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PROBLEMS OF GOVERNANCE IN NEPAL

Background

If governance means the application of political power for the management of public affairs of a country, governments in Nepal were seen to be preparing the ground for doing so by focussing their attention on the security aspect, rather than managing the people's day-to-day affairs which seem to be lower in the priority lists of governments everywhere. People are usually seen to be sacrificing to secure their borders during crisis times, instead of seeking governance benefits everywhere. But the peculiarity of the Nepalese case was such that it remained in a continuous state of crisis. If the external crisis subsides for some time, internal ones take over.

The problem of governance in Nepal has always remained acute, ever since the unification of the country by Prithvi Narayan Shah. The unification, and the consequent consolidation process, itself faced a setback when it hit against the wall of empire-building in the neighbourhood. India was being unified at about the same time by the British. This meant problems for the Nepalese in more ways than one for a long time. Continuous engagement with both the

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neighbours was the uppermost government task, rather than fulfilling the day-to-day needs of the people.

Governance, for all practical purposes, meant looking after the borders, rather than attending to other public affairs. Simple as it may sound, this was a complicated affair, especially if one is situated between two neighbours that are far apart in terms of compatibility. So intense was the government's dilemma in the initial years that, great statesman Prithvi Narayan Shah himself likened the situation of the country to that of a yam sandwiched by two boulders with no room to manoeuvre. That diagnosis of the nation's situation, and the difficulty it posed on governance, still holds true today, despite the uneasy peace that has prevailed for a long time.

All along the history of modern Nepal, that choked feeling has been experienced by almost every government. There were very few leaders and governments that have actually tried to wriggle out of this uncomfortable situation and do something constructive for the people. The predicament has remained as a long lasting legacy. Today, even the common man knows of the yam's perennial vulnerability.

There were also those trying to make some political capital out of the situation for their own ends, so convincing was the yam thesis. After Jung Bahadur had made the historic decision to befriend the British, giving a new twist to Nepalese foreign policy pursued so far, it did not take much effort to establish a 104-year familial rule by the Ranas. There is no doubt about the contribution of Jung Bahadur, the first Rana ruler, to the cause of the survival of the nation-state during the most precarious phase of decision-making. But what is of importance is that his good deeds were enough to convince the Nepalese to give him enough mandate so that his feudal familial regime could subordinate the state for 104 years.

Similar was the case with the *Panchayat* system (1960-1990). When King Mahendra embarked on strengthening institution-

building within the nation, there was surprisingly little resistance to his actions at home despite the dissolution of the first popularly elected majority government. People seemed to understand the yam's geopolitical demands. But as stability of the system became apparent, with relatively less international problems at hand, governance started to give way to corruption and regimentation of democratic life. The system eventually became so engrossed in preserving the spoil system intact that multiparty democracy had to be introduced in 1990 to ensure the legitimacy of regime and strengthen public access to decision-making.

The experience with democracy as a means for outsiders to undermine the statehood has always made it a subject of cynicism among many strategists in the country. This has historical roots. When multiparty democracy started making the rounds in the neighbourhood in the 1940s, especially in India, Nepalese elites too saw an opportunity to make Nepalese governance more accountable to the people. When they launched their own movement, in many instances, they sought moral support from the nationalist and anti-colonial movement in India. The difference between the movements in the two countries was that one was a nationalist movement while the other was purely a democratic one. There was no room for harbouring nationalism in the Nepalese movement. Nepal was not a colony. In contrast to those in power in India (the British), those in power in Nepal were themselves a viable nationalist force. The situation prompted some of the democratic leaders of those days to utter dubious remarks. This was an awkward beginning that was to be the country's future hope for an accountable governance.

When the autocratic Rana rule was toppled in 1950, there were efforts aimed at undermining anything that past rulers did. In the process, nationalistic gains were trampled, whether deliberate or by chance. As a result, many of those promoting democracy are seen to

be taking nationalism and state oriented policies as going against democratic aspirations. In return, strategists and those that are preoccupied with the ways of the state and its affairs, who take democracy, or any other polity only as a means of better governance, have cast doubts on the nationalistic credentials of those advertising democracy. In both the cases, spontaneous sociability, the essence of "civic community",¹ was fundamentally missing.

