source of employment and national income, it has not received more than 26% of development expenditure in any development plan since the mid-1950s (Appendix C). Even these investments rarely benefited small farmers in the remote areas because of the bias in agricultural investment toward relatively accessible regions (Karan *et al.*, 1994, p. 238).

By the early 1980s, the country had developed a large number of IS industries behind the protective tariff wall and the traditional export sector – comprising rice, jute, timber, and

hides and skin – was heavily taxed through overvalued exchange rates and direct market interventions. For instance, exporters of rice and oils were required to sell a certain percentage of their output to the Nepal Food Corporation – a public enterprise owned by the Government – at below market prices to provide subsidized food to the urban population. While exports of rice and jute were channeled through the marketing boards, their prices were much lower than international market prices, which discouraged commercial production and forced commercial producers to move away from the production of two major export items (i.e., rice and jute) toward IS industries where they could extract rent from the foreign exchange licensing system and import quotas (Sharma, 1999). This appears to have contributed to a slow down in agricultural growth. By the mid-1980s, exports of rice and jute fell significantly. Nepal, which had the highest agriculture yield (per hectare) in South Asia in the early 1960s, fell significantly behind other countries by the early 1990s (Table 3). As mentioned earlier, the bias against agriculture appears to have contributed to lackluster growth in both agricultural output and farm income (APROSC, 1995). Deteriorating economic conditions in rural areas means the loss of control over land, making a large number of households landless. According to Katwal (1986), 44% of the households were landless by the mid-1980s. The process of development has brought little improvement in rural areas. As Karan *et al.* (1994, p. 9) correctly point out:

“development benefits are largely concentrated in the cities. As a result, poverty in the rural areas – where the basic amenities such as drinking water, health services, and transport facilities are lacking – has worsened.”

As incentives to engage in commercial farming disappeared and the access to basic amenities deteriorated in rural areas, migration to urban centers increased. This is reflected by a significant rise in urban population which increased by about fivefold during 1961–91 (Table 2). However, migrating to urban centers was not an option for all rural households.<sup>9</sup>

By the mid-1980s, GDP growth remained very low (about 3% per annum, against 2.7% annual growth in population), exports stagnated at about 5% of GDP, imports surged (from about 11% of GDP in 1974–75 to over 17% by 1986–87), and the country experienced a severe macro-economic crisis as the government budget deficit rose sharply (Table 4).

#### (b) Policy shift since the mid-1980s

To reverse deteriorating macroeconomic performance, the government introduced a wide range of reforms under pressure from the IMF and the World Bank in 1986.<sup>10</sup> However, reforms in the labor market and infrastructure sector lagged behind. Despite this, there was some growth in output, exports, and foreign exchange earnings (Table 4). By the mid-1990s, GDP grew at about 4% per annum, the share of exports in GDP rose to 7% and international reserves surged to 6.5 months of imports. However, growth in output, exports, and international reserves was mainly brought about by an expansion of the urban-based modern sector, while the growth in agriculture GDP continued to stagnate (Figure 1).<sup>11</sup> This appears to have contributed to a fall in the real income of the people relying on agriculture who primarily live in rural areas. For example, during the 1988–96 period, the nominal income of the people living in urban areas increased by

Table 4. Nepal: Macro-economic indicators

	1974–75	1976–77 to 1986–87	1987–88 to 1994–95	1995–96 to 2001–02
Real GDP growth (%)	–	3.0	4.1	3.8
As % of real GDP				
Exports	5.4	5.1	7.0	10.6
Imports	10.9	17.4	22.6	29.8
Trade deficit	5.6	12.3	14.8	19.2
Current account deficit	0.7	3.5	7.2	4.5
Budget deficit	1.3	6.9	7.2	5.5
International reserves equal to months of imports	7.0	3.8	6.5	6.4

Source: Own calculation using the data from His Majesty Government of Nepal (1991, 2003) and Nepal Rastra Bank (2003a, 2003b).

