

## NEPALESE DILEMMA 2009

### Introduction

In a game of prisoner's dilemma all players get the worst pay-off when they fail to cooperate. This is the Nash equilibrium. All can gain significantly if they cooperate. This results in the Pareto optimal equilibrium where no one could be made better off without making any other worse off. Cooperative equilibrium is a lot better than non-cooperative equilibrium. This game is very much applicable and can high light the main dilemma of Nepal now more than ever before.

Politics of cooperation among leftists, centrist and rightist parties had produced unprecedented result for the Nepalese people in 2006 to 2008 with abolition of the monarchy and the declaration of the Republic of Nepal. Similarly the failure to maintain consensus by the republican government has caused anxieties and uncertainties among people who were hoping for a better future. What can be more disappointing for them than to see that the Constituent Assembly has not been able to focus on its main task – in promulgating a new constitution for the republic of Nepal?

People voted Maoists to the power last year hoping fundamental changes in economic and social system of Nepal. Their expectations could not be fulfilled. Maoist led government resigned in early May 2009 after nine months' of tenure because of the conflict on issue of integrating its PLA into the regular Nepalese Army which essentially has been intimidating other political parties that had neither guns nor their own army. It is unfortunate that the Liberation Army could not be transformed into a reconstruction or economic development army according to the need of the country. In my view putting young and energetic people in cantonements in doles not only demoralises them but also is a waste of valuable national manpower. A pragmatic approach and a change in the mind set is required for this. In this context objective of this short note is to examine the reasons for conflict, assess the consequences and propose solutions and a rule of game that is good for the long term prosperity of Nepal.

## **Reasons for the Conflict**

Nepal's political parties had aligned successfully together to abolish monarchy – that was their common enemy. Power got transferred from the palace to the people; effectively to the executive, legislature and the judiciary. Nepal's situation in the world economy had required that this transformation of power be channelled for economic growth and that alliance be continued until Nepal became Switzerland of Asia. Parties had all good words in their manifestos and it would have been possible if they had literally followed those words into actions. Fighting for poverty and destitute is as urgent as the abolition of the monarchy. Looking at the nature of disputes in the last ten twelve months every one can question that the true motives of political parties have not been implemented. Maoists are pre-occupied with integration of the PLA into the national army. Other parties have not been able dispel their fear of a totalitarian dictatorial regime that Maoists may impose if that happened. This has resulted in lack of cooperation and a stalemate! It has stopped the momentum of the change that was brought by revolution in 2006. If all political forces start their own army Nepal will enter into permanent crises, the worst outcome of the prisoner's dilemma. It is very difficult to understand despite getting a fair share in power why are Nepalese politician still playing a zero sum game where one can gain only at the cost of other. New Nepal should have a new game of creativity, peace and growth in which all players can gain from the national development. Nepal cannot afford to miss the rapid rate of growth that is occurring in her two giant neighbours. Though there are many well wishers but no one will come to build Nepal unless Nepalese themselves are united and prepared for it. China is maintaining a growth rate of 9-10 percent in last twenty years marching consistently on market oriented reforms. India is following that trend after a very successful liberalisation programme that was implemented in 1991. With plenty of natural resources, brave , skilled and talented manpower, beautiful mountains, rivers, fertile valleys and plains there is no reason why Nepal could not achieve a double digit growth rate like her neighbours if that is the most important focus of national development.

## **Solution**

Economic growth comes from investment in human and physical capital and the adoption of better production technologies. It requires confidence of entrepreneurs in national policies so that they can commit funds in long term projects. Just observe the case of India after the economic liberalisation of 1990. Investment rate has increased to above 35 percent of the GDP. China has even higher investment ratio at around percent of its GDP. In the simplest form growth rate of output equals the ratio of saving to capital output ratio. Higher investment rate like this has made higher growth rate possible. Nepal's investment ratio is still around 25 percent and significant part of this financed by borrowing than from national savings. With increasing returns to human capital even a smaller amount of physical capital can generate a very high rate of economic growth. Why have leaders who have fought so hard in their entire life for the political and social development of the country have failed to grasp this simple fact that is required to fulfil the promises that they have made to the Nepalese people? Why should everyone try to become a minister? In process of national development there are roles not only for ministers but also for the successful entrepreneurs, businessmen, or academicians, teachers, scientists, engineers or journalists. There are so many occupations where talents can prosper and potentials can be realised when the opportunity cost of time is properly evaluated. What is needed is a free and fair environment for choices of citizens. Everyone can become happier when they realise that they are doing the best use of their talents and capacities. Such dream can become true if the Nepal's constitution sets economic growth as the prime objective of all economic and political activities. The preamble of constitution should enforce economic growth as the guiding principle for all parts of the government or the only criteria to judge the success or failure of the governments that come into power. Any government that cannot generate higher rate of economic growth does not have any right to occupy the position and should be kept out of the power. This will generate a healthy competition among them and sets clear guidance to evaluate their performance.

