

Nepal's Quest for Economic Prosperity: Why Has It Been So Elusive?

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“Hope is a good thing. Maybe the best of things. And no good thing ever dies.”

Protagonist, Shawshank Redemption

Presentation roadmap

✓ What is economic prosperity?

- **How is Nepal's report card in economic prosperity?**
- **How strong are Nepal's prosperity-pillars?**
- **Why has prosperity been illusive?**
- **Conclusions / Policy recommendations**

Economic prosperity—the uplifting of country's standard of livings (comprising income, health, and education) depends mainly on two things.

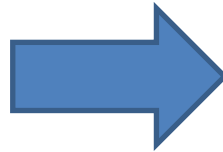
**Enlarging the size of the pie,
economic growth**



**And sharing the pie among
citizens—economic
distribution**

• **Through**

- Tax policy
- Education policy
- Health policy
- Social safety net policy



Economic growth delivers.

- **I will focus only on the first, the growth, aspect.**
- **Economic growth is fundamental to prosperity because a growing country:**
 - creates employment
 - deploys resources efficiently
 - creates economic mobility
 - expands peoples' and societies' choices
 - In other words, uplifts the human well-being
- **When we think about the radical transformation that economic growth can bring in a country, nothing else seems more important.**
- **Pro-growth policy can be the most pro-poor, pro-equality policy.**

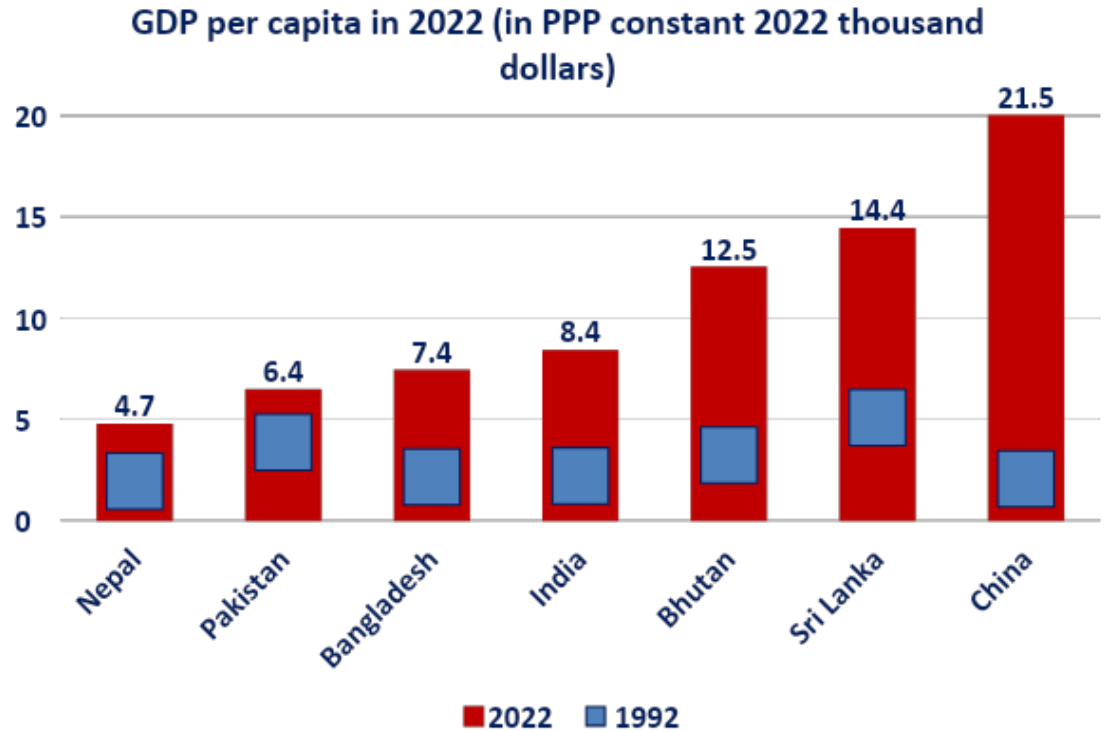
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Nepalis are the poorest in South Asia, one of the poorest parts of the world