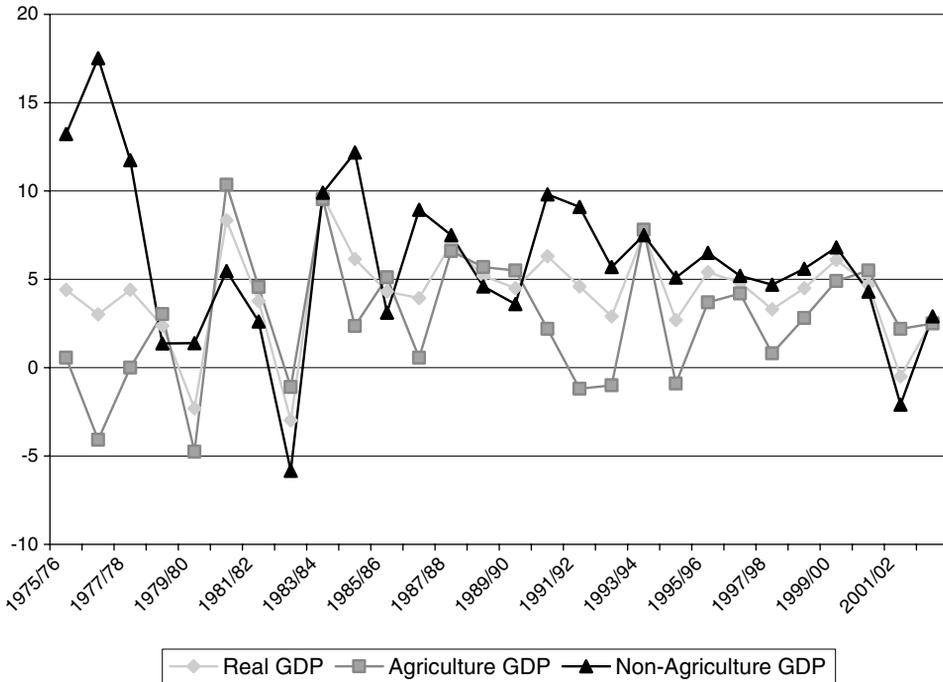


Figure 1. Growth in real GDP, agriculture and non-agriculture GDP in Nepal, 1975–76 to 2002–03. Source: Based on His Majesty Government of Nepal (2003).

Table 5. Average annual per capita income in urban and rural areas of Nepal, 1988 and 1996 (US\$)<sup>a</sup>

	1988	1996
Urban areas	126.43	285.27
Rural areas	94.58	125.2
Nepal	98.00	136.10

Source: Own calculation using the data from Central Bureau of Statistics (1996) for 1996 and Nepal Rastra Bank (1989) for 1988.

<sup>a</sup> The average annual per capita income was in Nepalese currency (Rs), converted using the Rs/US\$ exchange rates.

16% per annum (from US\$126 to US\$285) as against only 4% for the rural population (from US\$95 to US\$125) (Table 5). When the average annual rate of inflation is taken into consideration, the growth in rural income is in fact negative. This not only increased poverty in the rural areas but also increased the rural–urban inequality. The growing rural–urban inequality (horizontal inequality) was also reflected by the limited access to public goods and services in the rural areas. For example, in urban areas, a health post was accessible within a few minutes as opposed to over an hour in the rural

Table 6. Mean time required to access basic public goods facilities by urban and rural households in Nepal, 1996

Facilities	Urban (hours and minutes)	Rural (hours and minutes)
Primary school	0.12	0.25
Health post	0.21	1.17
Cooperative	0.27	2.38
Agriculture extension office	0.28	2.32
Commercial banks' branch	0.19	2.58
Nearest market	0.19	3.08
Market place (bazaar)	0.29	4.51
Paved road	0.09	5.17
Bus stop	0.19	4.04

Source: Central Bureau of Statistics (1996).

areas. Access to market, banking services, and reliable road networks was even worse in the rural areas (Table 6).

As the bias against agriculture in general and the rural sector in particular persisted, the agriculture sector continued to perform poorly (Figure 1). Dismal agriculture performance even after the policy reform appears to be