The controversy has not yet been settled. Even in the post-1990 scenario, the dividing line has remained sharp. When the first elected government of 1991 came to power, it did not try to take the nationalistic planks in its campaign to remain in power. Instead things came to a head when it started indulging in petty intra-party feuding at a time when the nation was undergoing problems of historical and strategic significance - a hundred thousand Bhutanese refugees were pouring through the eastern border and there was no solution in sight; bilateral accords on natural resource exploitation were being signed without the consent of the Parliament as required by the Constitution; strikes were paralysing industry and the biggest foreign currency earner, tourism, was on a sharp decline. The capital city even witnessed a shortage of dumping sites with its garbage being piled and rotting in street corners day in and day out. For the first time in history, public affairs management was being ignored not for the cause of the nation-state, nor for democratic gains, but for a political battle within the ruling party leadership.

The confusion about the dividing line between democracy and the State is not the only deep-rooted problem of governance in Nepal. The problem might have been solved with every political force in the country pledging to work by the Constitution. But,

¹ See, Francis Fukuyama, *Trust : The Social Virtues and the Creation of Prosperity* (New York : Penguin Press) 1995, p. 100.

instead, the Constitution has had to be taken to court several times to see if it served the interests of a particular party or not.

A scholar² finds that parliamentarians appear to be confused on the nature of political and "economic policy most suited to the country while most of the party members seem somewhat disenchanted by the lack of ideological clarity, policy implementation and discipline within their parties." Another scholar³ even saw reluctance on the part of political parties to adhere to constitutional norms. In his view, the Communist Party of Nepal (UML), the then largest party in Parliament, as taking multi-party democracy only as a means to achieve their own ends. He accepts Nepali Congress' conformism with the Constitution but sees obstacles in achieving that because of intra-party feuds. The Rastriya Prajatantra Party is seen to be wanting to reform the existing Constitution while there is anti-constitutional regional and ethnic orientation of Nepal Sadhbhavana, Janamukti Morcha, Mongol National Organization and others that do not stand on legitimate grounds. Others have rejected the Constitution outright. Unless communication is soon established among the major political parties to prevent the adoption of extra-constitutional measures to expose grievances, as well as in the method of governance, the transitional phase of the Nepalese political process may incline towards changes in any direction.⁴

Democracy versus Autonomy of the State

As if governance was not difficult enough, inter-party bickerings have made it next to impossible. The fact is, even without those

² S.K. Khatri *et al*, *Political Parties and the Parliamentary Process in Nepal* (Kathmandu : POLSAN) 1992, p. 79.

³ Dev Raj Dahal, *The Challenge of Good Governance* (Kathmandu : Centre for Governance and Development Studies) 1996, p. 109.

⁴ Khatri, *op. cit.*, p. 80.

bickerings, about what best suits the nation, things are not easy (note the minuscule governance gains of past autocracies).

Openness and democratic rule have had a bad history in Nepal. When the historic referendum announced a verdict in favour of making the *Panchayat* rule more democratic, in 1980, corruption is said to have really begun in a large scale. Large tracts of valuable forest land were cleared, only to be replanted again, opening up the way for huge contracts, rife for political favours and patronage politics.

The more open and democratic Nepalese governance gets, it is also perceived as getting less sensitive to outside influences that could play havoc with the nation-state's survival. This has ironically made democracy synonymous with the sell-out of sovereignty. This is understandable to some extent. As people's needs are short term in nature, and the leaders are so focussed in preserving their constituencies, that long-term concerns about strengthening the sovereign status of the nation and restoring autonomy of governance easily take the back seat. But this has introduced a moral hazard into the question of Nepalese governance. If one can justify ignoring the needs of the state, what cannot a government ignore? The need for some form of autonomy becomes stark here.