While thinking of transforming Nepal, policy makers should look at a five year old child and think how can that person become the most successful in his/her life through better education that not only raises their level of skills but also earnings, confidence and social and cultural status. They can bring the country forward in the next 20 years by making better decisions, producing more in small, medium or large scale corporations. They can exploit the comparative advantage of the country, reap the scale economies and adapt better technologies. They can ensure how to reward capital and labour according to their contribution in production and process information correctly while taking important decisions in the context of the globalisation. Age old inefficiencies will gradually disappear and momentum economic growth and prosperity will begin. Unfortunately lack of political instability caused by short term view of parties has kept the nation from realising this long term goal. Motivating factors for Nepalese bureaucrats or politicians have not changed. They care more for personal or party goals even at a higher cost of national development. Still gaining important portfolios and getting their own relatives and supporters in good jobs, sending only their own children to high quality education abroad even at the cost of ordinary but talented candidates, accumulating physical assets for better personal retirement life even if that is against the law. Corruption of ideas and institutions, the age old problem of Nepal, is still alive as it was before despite the freedom of speech and publication. Nepal obviously requires a national code of conduct, a genuine growth contract, so that people earn through reasonable means.

### **Rule of the game**

Every problem has a solution. Some have exact solutions and more difficult problems have approximate solutions. Models can be simple or more complicated has a solution that connects various components of the system consistently into one coherent framework. Solution to the current problem of Nepal remains in mutual trust and leading by example and objectives! There are things to be learnt from the adaptability of Chinese, flexibility of Indians, neat and cleanliness of Japanese, integration and coordination of Europeans, punctuality and perfection of British, straightforwardness of Americans. Nepalese people now spread in more than 50 countries of the world know this fact very

well. Avoid inefficiency, tardiness and corrupt ways of public life and combine all good qualities. How can this happen? This requires clear and far sighted rules of the game of national development. When players know the outcome of their moves they can set their strategies in advance, plan carefully for life to achieve their own objectives. These rules will create environments for creative bargaining and signalling for prosperity.

World is not always perfect, particularly regarding the flow of information. Some people have more information than others. Good and bad intentions of one can be communicated with careful use of signalling to other parties rather than being engaged in physical fighting. As a producer signals the quality of product by means of warranty or guarantee, politicians or public officials can signal their qualities by commitment to their words. As a better performance in an exam signals the originality of the student so does the performance of workers in the public and private sector about their commitment and sacrifice. Signal acts as a coordinating device. What cannot be obtained by command and control can be obtained by better use of signals. However signals should be used very carefully- wrong traffic signal can cause accidents and improper use of signal in public life can produce catastrophic consequences. Wards, communities and nations can coordinate their activities by signalling rightly.

Most games are not of the zero sum type. There are opportunities for everyone to gain. Players may have their own individual threat points but the game should be played honouring those threat points so that no one feels cheated. If players can play better ways this enhances their reputation in repeated games. A player can cheat once but others will find out that in the next move. A tit-for-tat game results in a non-cooperative solution while sticking to the commitment and reputation will always bring the Pareto optimal solution of the game. The majority of the Nepalese people now are keen to see a model of cooperation but not the model of conflict.

### **Trust**

Reputation is built in trust. Billions are lent and borrowed on trust in business for short and long terms but moral hazards and adverse selection cause these trusts to disappear as in the recent financial

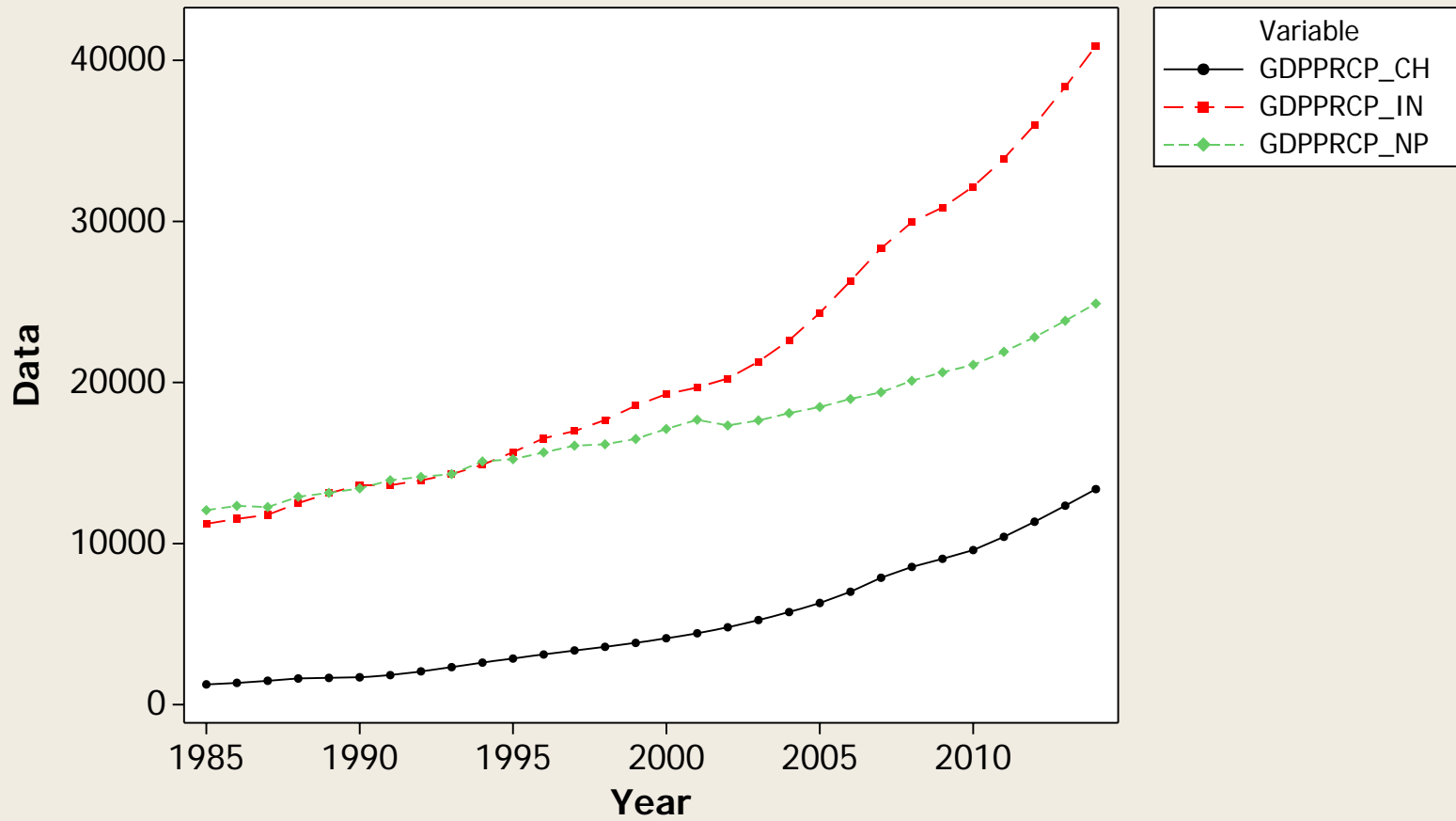
crises. An environment of trust can save a lot of resources and makes system work. Not only domestic investors will pour money in various sectors but also foreign investors will be ready to bring technology and resources in the economy. Trust will reduce the cost of litigations. Trust will create opportunities for better education and employment.