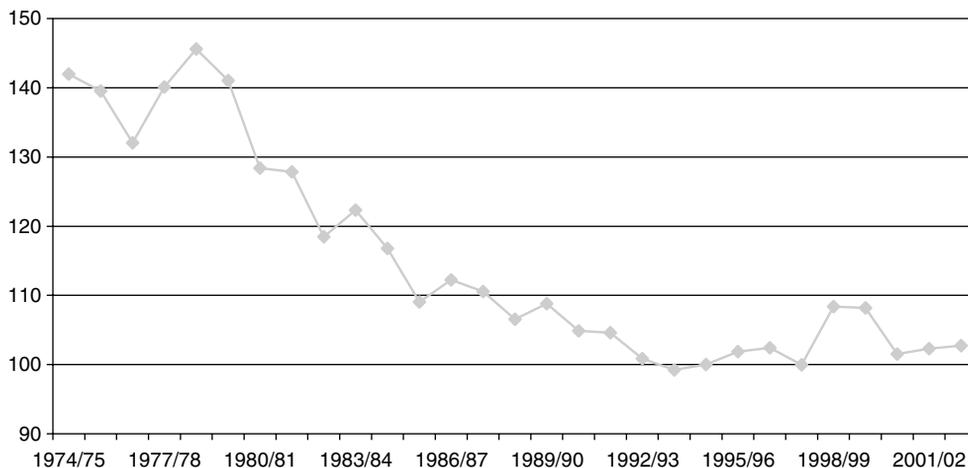


Figure 2. Nepal's agricultural terms of trade, 1974–75 to 2002–03 (1994–95 = 100). Source: The author's calculation based on His Majesty Government of Nepal (1991, 2003). Agricultural terms of trade is defined as the ratio of price of agriculture to non-agriculture sector. It is calculated using implicit price deflators for agriculture and non-agriculture sector. Ideally, one should use implicit price deflators for manufacturing sector instead of for the entire non-agriculture, but disaggregated data are not available. Nonetheless, our estimates still provide rough estimates of the bias against agriculture inherited in the policy regime.

partly due to inefficient infrastructure to support agriculture development and partly due to lack of finance caused by the security driven lending policy of commercial banks.<sup>12</sup> Despite a need for greater public sector investment in the agricultural sector, such investment stagnated due to pressure to reduce the budget deficit. The bias against agriculture inherited in development policy is reflected by declining terms of trade for agriculture (Figure 2). By the mid-1990s, agricultural products virtually disappeared from the country's export list and no new products based on agriculture emerged despite liberalization in foreign investment policy (Sharma, 1997).

While trade and investment policy reforms attracted some investment to the garment and carpet industries to take advantage of Nepal's quotas under the generalized system of preferences (GSP) and multi-fiber arrangement (MFA), they failed to create much employment opportunities for the rural population as these industries were located in Kathmandu Valley and a few in the Terai belt. Furthermore, despite abundant supply of labor these investments became capital intensive (US\$14,000 per employment) due to rigidity in the 1992 Labor Act and made little contribution to employment creation for the rapidly growing population (Athukorala & Sharma, 2005).

By the mid-1990s, lackluster agriculture performance, together with slow growth in labor-intensive manufacturing, contributed to high unemployment, poverty, and inequalities (both vertical and horizontal). At the national level, unemployment rate reached about 17%, while over 32% of the economically active population were underemployed. This was even higher in the rural and remote areas. Poverty levels rose from 33% in 1976–77 to 42% by 1995–96. When the incidence of poverty was broken down according to the rural–urban classification, it was significantly higher in rural (44%) than in the urban areas (20%) (Table 7). The table also suggests that poverty has been rising more rapidly in rural areas while in urban areas it has marginally declined. When the incidence of

Table 7. Incidence of poverty in Nepal<sup>a</sup>

	1976–77	1995–96	2000–01
Rural areas	33.0	44.0	39.0
Urban areas	22.0	20.0	NA
Nepal	33.0	42.0	NA

Sources: World Bank (1998) and Nepal Agricultural Sector Performance Review (2002) quoted in Kar-macharya and Sharma (2003).

<sup>a</sup> Based on minimum caloric requirement per person per day (i.e., 2,256 calories).

Table 8. *Incidence of poverty by development region and geographic region in Nepal, 1996 (head count index in percent)<sup>a</sup>*

Development region	Geographic region			Total
	Mountains	Hills	Terai	
Eastern	57	68	27	43
Central	48	31	34	34
Western	52	46	44	45
Mid-west	72	66	47	59
Far west	80	73	49	65
Rural	–	–	–	47
Urban	–	–	–	18
Nepal	63	50	37	45

Source: Nepal South Asia Centre (1998) quoted in Panday (2000).