Again, the needs of the state are the needs of the state that have their own constituency in a nation that has had such a long history of statesmanship and bungling. One can always work for this constituency, called history, and gain credibility with ease. But one is hard put to show immediate benefits to a population that is deeply mired in poverty. As it happens, the results of such work is not immediately beneficial for the common man and cannot be easily quantified by him to make judgments about. When calls to be more open in such precarious circumstances are made, those in power will naturally find their seat burning hot. Initiate debates on issues that

are barred by the Constitution - like politicizing the ethnic cauldron - and a continuous crisis of governance is apparent. Add a bit of corruption here and a bit of mismanagement of public affairs there and one has a real recipe for political turmoil, hence the need for democracy.

Naturally, there is not two opinions about the role of autonomy in governance and the need to act quickly to thwart any attempts aimed at undermining the sovereignty of the state. At the same time, public affairs management should go hand in hand with such efforts. Nepal's problem is that it has rarely found leaders and governments that are sensitive to both needs. Balancing the two acts is indeed difficult for politicians bred to be proficient in the art of compromise. Meeting the challenges of the survival of nationhood is a tightrope walking exercise. The poorly educated civil service and insufficient institutional infrastructure of a poor nation like Nepal only make the task formidable. There is plenty of room for blunder. This is why neither democracy nor sovereignty has remained untainted by politics. Both are no longer the sacred realms of statecraft alone.

One of the reasons for democracy getting so controversial may be its short history in the Kingdom. As time goes by, this situation is very likely to change. In fact, the second elected government, after 1990, came to power, although without an absolute majority, on the promises of strengthening the sovereignty of the nation. This is not commensurate with the historical experience of the country with democracy and openness. Democracy in the past meant an erosion of sovereignty in many a Nepalese mind, not a way to strengthen it. When the third government came to power on the strengths of a coalition, it saw mistakes that its predecessors made in matters of the state. Departing from the earlier habits of democratic governments of lambasting state-centred policies as the bastion of the *Panchayat* and other autocratic systems, like the Rana oligarchy, it has started

building on the past gains made by the state, while at the same time, pursuing democratic ideals. A new era in governance has thus been ushered in Nepal at the present. The nature of a coalition makes it sensitive to all ideals and may be just a short term phenomenon. But it could as well be the great turnaround. If such pursuits continue for a long enough time, there is no doubt that both state sensitive policies and democracy will one day start providing the engine of prosperity and well being of the nation and its people.

But this does not solve the problem of autonomy of governance in *toto*. What this is only going to mean is that politicking in vital governance areas will cease and remain an area of consensus. This is good news for the largely ignored area of public affairs management. But along with this understanding among politicians come the real challenges of governance. Once the framework is laid down through consensus among different political groups about what is best for the state (state-centered policies) and how to go about it (the polity or democracy), the real issue confronting them will be to act independently of the different interests (autonomy) to achieve these goals.

The Problems

Despite the difficulty in executing the government task in such a chaotic situation, one must admit that some experience in trying to manage the public affairs of the country is available in the Nepalese context. Most of them are directly related with the economy. Let us close our eyes to the gains made by the economy, or in other words, the public sector management gains. Because, there is very little. Instead the external threats that the historical leaders saw to Nepalese governance, have now been almost wholly internalized by the economy. In other words, public sector management efforts were so

poorly carried out that instead of extricating the economy out of the natural geo-political disadvantages, the situation is inviting state of the art 21st century problems heretofore unseen.

Poverty alleviation is the overriding Nepalese public affair today. Depending on which statistics one takes, the percentage of people living below the poverty line ranges from 50 to 65. With more than half of the population living below subsistence and most of the other half barely making it to the subsistence level, there is not much scope for raising domestic finance. Governance can only be said to have been carried out properly if poverty is on the decline. This brings us to the development question. Instead of focussing about the method of development, we will try to see how the vital input to development, i.e., finance, is getting mobilized. Some of the trends and tendencies that have a direct impact on governance are discussed here.