Decision technology in the public and private sectors need to be improved. They should be based on objective assessment with proper processing of information and be effective quick as delays in decisions are equivalent to no decisions and can be very costly. Wrong decisions can make things worse. Therefore decisions need to be the right ones. Ideologies and theories provide guidelines but these decisions need to be practical, realistic and pragmatic. Honest decisions last longer and produce desired outcomes. Inappropriate decisions multiply mistakes and can create havoc in the system.

Dilemma of Nepal in 2009 is to find rules of the game that can guide this country to prosperity. What can be a better rule of the game than the constitution itself? Thus a better constitution as soon as possible should be the top priority to meet the objectives of the revolution in April 2006.

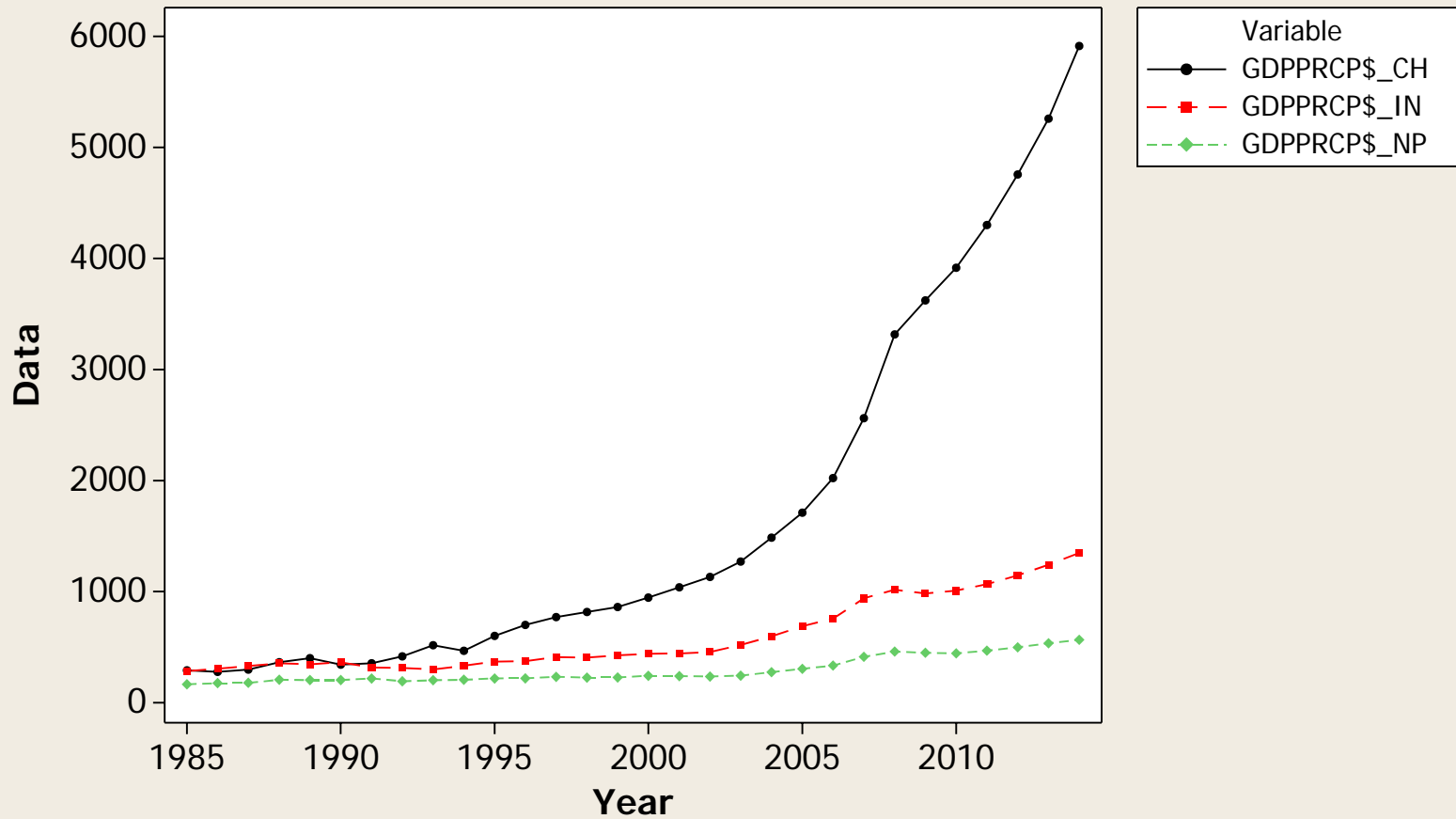
**- Dr. Keshab Bhattarai, University of Hull Business School, Hull, Yorkshire, United Kingdom**