<sup>a</sup> The Nepal Living Standards Survey (NLSS) was designed to capture aggregative information, particularly at the development region and geographical region. Poverty estimates obtained under the NLSS do not match with the World Bank (1998).

poverty is broken down into geographic region, it is immediately apparent that mountain and hilly regions have higher levels of poverty than the Terai belt. Over 63% of the people in the mountain range are poor, as against 50% in hills and only 37% in the Terai belt (Table 8). Not only did poverty rise, but also income inequality increased. For example, the income share of the top 10% of the people increased from 21% in the mid-1980s to 35% by the mid-1990s, while the share of the bottom 40% shrank from 24% to 15% (Table 9). As Panday (2000, p. 75) correctly points out, poverty and inequality in Nepal are the product of three factors: (i) unsatisfactory growth in aggregate output, (ii) inequalities brought about by recent development efforts, and (iii) the historical effect of unequal distribution of assets, and social and economic status.

Table 9. *Income distribution in Nepal, 1988 and 1996*

Ranking	Nepal (% share of total income) <sup>a</sup>	
	1988	1996
Bottom 40%	24	15
Middle 50%	55	22
Top 10%	21	35

Source: Based on data from Nepal Rastra Bank (1989) for 1988 and Nepal Rastra Bank (2003a) for 1996.

<sup>a</sup> Since Nepal Rastra Bank (1989) does not provide income distribution data for the whole of Nepal, we estimated this using the rural and urban weights.

In the absence of sustained economic growth, development expenditure (as a percentage of GDP) fell from about 13% in 1987–88 to 9% by 1994–95, despite the growing need for such spending to address rising poverty and inequality (Sharma, 2005). Rural areas were the victims of a decline in development expenditure as many planned irrigation, health, and education projects were suspended. This made access to public goods increasingly difficult for the rural poor. By the mid-1990s, unemployment remained very high, particularly in the rural areas and there was no alternative source of employment, which significantly increased frustration and resentment among youth. These frustrated youth regardless of their ethnic and religious backgrounds were mobilized by the Maoists in their fight against the political and economic system.

Who are the Maoists? Maoists are left wing forces who contested the 1990 parliamentary election. Failing to secure less than 5% of the vote, they decided not to be a part of the democratic system and rejected the 1990 constitution.<sup>13</sup> They then demanded the abolition of the constitutional monarchy and replacement of the existing parliamentary system with one-party communist rule, and became an underground party in 1994. After being underground, Maoists began mobilizing and training unemployed youth, particularly from rural and remote areas, who have failed to see the benefits of development. By the mid-1990s, they trained about 2,000 armed fighters which enabled them to declare a people's war in February 13, 1996. This radical group known as Maoists has taken violent means to wipe out government institutions and replace them with a revolutionary peasant regime to bring about social and economic justice.

### (c) Political development

Nepal was unified in the late 18th century by King Prithivi Narayan Shah, and since then, the Shah dynasty has ruled the country. In 1846, Jung Bahadur Rana – a military commander – took over the country without overthrowing the monarchy, and then he and his family (known as the “Rana Family”) ruled, the country for 104 years behind the throne. During this period, the country was completely isolated from the outside world and the King had no power. However, with the independence of India from British colonialism in August 15, 1947, the waves for political reform began in

Nepal. In 1951, late King Tribhuvan, with the help of India and his own people, ended the century-old system of rule by the “Rana Family” and brought democracy to the country. With the advent of democracy, at least two major political parties – Nepali Congress Party and the Communist Party of Nepal – emerged and they forced the King to declare parliamentary elections. The first democratically elected government was established in 1959. Democracy survived as long as King Tribhuvan was alive. With the death of King Tribhuvan, his son late King Mahendra overthrew the democratically elected government, curtailed political freedom and outlawed opposition parties by restoring a single party system known as the *Panchayat System* in December 15, 1960. Under the *Panchayat System* the King kept all executive powers and people around him enjoyed privileges which promoted lack of transparency and favoritism. Restrictive trade and investment policies, and massive inflows of foreign aid during 30 years of *Panchayat regime* provided fertile grounds for such behaviors. The late King Birendra – who came to the throne after the death of his father King Mahendra in 1972 – continued with the *Panchayat System* until the political agitation of the late 1980s which forced him to give way to a multi-party democracy in 1990 and became a constitutional monarch. This move by the King did not make many Royalists and his own family members happy as they lost their influence and privileges with the shift in power to a democratically elected government.