Per capita income in 2022

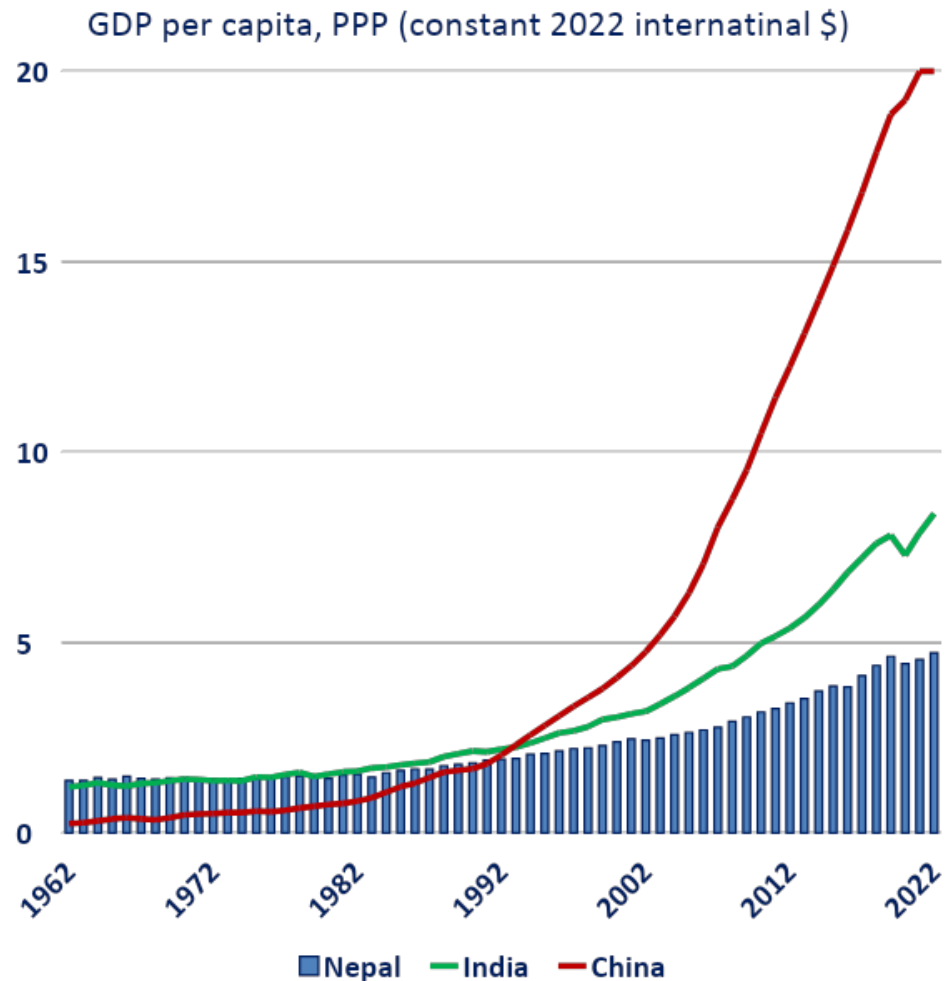
- Nepal — \$4,725
- Canada — \$59,000
- USA — \$77,000



Source: IMF and World Bank

- In the 1990s, Nepali, Indian and Chinese had very similar living standard.
- Fast forward 2022, a Nepali's income is only 56% of an Indian and 23% of a Chinese.

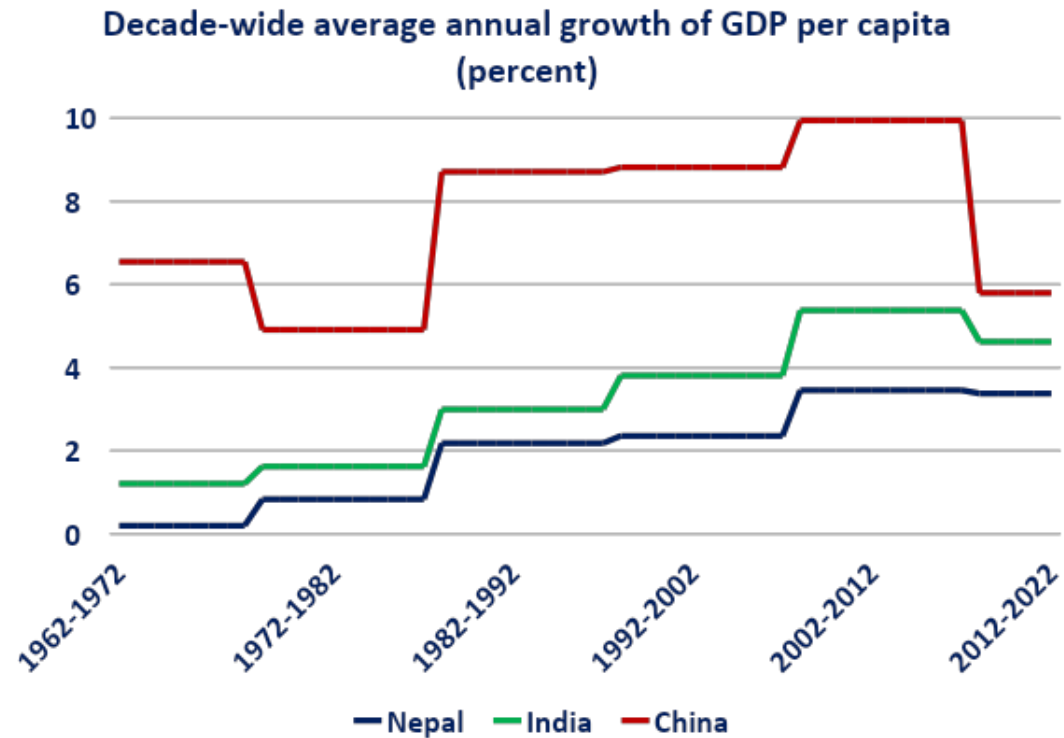
Nepal is not on the verge of becoming wealthy nation anytime soon.