## GDP Per Capita in China, India and Nepal ( in National Currency)



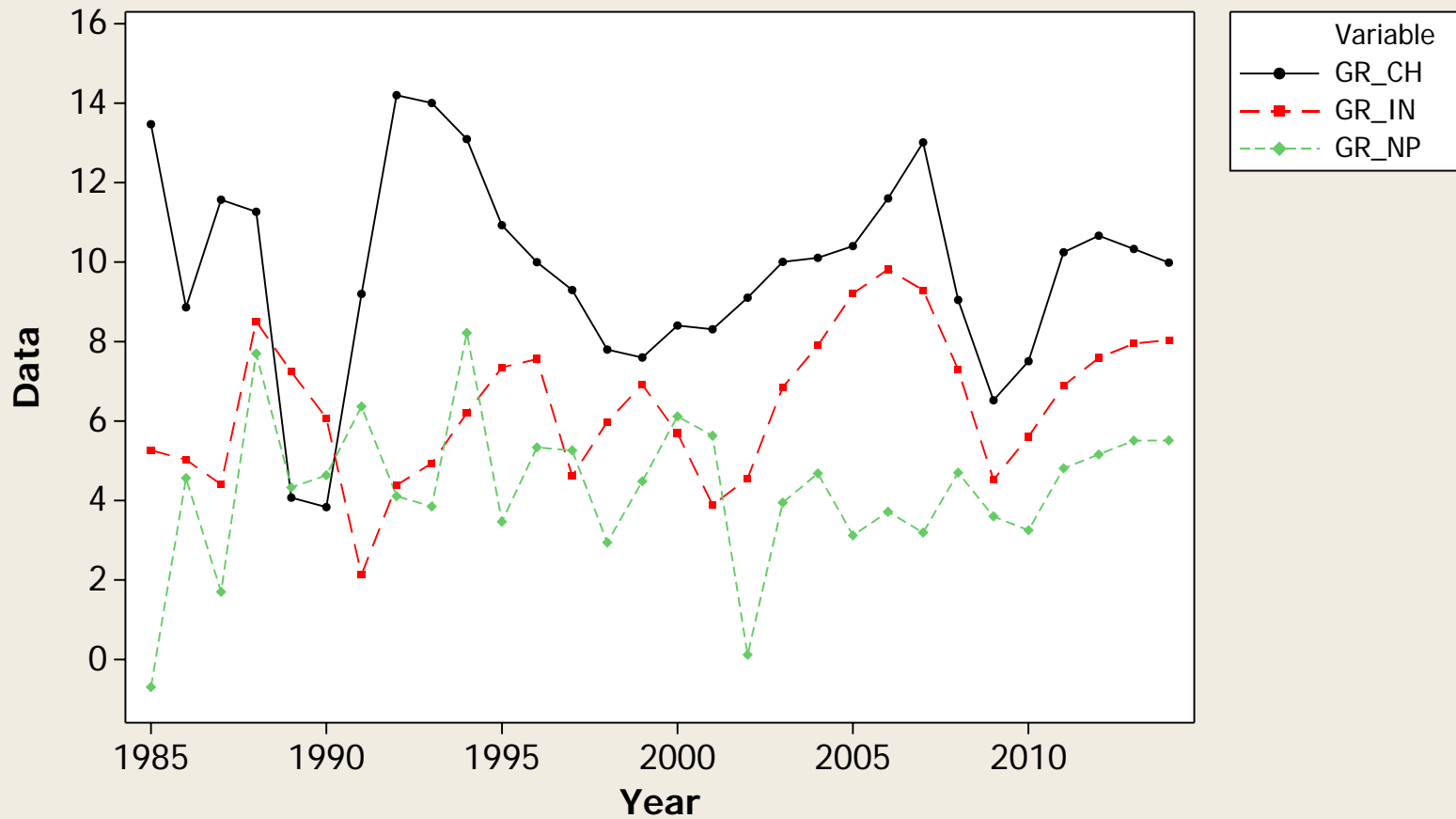
Data Source: [www.imf.org](http://www.imf.org)