With the re-instatement of multiparty democracy, people’s expectations rose and there was widespread perception – particularly among disadvantaged youth – that they will have a fair go in the democratic process. Unfortunately, due to institutionalization of corruption, nepotism, and favoritism these expectations were not met. The rising corruption at all levels, together with growing inter- and intra-party conflict, failed to deliver jobs and basic necessities of life to disadvantaged groups particularly in the rural and remote areas, and significantly increased inequality between elite and non-elite.<sup>14</sup> Rather than trying to build the economy and dispersing its benefits more equitably, political leaders and ruling elite seemed interested in making money for themselves and rewarding their supporters and family members. The same feudal habits of mind, of putting their own interests and those of their supporters before the national interests still

prevailed (Gregson, 2002). As Panday (2000, p. 275) correctly points out:

“Their (political parties) conduct so far became a burden rather than an asset, to the good name of democracy... This has been instrumental in corrupting the polity as a whole, not just the state institutions and actors.”

As poverty and inequality increased, anger and frustration grew (particularly among youth in rural and remote areas) which enabled the Maoists to mobilize these disadvantaged youth to fight against the political and economic system. While three rounds of peace talks took place between the representatives of Maoists and the government in the early 2000s, they failed to reach any conclusion, leading to further deterioration in law and order by the end of 2001.

Against this background, King Gynandra – who came to the throne after the Royal massacre of June 1, 2001 – has directly intervened in the day to day operations of the country and mobilized about 80,000 Royal Nepalese Army with the aim of ending the 10-year-old insurgency.<sup>15</sup> The King sacked the democratically elected government led by Prime Minister Sher Bahadur Deuba twice in just over two years by labeling him incompetent and corrupt, and in February 1, 2005 he took over as the head of government. Immediately after taking over state power, the King declared a state of emergency, put several political and human right activists under house arrest, and severely curtailed fundamental rights.<sup>16</sup> He also formed a Royal Commission for Corruption Control (RCCC) with a view to improving governance.<sup>17</sup> These moves led many human right observers and political leaders to speculate that King Gynandra, with help of the Royal Nepalese Army, is trying to rule the country like an autocratic ruler by blaming the ongoing war. The Royal coup has not only increased political agitations in the country, but also widened the gap between the King and the political parties. The Maoists are taking advantage of this and have now ruled out peace talks with the administration headed by the King. This has further intensified the political crisis in the country as the King now will have to satisfy not only the Maoists but also the agitated political parties. An interesting development took place in November 22, 2005 when the Maoists and seven major political parties reached a consensus to end the political crisis. The rebels have agreed to stop violence and join the political

mainstream, in a significant departure from their earlier agenda for establishing a communist republic. Both the Maoists and political parties are demanding for constituent assembly elections with a view to restoring full democracy in the country. However, there is a strong feeling among intellectuals in Nepal that the King will not accept these demands.

(d) *Eruption of civil war*

The war, which erupted in Nepal in 1996, has not come suddenly. Rather it has developed overtime, which political leaders and ruling elite failed to see partly due to vested interests and partly due to the lack of intellectual depth. This contributed to a rise in poverty and inequalities (between rural and urban areas, and elite and non-elite groups), which made it easy for the Maoists to mobilize disadvantaged youth from the rural and remote areas in their fight against the political system. As a result, despite a long history of peace and ethnic harmony, the country has fallen into the conflict trap. The eruption of civil unrest is the direct outcome of the failed development strategy, which has produced poverty and inequity in the society, as pointed out by the President of Communist Party of Nepal (Maoist), Dr. Baburam Bhattarai (Bhattarai, 2004):

“How do you expect social peace and harmony to prevail in a socio-political system which increasingly generated poverty, unemployment, illiteracy and all round underdevelopment for more than ninety percent of the toiling population in mostly rural areas and filthy richness and extravagances for a handful of parasitic class in rural and urban areas?”

The declared aim of the Maoists is to wipe out the bureaucratic-capitalist class and state, uproot semi-feudalism, and drive out imperialism. To achieve this, they are applying Mao's strategy of a protracted people's war and they have close links with India's Maoist insurgents (known as Naxalites). Initially, their power base was predominantly in rural and remote areas. Over the years, they have increasingly penetrated into the major metropolitan cities including the Kathmandu Valley, and they have their own military forces (about 10–15,000). The intensity of the war has increased since the early 2000s when the government declared a state of emergency and labeled Maoists as terrorists in November 2001.