1) Inability to meet the rising expenses need to manage public affairs which is giving rise to another problem - **aid dependency**

Taxation, which determines the amount of room for governance, has a small jurisdiction compared to the need of poverty alleviation programmes. Low income and poverty afflicted groups, not to mention a poor revenue administration makes taxation a governance problem in itself, instead of a way out for governance. Thus, foreign aid is making up a large chunk of domestic finance, like in other developing countries. About sixty percent of development expenditure is being covered by foreign aid today.

The only room for governance in such a situation, or the only way to reduce dependency, is in diversifying the aid sources. Here, Nepal seems to have made some headway. The diversification effort was helped, to a large extent, by the Cold War and the competitiveness among rival parties to influence the developing

countries, rather than a deliberate policy on the Nepalese part. Another input to diversification came from the nature of aid sources that are usually multilateral. With the Cold War gone and the deliberate policy of multilateral financial institutions to give way to the private sector, rather than involving themselves in development projects, this small room for diversification of dependency is fast disappearing. Instead, dependence on foreign capital is being transferred from aid to foreign private investment.

2) The shifting of focus to **foreign investments** from aid.

As a source of foreign capital, there is not much difference between foreign investment and foreign aid. But in matters of handling the two effectively, there could not be a wider gap between two concepts. Foreign aid is largely a government area that needs strong government commitment and the machinery to implement aid projects. Foreign investment, on the other hand, needs a mature private sector and proper government guidance through regulations, or their absence, so that public affairs can be well managed by the market.

As it is, aid needs expertise which is very difficult to come by in developing countries - Nepal not excluded. Foreign aid has always suffered from being used very inefficiently. Finding out more efficient methods of resource allocation, through training and other efficiency enhancing means, ironically, need more resources. So aid regimes are caught in a vicious cycle here calling for more aid to use aid efficiently.

To make matters worse, instead of making the existing aid utilization infrastructure more efficient, the country has had to divert its attention towards building new infrastructure to handle the foreign investment regime. There is a lot of wastage in shifting tracks while

the nation is in the middle of something. And it is exactly this that countries like Nepal cannot afford. This difficulty has given rise to number of sceptics in Nepal that view the liberalization policies with more than a pinch of salt. Debates on the kind of economic doctrine suited to the conditions of the nation have thus been unleashed. Naturally in the absence of consensus on the economic path one wants to follow, it gets difficult to formulate policies of public affairs management. Such conflicts must sound familiar, because only a little earlier, we discussed about the conflict between democracy and the state. Here, it is taking the economic dimension.

There is also another rationale behind the conflict between the market and the state. Since market forces are constantly expanding their realm, a certain amount of public affairs can be left for them to handle. And, foreign investments can really help here. But developing countries need a functioning market before the rational mind of the *homo economicus* can be set loose. These countries are either under underdevelopment or developing precisely because they do not have a functioning market.

Nepal understands its needs. Hence, it has embodied the mixed economy approach to development in its democratic Constitution. But in this dependency equation, the supply side (donors) has a greater impact on domestic policies rather than the constitution of the recipient country where political parties differ so much among themselves that even the law of the land is viewed differently by different parties. Whatever economic approach it may think fit to be pursued. The country will be forced to pursue what the donor wants it to, especially that are already deeply mired in poverty and dependency.

This is something recipient governments can do nothing about. In order words, public affairs will have to be managed the way

donors or foreign investors want and not according to the needs of a country as the people's representatives see fit. Such countries, like pawns, are forced to acquiesce to the dictates of the big players in the world economy. All these inconsistencies in world capital flow and the resulting destabilization will have to be internalized by developing countries as they shift tracks from aid to investment. Political mandate, whether it is a democracy or dictatorship, makes little sense under such circumstances. No amount of popular votes can buy political stability then. Because there is no choice but only adjustments to make. The constituency of governments lies outside the country with the donors rather than among the country's voters or with the armed forces in the case of dictatorships. Political instability can easily be created by outside forces controlling the flow of capital. Governance, thus depends on those forces, not on the type of government.

3) Dilemma between the **liberalization** imperative and the need to protect a primitive industrial sector.