## GDP Per Capita in China, India and Nepal ( in US dollars)



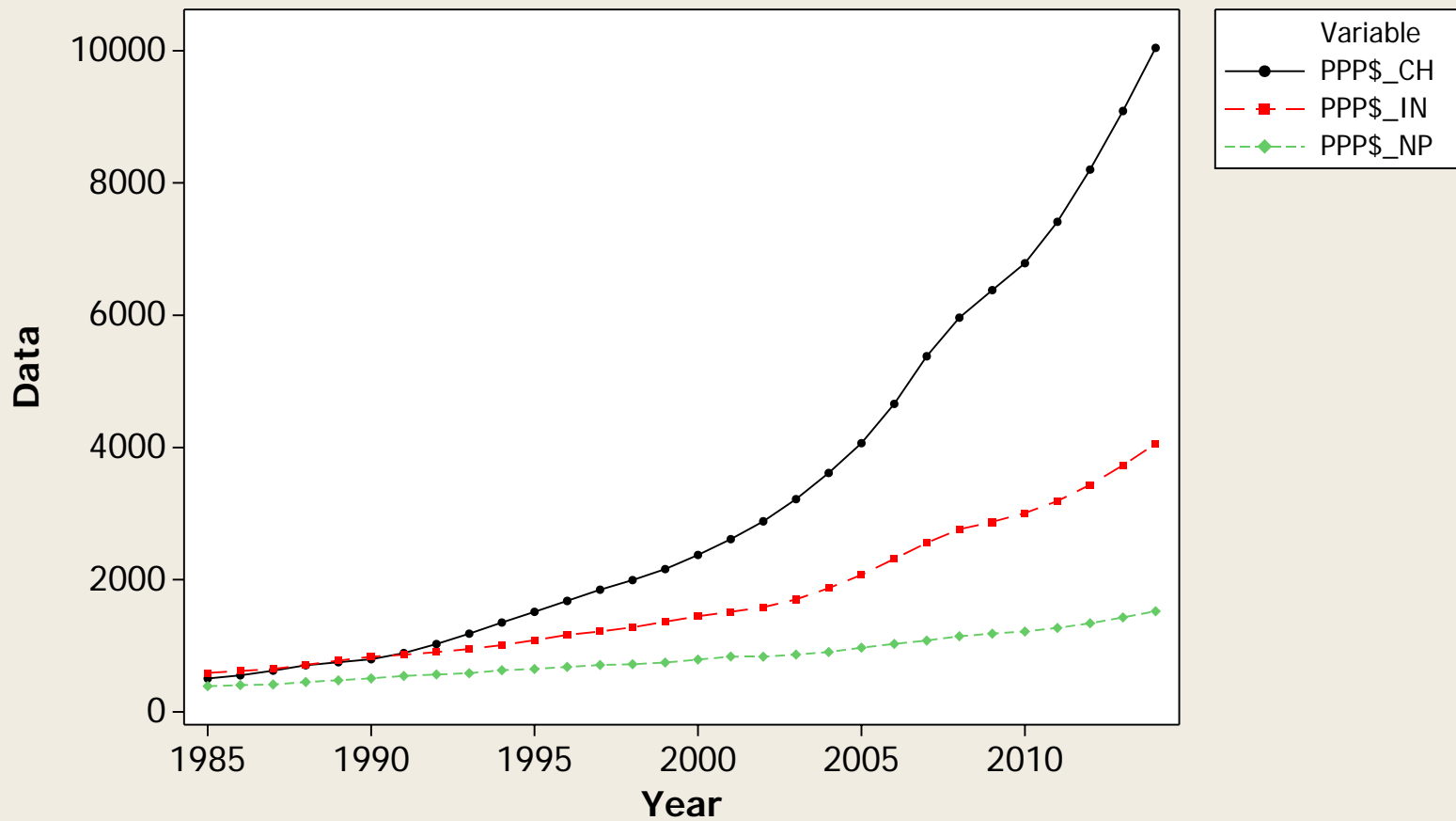
Data Source: [www.imf.org](http://www.imf.org)