Maoists are actively engaged in killing and kidnapping people, damaging institutions and infrastructure, while the government soldiers are committing human-rights violations on a horrific scale (*The Economist*, 2004, p. 10). It is estimated that about 12,000 have been killed so far, and several thousands have been displaced. There is no law and order in the country, and the government has largely withdrawn from most rural and remote areas, permitting free reign for the roaming Maoist extortionists. While the Royal Nepalese Army and armed police forces are heavily deployed, they are not well trained in anti-guerilla tactics. As a result, these poorly paid army and policy forces are either killed or forced to surrender to the Maoist insurgents, contributing to conflict escalation.<sup>18</sup>

The Maoists are gaining popularity in the rural and remote areas, and they have no trouble in selling their ideas to poor peasants who have failed to see the fruits of development over the past five decades. Clearly, socio-economic exclusion is the root of the uprising and any attempt to end the crisis must address this. It is a war against the failed development which cannot be won by military means only. Attempts by the government to crush the Maoists, far from defeating them, have in fact increased support for them.

The Maoists are too strong to lose the war, unless there is substantial social and economic transformation in the countryside where they have a stronghold. At the same time, it will not be so easy for the Maoists to win the war due to Nepal's geo-political location, which will prompt India to intervene militarily to stop growing Maoist influence in its backyard. Since India has its own Maoist insurgents (Naxalites) and their influence is growing rapidly – particularly in the states of Orissa, Asham, Bihar, Uttar Pradesh, Madhya Pradesh, West Bengal, and Andhra Pradesh – it will do anything from preventing the Nepalese Maoists to succeed in capturing power through arm struggle. But, if India does intervene, China will not keep quite because it is highly sensitive about its disputed Tibetan border with India.

## 5. CONCLUSION

There is clear evidence that development failure, together with corruption and short-sightedness of ruling elite, has provided fertile grounds for the ongoing civil war in Nepal.

Development efforts in Nepal in the past five decades have failed to touch the poor and 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. This enabled the Maoists to mobilize disadvantaged youth from the rural and remote areas to fight against the political and economic system, leading to the eruption of civil war since the mid-1990s.

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. Instead of trying to understand the roots of conflict, political leaders and ruling elite are heavily deploying armed forces to crush the Maoist rebels without realizing that brutal methods, far from defeating them, have in fact increased support for them because they do not address the root causes of conflict. The Maoists are too strong to lose the war unless there is a credible policy commitment to substantial social and economic transformation in rural and remote areas as part of the negotiation process. In reality, a decade long war led by the Maoists is against the failed development, and it cannot be won by military means alone.

## NOTES

1. This study uses data from 78 developing countries for the 1960–99 period.
2. The modern sector which includes commerce, manufacturing, and services contributes about 62% to GDP and 24% to employment (in 1999).
3. The majority of the people in Nepal follow the Hindu religion (86%), followed by Buddhism (8%), and Islam (4%).
4. It is important to note that the Nepalese Maoists have nothing to do with China although they derived their inspiration from the Chinese revolutionary leader Mao Zedong and Peru's Shining Path rebels.
5. See [Bardhan \(1997\)](#) and the work cited therein.
6. I thank one of the referees for this point.
7. The government officials and politicians favored this strategy because it enabled them to extract rents from import licensing regime and foreign exchange controls, and assign high-level positions to their relatives and supporters.
8. Some of the IS industries established under foreign aid include Bansbari Leather shows and Footwear Industry, Himal Cement Factory, Birgunj Sugar Factory, Hetauda Cement factory, Udyapur Cement Factory, Hetauda Textile Industry, Bhrikuti Paper and Pulp Mill, Hetauda Cold Storage, Balaju Textile Factory, Balaju Mechanical Workshop, Nepalgunj Paper Factory, and two brick factories in the Kathmandu Valley. It is not to say that foreign aid was not utilized in other sectors, such as infrastructure. It must be mentioned that foreign aid did help develop a transport network between the major regional headquarters and Kathmandu Valley, which made administrative control easy. However, it failed to benefit a large majority living in rural and remote areas due to the bias in favor of urban development.
9. According to the Population Census 2001, out of three billion urban population about 73% migrated from rural areas in search of jobs and better quality of life (CBS, 2003). As employment opportunities became scarce in urban centers, a significant number of youth also migrated to India, Malaysia, and the Middle East countries. According to the Department of Labor, the number of people sent overseas through employment agencies rose from 2,159 in 1994–95 to about 10,000 in 2001–02. The number of people going to India in search of jobs is estimated at about 25,000 per annum.
10. Note that due to Nepal's land-locked position and open border with India, it was only in the early 1990s that it introduced far reaching reforms when India liberalized its economy. By the mid-1990s, Nepal made significant progress in economic liberalization. For example, quantitative restrictions were replaced with tariffs, and they were brought down significantly, foreign investment was allowed in any sector, with a few exceptions, and 100% foreign ownership was allowed in most sectors. Similarly, a large number of public enterprises were privatized and the agriculture input market was opened up for the private sector ([Sharma, 2001](#)).
11. During a decade of market-oriented reforms (1985–86 to 1995–96), the non-agriculture sector grew at about 7% per annum, while agriculture sector grew only at about 3% per annum – marginally higher than the

