

Ram Prasad Gyanwaly, ed. 2017. *Political Economy of Nepal*. Kathmandu: Central Department of Economics, Tribhuvan University and Friedrich Ebert Stiftung.

Nepal's political economy in the last sixty years is marked by political upheavals each of which prolonged a period of lackluster economic performance. Appraising Nepal's economic patterns deserves a multidimensional perspective on critical political junctures and the roles played by evolving political institutions. The seven essays in *Political Economy of Nepal*, edited by Ram Prasad Gyanwaly, attempt to sift through many bewildering nexuses of political disruptions and economic impoverishment in the country since the 1960s. Collectively, the essays have two aims: diagnose the problems in the structural and ecological aspects of the country's economy and suggest remedial policies.

Gyanwaly's opening essay provides a broad brush picture of Nepal's incrementally improving macroeconomic indicators since the 1960s. He shows that all three periods of the Panchayat (1960–1990), multiparty

democracy under constitutional monarchy (1990–2006), and the federal democratic republic (2006–present) are characterized by rough political environments and economic stagnation. A few metrics currently portend a scary scenario even: Trade deficit has surged to a staggering 32 percent of the Gross Domestic Product (GDP); Manufacturing is at paltry six percent; and, nominal inflation rates are in the double digits. All imply a fragile core in the nation’s economy. However, tax revenues are increasing in both absolute values and as a fraction of GDP. The author does not elaborate on subtleties inherent in macroeconomic performance of Nepal. He does not pretend any analytic import and instead lays a background for other essays.

Prakash Kumar Shrestha explores spillovers of the globalization of commodities, labor, information and technology in Nepal’s economic performance. He argues against the privatization of many public companies that started buffeting Nepali economy since the early 1990s. According to him, liberalization of trade and investment without proper check on the private sector benefited a small group, but left large populations in the downward spiral of poverty and underdevelopment. Instead of curing persistent low employment and other ills of the economy, the large-scale privatization only found a safe channel for the globalization of Nepali labor.

Chandra D Bhatta assesses the pivotal role of foreign aid in shaping Nepal’s political economy. He indicates the trend of supplementing foreign loans and grants to the government by direct aid to non-state agencies, as reflected in the declining share of the aid in the GDP since the early 1990s. To him, this distribution has created turfs for imaginary agendas and facilitated diplomatic moves of the donor countries. His argument that the foreign aid is fostering “a rentier state” is speculative though: Whether the efforts of non-state organizations in funneling the aid on social programs have produced a patronage culture, whether foreign countries conspire for “ethnicization and regionalization of politics and development” (p. 116), or whether privatization of the state’s welfare functions and the attrition of community institutions are symptoms of the NGOs’ model of development, all require explicit references and substantiation. Bhatta attributes the glaring gap in the aid commitment and disbursement (with only 17% of committed aid getting disbursed) to donors’ unwillingness to cooperate with concerned stakeholders. He also connects systemic issues such as bureaucratic ineptitude and lack of credibility of governmental agencies to perverse spillovers of the foreign aid.

The essay by Dev Raj Dahal assesses potential vulnerabilities, contingencies, and resilience in Nepal's economy. He builds arguments by taking defining features of the country, such as its landlocked geography and dependent status on trade and labor, and its protracted political instability as crucial. The heterogeneous ethnicities, traditions, and cultural norms demand, according to Dahal, that the state remains committed in carving out viable grounds for social harmony that eventually will shape broad contours of the political economy. He claims that Nepal has stumbled onto a service economy from subsistence agriculture and industrialization without much preparation and has therefore "created a great gap in the labor market as it left unskilled workers redundant with no choice other than to migrate" (p. 165). Dahal could also have alternatively explained increasing migration worldwide as an optimal allocation of labor resources.

Rashmi Silpakar (Rajkarnikar)'s essay foregrounds good governance, and as found in the literature on institutional economics and developmental economics, she prioritizes evolution of strong institutions for assuring economic prosperity and equitable society. She locates good governance in not just *growth enhancing* strategies such as safeguarding property rights and structural reforms, but also in *market enhancing* strategies that ensures equitable allocation and distribution of resources. But her essay is fraught with the undertones of dependency theory which doesn't adequately consider the unique trajectory of Nepal's chequered political events. Nevertheless, her point about the Nepali elites usurping rent extraction mechanisms such as favoring key bureaucratic appointments, obtaining kickbacks during project procurement, and planting their exclusive position in the market, has a merit, and requires further analysis.

Sohan K. Karna fills his essay by reinforcing the remittance-dependent status of Nepal's economy. Globally, Nepal ranks fourth with remittance hovering at 30 percent of its GDP and the tripling of the number of households receiving remittance between 1995 (23%) and 2014 (65%). Remittance is a key factor in halving absolute poverty in the last two decades (from above 40% to around 23%). This cash inflow has enhanced the purchasing power of the households as manifested in the changes in domestic consumption, greater investments on housing and land, and increased savings for education and health of the family members. Owing to the unsustainable domestic labor market, millions of Nepali youths have landed in the work destinations such as India, Malaysia, Qatar, Saudi Arabia, the UAE, South Korea and Japan.

Without such a safety valve, he argues, Nepali society would have lapsed into social unrest, disorder, and even civil war.

In a theoretically tight-knit essay, Dilli Raj Khanal leans on *structural change theory* for optimal performance of the Nepali economy in the coming days. The theory emphasizes surplus labor of agriculture moving into a more productive industrial sector without losing agricultural outputs. But he hardly meditates on the dark reality of Nepal's agriculture, which is still dependent on seasonal rains and not on permanent irrigation facilities. The realistic goals in agriculture now could rather be facilitating irrigation projects, modernization of seeds, instruments, and pest control, and viable domestic commercialization.

The book has insightful essays yet it would have done justice to the title "political economy" by bringing politics in more than peripheral ways. A few overlaps in the theme and analysis among the essays could have been avoided. Addressing issues related to the ongoing evolution of federal structures and concerns on political and economic diplomacy with India and China could have benefited all contributions. No essay delves substantively on the persistent wealth inequality in Nepal. Without critiquing economic inequality, discussions on economic growth alone tend to present a distorted picture of prosperity. Since empirical research on many economic issues is unavailable, some essays are replete with speculative thoughts. One also comes across summary arguments being carelessly made without granular level research. For instance, when several contributors portray Nepal's economic impoverishment because of her foreign aid dependency or the trade deficit with India, we wish to see the claim being backed by solid empirical works.

The book, however, packs a punch in pointing out overriding issues of political economy without jargons and mathematics, and is therefore a stepping stone for further interdisciplinary inquiries into the structural aspects of Nepal's political economy. To that end, this book is an important read.

Naresh Neupane
Kathmandu