## Growth Rate of Output in China, India and Nepal



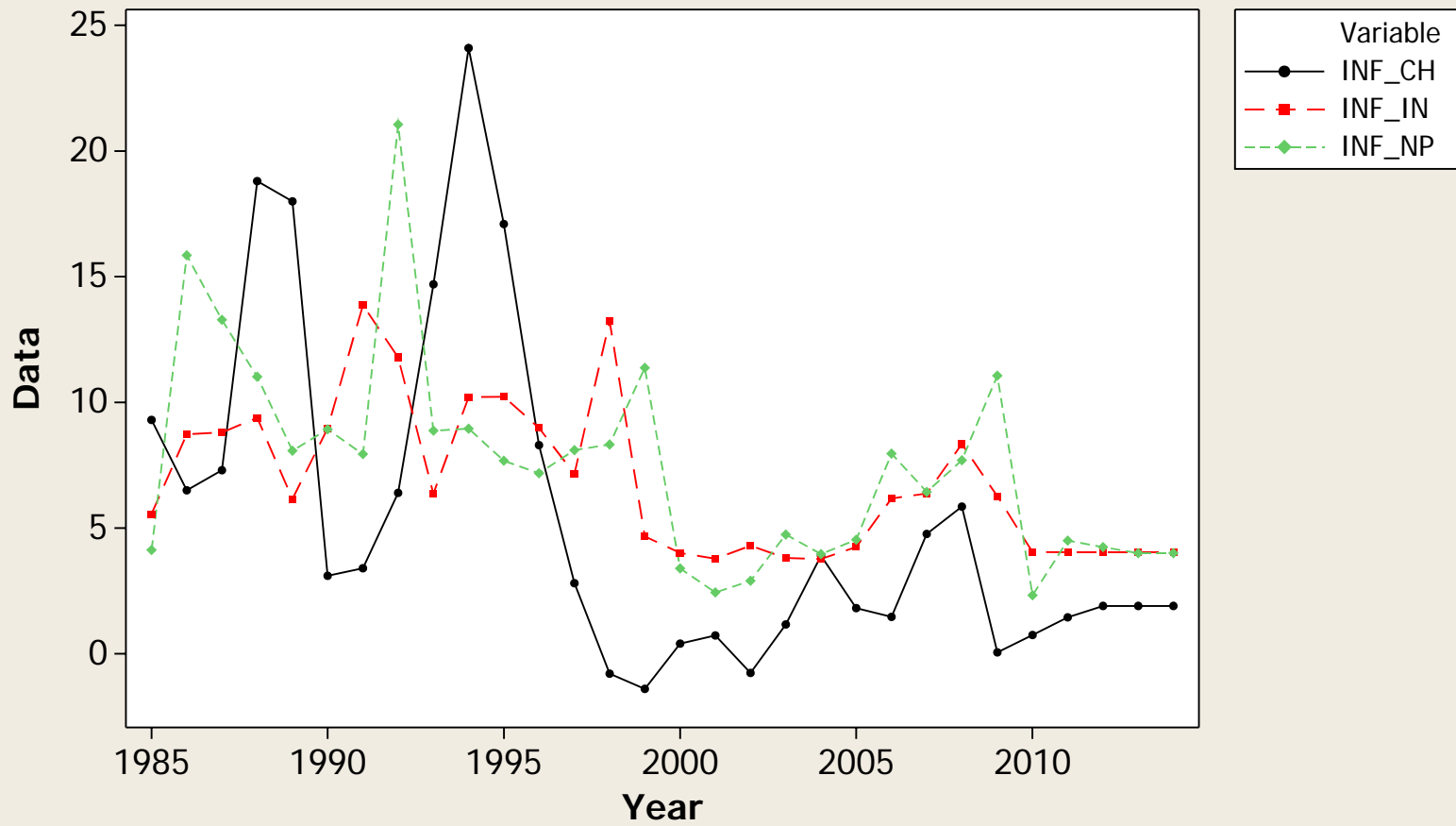
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## Income in Purchasing Power Parity in China, India and Nepal