growth in population which grew at 2.3 per annum during this period (His Majesty Government of Nepal, 2003).

12. With the deregulation of the banking system in the late 1980s, commercial banks not only increased their lending rates but they also introduced stringent collateral security requirements (up to 100%) on agricultural lending, making access to finance difficult for the poor farmers (Sharma, 2005).

13. According to the 1990 constitution, to be a legitimate political party they were required to secure at least 5% of the total cast votes.

14. Rising inter- and intra-party conflict is reflected by frequent changes in government, which changed 10 times during the 1990s. Also, several parties split due to inter-party conflict, including Nepal Communist Party, Nepali Congress Party, Sadbhavana Party, and Rastriya Parajatantra Party. The number of political parties which were less than 10 in 1990 reached 72 by 2005.

15. Following the Royal massacre, King Gynandra became the King of Nepal according to the Nepalese constitution. In a family gathering, Crown Prince Dipendra opened fire inside the royal place killing his

parents, his siblings and seven other close relatives before killing himself (see Gregson, 2002, for a detailed analysis of the massacre).

16. The international community has condemned the Royal action and labeled it “as a move against the spirit of democracy.” Britain and India even went forward and suspended military supplies for about three months. However, after diplomatic consultations with America – which labels Maoists as terrorists and believes that the King’s move is to combat terrorism, but not to destroy democracy in the country – the ban was lifted. Since then the country has been receiving sophisticated weapons from America, Britain, and India to crush the Maoists as fears that the insurgency could turn into a conflict whose impact may be felt within the region and beyond are rising.

17. The former Prime Minister Mr. Debuba and three other ministers of his cabinet were put in jail on corruption charges for three years by the RCCC, but released within a year when the Supreme Court questioned the legitimacy of the RCCC.

18. Richardson (2005) also records a similar experience in the Sri Lankan conflict and labels this phenomenon as “conflict escalation from state sanctioned violence ineffectiveness.”

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(See overleaf)