The new shift from aid to investment is not an isolated phenomenon, but a consistent package promoted by the multilateral institutions. They had initiated it in the eighties through various programmes, beginning with the Structural Adjustment Programme. With the WTO coming to rule the world of trade the plan seems to have been completed. The whole world will, thus, be undergoing a structural change in the way economies are run well into the 21st century. This shift, as mentioned earlier, is putting small developing countries at the receiving end of things.

Nepal's problem is much more acute than that of similar countries facing this shift in world economic priorities. More than its commitments to the world, it is the existing trade and treaties with the largest trading partner, India, that are making things really

difficult for the Nepalese entrepreneur and policy maker alike. Industrialists have long been complaining about the unfair advantage given to Indian products, through treaties over Nepalese ones in their own domestic market. To worsen the matter, the Indian market is virtually closed for Nepalese goods.

Industrial development in Nepal and industrialists would rather gain if the country adopted the WTO guidelines rather than embrace the conditions set forth by bilateral treaties with India. This is the unique position Nepal is in with respect to the opening up of the world market by the WTO regime. But the reality is that the application to the WTO is still pending while the treaty with India is in full effect.

The private sector has been robbed of growth-room to such an extent that it is very little involved in productive activities in a country where production is costly, even without treaties that choke its productive capacity. The argument about letting the private sector take a larger share of public sector functions does not go well in these circumstances. In the absence of a large enough private sector, handing over the task to the private sector becomes a difficult proposition. This odd situation has also blunted the liberalization drive initiated by the Kingdom in the eighties. Foreign investment in Nepal has largely been constrained⁵ by the trade relationship with India. Despite opening up the economy, no significant proposal has reached the Nepalese so far. This is the liberalization dilemma facing the nation today.

The trade relations with India are such that it is better for investors to flock to India to capture the Nepalese market rather than establish enterprises within Nepal for a market share there. If

⁵ M. K. Dahal and Kyoko Inoue, *A Profile of Industrial Development in Nepal*, (Tokyo: Institute of Developing Economies, 1994).

significant improvements are not made in the existing economic relationships, the 21st century will be witnessing an unusual aspect of governance in Nepal -- the private sector across the border will be handling public affairs in the country while depriving its own private sector of the same opportunity. The Nepalese people's right to development and self-determination will thus be eventually eroded. This cross-border management of public affairs does not limit itself here.

4) The **open border** has only accentuated such problems.

The one-way free flow of goods and services is not the only problem. The Indian side has been continuously pointing at the goods being smuggled from Nepal to India. The Indian stance is such that Nepal should police a long and open border (Nepal is surrounded on three sides by India) to curb it. What seems to have escaped many a mind, here is that banning legitimate acts is bound to make illegitimate acts prosper.

Another inconsistency in this from the governance point of view, is that even if Nepal could put so much resources to police the border, it would be managing the public affairs of India, where the goods are deemed "smuggled", to make its smuggled goods free. In Nepal, those goods are perfectly legitimate, hence policing the border is not only difficult but also benefits only India that terms the goods "smuggled". The cost meanwhile has to be borne by Nepal.

Another problem with the open border is also evident with rising tide of Indian semi-skilled and unskilled labourers to Nepal to take up jobs in a land where unemployment is rife and creating its own governance problems. This inconsistency is reinforced by another treaty that calls for national treatment to Indians, something that is not possible for a small country like Nepal. Any independent observer knows the impracticality of enforcing such conditions between two disparate economies.

5) The growing **trade deficit**

Growing trade deficit is another governance problem. In barely five years or so, since it began, the carpet and garment exports surpassed earnings from exports to India, a country with which Nepal has had a 45-year history of preferential arrangement in trade. The import side tells another story. Imports from India has seen unprecedented growth in these past five years, making it the largest exporter to Nepal surpassing all other countries in such a short time. The third country exports as Nepal likes to call the carpet and garment trade, too fall under the "preferential" category. What is the difference between the two preferential arrangements? No public figure from either side of the border, boasting about achievements that had to fathom, with each signing ceremony, has ever tried to answer this question. What is known, however, is that the "third country" preferential system is desperately trying to fill the deficit gap created by the preferential system that exists with India. The problem here is not arrangement but the intention to use the system. Most of the arrangements are usually designed by India as a tool of state craft⁶ to gain out of them rather than as an act of reciprocity.