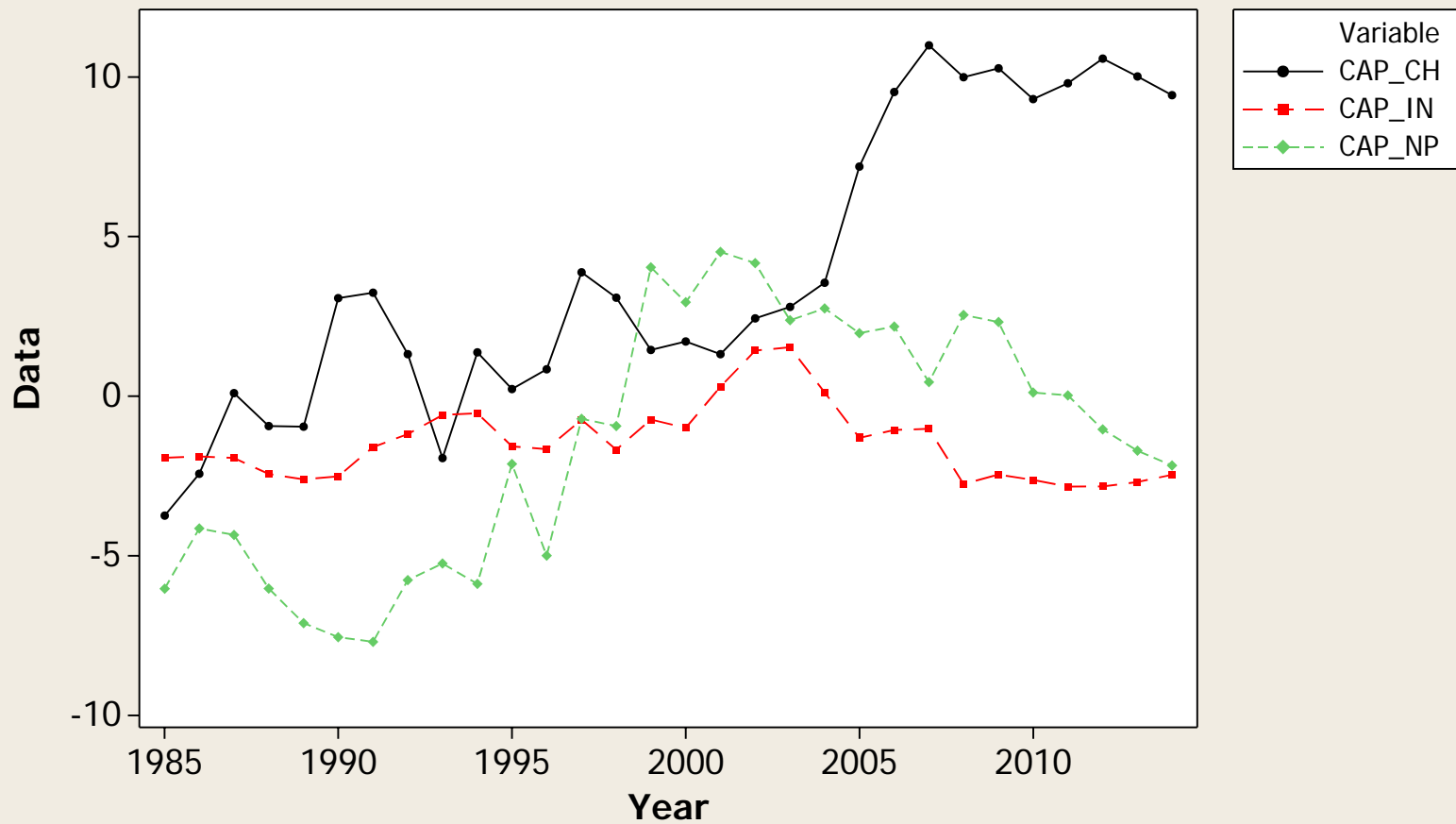
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## Inflation in China, India and Nepal



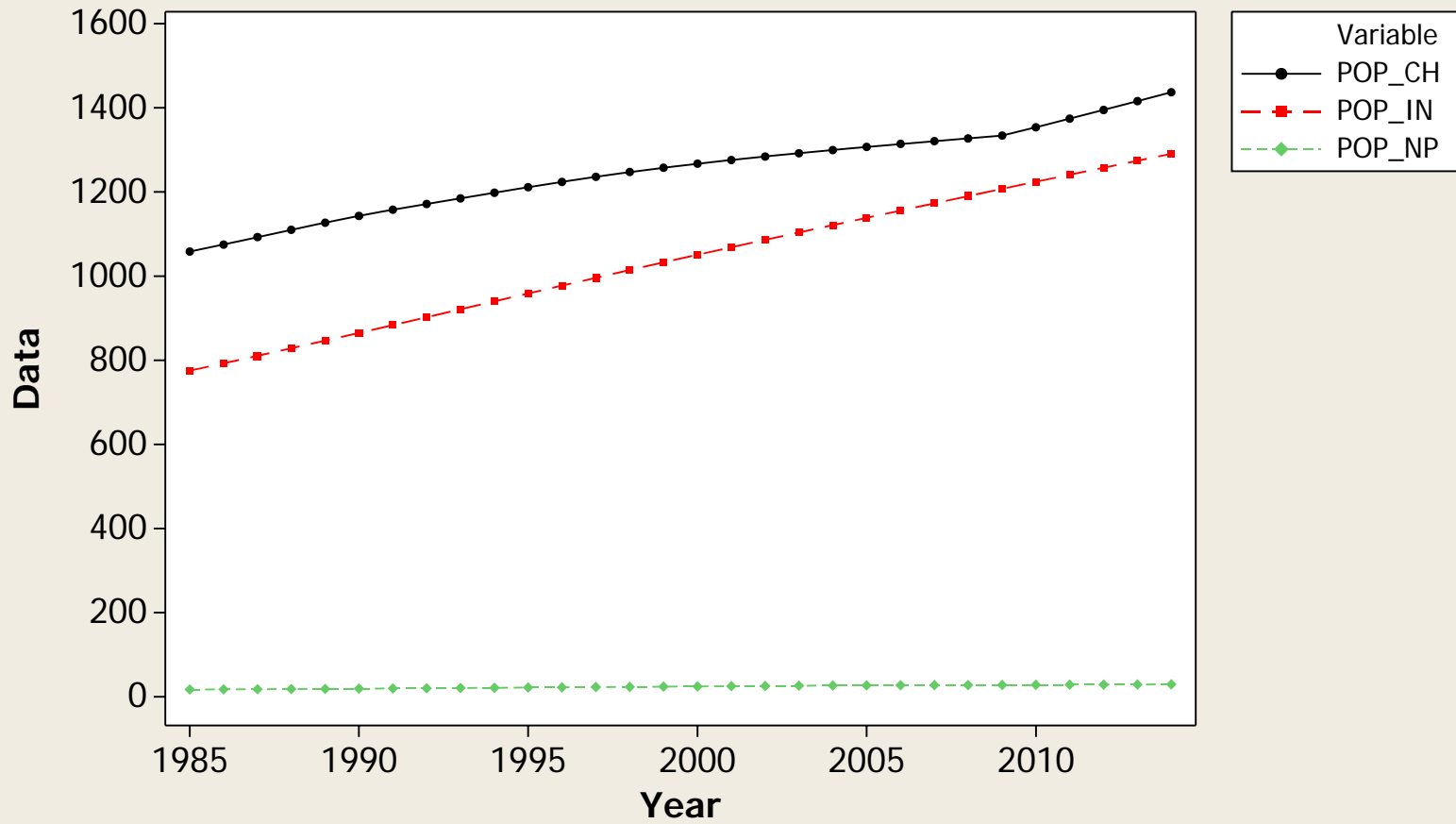
Data Source: [www.imf.org](http://www.imf.org)