## APPENDIX A. KEY FEATURES OF LDCS THAT HAVE EXPERIENCED AT LEAST ONE CIVIL CONFLICT SINCE THE 1990S

Name	Average annual population growth rates (%), 1980s	Average annual growth rates of per capita real GDP (%), 1980s	Share of poorest quintile in national income/ expenditure (%), 1987–2000	Gross capital formation % of GDP, 1990	Aid % of GNI	Adult literacy rate %, 2000	Rural population %, 2000	Export specialization late 1990s	Contribution of agriculture, 1990
Burundi	3.2	1.6	5.1	15	12.5	48	90	Agriculture	Contributes 56% to GDP and employs 92% of labor force
Central African Republic	2.5	-1.0	2.0	12	16.2	47	58	Mineral	Contributes 48% to GDP and employs 80% of labor force
Democratic Republic of the Congo	2.9	-1.1	5.1	9	0.8	61	69	Mineral	Contributes 38% GDP and employs 68% of labor force
Djibouti	5.1	-1.9	-	13 <sup>a</sup>	-	65	16	Service	Contributes 3% to GDP and employs 82% of labor force
Guinea	2.6	0.5	6.4	18	7.9	41	72	Mineral	Contributes 24% to GDP and employs 87% of labor force
Guinea-Bissau	2.4	1.5	-	30	-	38	67	Agriculture	Contributes 61% to GDP and employs 85% of labor force
Haiti	2.4	0.5	-	13	-	50	63	Manufactures	Employs 68% of labor force
Lesotho	2.1	2.0	1.4	52	8.2	54	70	Manufactures	Contributes 23% to GDP and employs 41% of labor force
Mali	2.5	-1.9	4.6	23	19.1	26	68	Agriculture	Contributes 46% to GDP and employs 86% of labor force
Nepal	2.3	2.3	7.6	18	8.6	42	87	Manufactures	Contributes 52% to GDP and employs 94% of labor force
Niger	3.2	-3.5	2.6	8	13.0	16	78	Mineral	Contributes 35% to GDP and employs 90% of labor force
Rwanda	3.1	-0.7	-	15	34.1	67	94	Agriculture	Contributes 33% to GDP and employs 92% of labor force
Senegal	2.9	0.3	6.4	14	12.7	37	51	Manufactures/ services	Contributes 20% to GDP and employs 77% of labor force
Sierra Leone	2.4	-1.6	1.1	10	20.0	36	62	Mineral	Contributes 32% to GDP and employs 67% of labor force
Low-income countries	2.6	4.3	-	16	2.6	52	73	-	Contributes 38% to GDP and employs 76% of labor force

Source: Compiled by the author from World Bank (2004) and UNCTAD (2004).

<sup>a</sup> 2000 not 1990.

APPENDIX B. RATING OF POLITICAL RIGHTS AND CIVIL LIBERTIES IN NEPAL<sup>a</sup>

Year	Political rights <sup>b</sup>	Civil liberties <sup>c</sup>	Freedom status
1973	6	5	NF
1974	6	5	NF
1975	6	5	NF
1976	6	5	NF
1977	6	5	NF
1978	6	5	NF
1979	6	5	NF
1980	5	4	PF
1981	3	4	PF
1982	3	4	PF
1983	3	4	PF
1984	3	4	PF
1985	3	4	PF
1986	3	4	PF
1987	3	4	PF
1988	3	4	PF
1989	4	5	PF
1990	4	4	PF
1991	2	3	F
1992	2	3	F
1993	3	4	PF
1994	3	4	PF
1995	3	4	PF
1996	3	4	PF
1997	3	4	PF
1998	3	4	PF
1999	3	4	PF
2000	3	4	PF
2001	3	4	PF
2002	4	4	PF
2003	5	4	PF
2004	5	4	PF

Source: Freedom in the World Survey (2004).

<sup>a</sup> Political rights and civil liberties are measured on a one to seven scale, with one representing the highest degree of freedom and seven the lowest. When the combined average ratings for political rights and civil liberties fall between 1.0 and 2.5, then the freedom status is regarded as “free (F),” when they fall between 3.0 and 4.5 regarded as “partially free (PF)” and when they fall between 5 and 5.5 regarded as “not free (NF).”

<sup>b</sup> Political rights enable people to participate freely in the political process. This includes right to vote and compete for public office and elect representative who have a decisive role on public policies.

<sup>c</sup> Civil liberties include the freedom to develop opinions, institutions, and personal autonomy without interference from the state.

APPENDIX C. SECTORAL COMPOSITION OF DEVELOPMENT EXPENDITURE IN VARIOUS DEVELOPMENT PLANS IN NEPAL (IN PERCENTAGE), 1956–2000

Sector	First plan (1956–61)	Second plan (1962–65)	Third plan (1965–70)	Fourth plan (1970–75)	Fifth plan (1975–80)	Sixth plan (1980–85)	Seventh plan (1985–90)	Eight plan (1990–95)	Ninth plan (1995–2000)
Agriculture	14.2	14.6	22.3	21.5	25.4	19.7	22.4	25.7	20.1
Non-agriculture of <i>which</i>	85.8	85.5	77.7	78.5	70.0	80.3	77.6	74.3	79.1
Industry	4.8	21.9	4.9	10.9	6.4	15.3	15.9	2.4	–
Transport and communication	44.4	15.7	49.1	41.5	27.7	13.6	10.8	18.0	–
Social services	17.4	15.9	13.4	15.2	19.6	20.1	11.8	31.0	–
Others	19.2	32.0	10.3	10.9	16.3	31.3	39.1	22.9	–
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	–

Source: Compiled by the author from National Planning Commission (various issues).

– Not available.

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