Governance Tasks

So far, we have discussed the inherent problems that makes it next to impossible to govern the country. With the economy bringing in more problems than can be solved, it remains unlikely that any kind of a polity or economics is going to solve the Nepalese problem of governance. One could argue about the undue emphasis on the external economic relations and its validity in managing the public affairs, while domestic governance hardly gets mentioned. But the

⁶ David A. Baldwin, *Economic Statecraft* (New Jersey: Princeton University Press, 1985).

fact is that the external problems are so huge and run so deep that they have been internalized to an alarming extent. Attempts to disperse the effects of the lopsided economic relations with India have only yielded a greater dependency on others. For example, the taxable income being spent by the Nepalese to buy Indian goods at preferential rates is not only robbing the exchequer of his/her share of the Nepalese economic pie, but at the same time he/she is forced to look for external aid to finance the development projects that would have otherwise been financed by tax. This is not mere conjecture. If one looks at the data of external aid and the trade deficit with India, one finds a remarkable similarity, both in amount and in their growth patterns. Recently the deficit with India has crossed the aid amount and has been going up still, accentuating this problem further. If this is the 21st century scenario for Nepal, it is indeed going backwards. Never in history had trade problems of such scale been seen. This is being experienced by a country that had a very active balance of trade scenario not only until the 60s but in the 19th century as well or for that matter, in the 18th or even in the 17th century.

The chief governance task remains the alleviation of poverty. And the avenues are almost shut at present. If these problems can be solved then public affairs management would purely be a domestic affair, as it should be. Right now it is not so. Most economic activities even within the nation are being controlled by bilateral treaties and commitments.

It is commonly accepted that once the security system is in place, the ground for governance is cleared. One knows one's jurisdiction and the area of one's work where nobody else will be interested to encroach upon. But creating an area for public affairs management in the Nepalese case does not seem to be limited to the security aspect alone which the country's statesmen always strived for.

Today, the greatest problem is seen in the economic encroachment from outside not only through foreign aid and the emerging market driven economic order, but also through treaties defining economic relationships between countries. This is not an advocacy for isolationism, but only an attempt to show that interdependency is becoming a no-win situation for Nepal.

The centre-periphery analogy introduced in the Nepalese context⁷ in the early eighties gets a new twist in today's circumstances. Instead of making arrangements to undo the effects of the natural centre-periphery relationship, successive governments have tried to forcefully establish one even where there was none. Nepalese are therefore being marginalised not only by the market forces sapping them of their scarce resources by the world market centre, but are being forced into submission through deliberate policy, treaties and other arrangements, especially with India. As a result voices have begun to emerge preaching the benefits of dilinking. They point at the relative prosperity of sectors, such as tourism or carpet, that are completely delinked from the Indian market⁸.

Challenges

The biggest challenge to governance in Nepal is a government's ability to govern. This may appear jingoistic, but Nepal's unique geopolity seems to have accumulated enough problems over the decades to force the people into marginality, while at the same time robbing the government of its governance ability. Because the

⁷ Piers, Blaikie, John Cameron and David Seddon, *Nepal In Crisis : Growth and Stagnations at the Periphery* (Delhi, Oxford University Press, 1980).

⁸ Bekh, Thapa, Comment on "Planning and Economic Development," M.K. Dahal eds. *Future of Nepalese Economy* (Kathmandu: NEFAS, 1993)

government is the first and primary agent in servicing the public sector needs, it has to be strong enough to allow the private sector, civil society and NGOs a greater role to play. If the government does not have enough room to meet its day-to-day deadlines, it cannot be expected to facilitate other agencies to take up the task of governance.