## Current Account Balance in China, India and Nepal



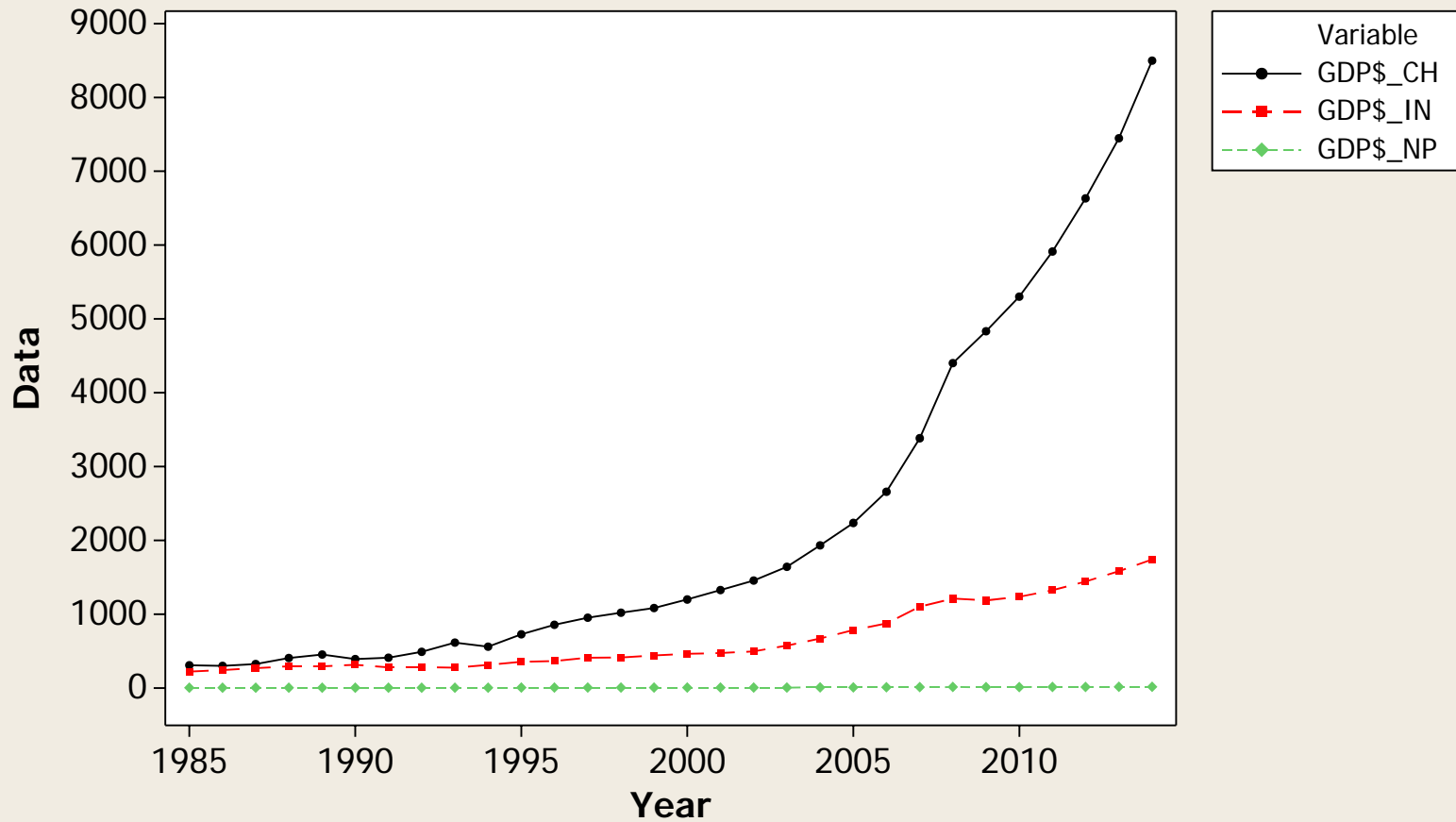
Data Source: [www.imf.org](http://www.imf.org)

## Population in China, India and Nepal



Data Source: [www.imf.org](http://www.imf.org)

## GDP in China, India and Nepal (at constant billion US Dollars)



Data Source: [www.imf.org](http://www.imf.org)