Structural Reform

So the primary target is for the government to come out of the shackles of its own making by: (1) reviewing its relationships with the outside world that is making it impossible to work. This entails a reappraisal of its security relationships with the outside world-one that reflects the bipolar reality in its immediate vicinity and at the same time pursues peace in the international arena. The goal should be to provide the governance room necessary within the country to pursue its own strategy and vision.

(2) Then comes the political or systemic puzzle. The primary focus in the sphere should be to influence the various political groups enough to make them pursue the compromise path and move in unison when it comes to the strategic question. There is too much diversion at present even in matters related to following the constitutional norms. Once political forces understand the value of consensus, the choice for a more autocratic form of government disappears (with the failure of democratic governance, emergence of an autocracy in certain). With consensus on vital issues, governance matters are already half solved. If this can be done a more ambitious target can be set.

(3) Another target is to work for a more representative system of governance, both at the political as well as the civil society level. At the political level, proportional representation system is the only kind of polity that can be called democratic in the Nepalese ethnic and

geographic milieu. The first- past-the-post system has not been able to solve the problems of all the different people living in the kingdom. It has only proved to be a distraction at present rather than a true democratic system. The market should be given an adequate role, but with enough state provisions to make it serve the people and not *vice versa*. Civil society, NGOs and other traditional organisations may need reviving for maintaining the public sphere that can mediate between the state and the market for social responsibility and public good.

(4) Care should be taken to promote autonomy of governance within the nation by charting an appropriate course between the needs of the domestic interests and their influence. Creation of a strong bureaucracy will help further. A strict meritocracy needs to be introduced. This sounds easier than it actually is, because it involves reforming the education system radically and maintaining a continuous flow of capable graduates to the bureaucracy⁹. Hence, meritocracy is a cross-discipline phenomenon involving both the civil service, the education sector and the social attitudes.

This opens the way for decentralization of power and decision making. If the bureaucracy is strong enough, or rational enough, decentralization becomes easy. The strength comes from education and training, a meritocratic structure and regulations overseeing their transparency, accountability and responsibility. The civil service's neutrality is another important factor in maintaining its strength. Weak and a centralized political leadership of inadequate regulatory provisions make them vulnerable to political exploitation. In a physically and socially diversified country like Nepal, devolution of

⁹ Theda Skocpol, "Bringing the State Back In : Strategies of Analysis in Current Research , Bringing The State Back In Peter B. Evans, Dietrich Rueschemeyer and Theda Skocpol, eds. (Cambridge : Cambridge University Press, 1989).

power is not a matter of choice, it is a necessity—a necessity to involve the majority of the people in participation and empowerment.

The Economy

On the economic front, the country needs to free itself from arrangements which are more dependent on the outside world, whether for aid or for foreign investment.

(1) In the case of reducing the dependence on aid, it needs to balance its trade accounts at least with India. If that is done according to the currently available figures, aid will either be unnecessary or will be minimized to such an extent that domestic taxation will meet most of the development expenditure requirements.

(2) Foreign investment will be the area where dependence will rest in the coming years. Industries will attract some of the share of investment if the lopsided arrangements with India, including the open border are made more reciprocal. But the greatest attention needs to be given to bigger investments that will come to areas that do not have much bearing with treaties with India. These areas are in the natural resources sector.

3) Apart from mining and biological products, hydroelectricity is the most attractive proposition for foreign investors today. In this sector, there are very few linkages with India, at least until deliberate attempts are made to link it with additional treaties. When bilateral arrangements are a necessity, they should be done in such a manner so as to diversify the relations by including more than one country—at least both China and India. Otherwise, dependency will haunt future policy makers in this field just as past foreign aid is haunting the present generation today. Investors should be varied just as the

market should be. If possible, diversification should be pursued even while awarding contracts.

But it would be best to use the available electricity within the industrial establishment of the country. If energy-intensive industries can be established this will not be an area of much concern.

Under carefully planned and executed programmes, the potential of water resources is so great that both governance and foreign policy objectives can be met by harnessing it. Poorly planned and executed the country will be so deeply mired in domestic and external problems that it will never actually be able to extricate itself.