Source: World Bank

For a Nepali, it will take 20 years to be as rich as an Indian and 50 years to be as rich as a Chinese today.

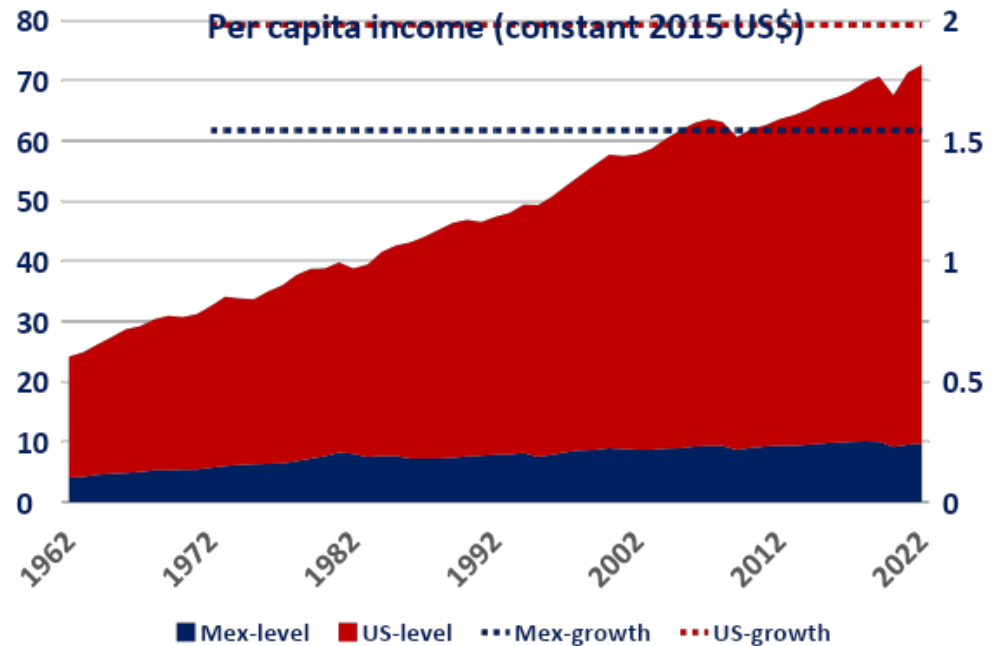
- Nepal has always been a growth-laggard.
- Per capita annual income growth in the last 30 years:
 - ❖ Nepal – 3.1%
 - ❖ India – 4.6%
 - ❖ China – 8.2%
- Years to double the income:
 - ❖ Nepal - 24
 - ❖ India - 16
 - ❖ China - 9



Source: World Bank

Even a 0.5 percentage-point annual growth difference makes an alarming divergence

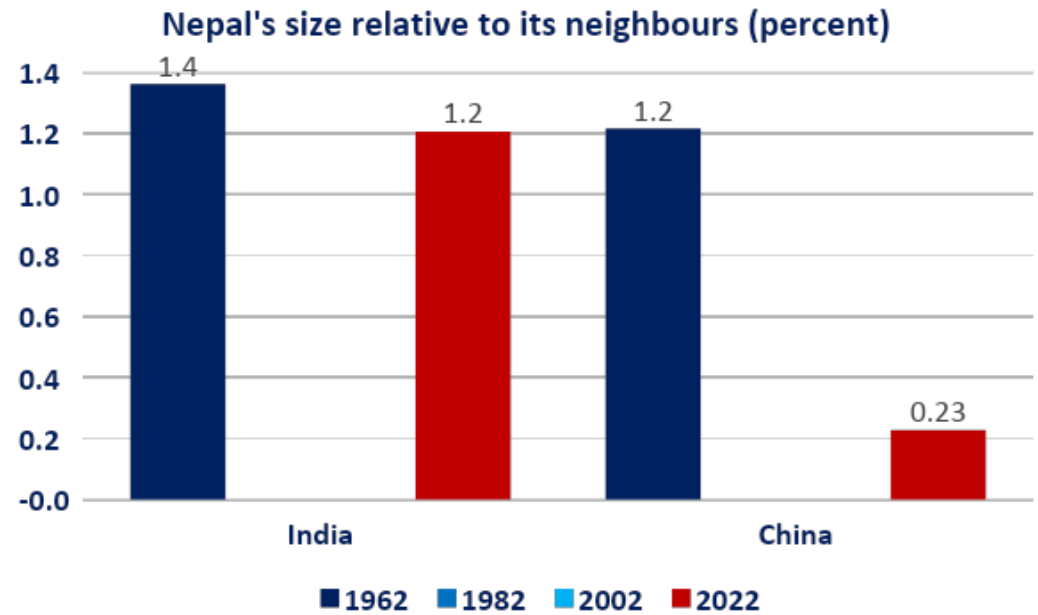
- In 1962, the per capita income difference between an American and a Mexican was \$16 thousands,
- In 2022, this difference has reached \$53 thousands.



Source: World Bank

In economic term, Nepal is not only small, but also shrinking

- In 2022, India was 83-times and China was more than 400-times larger.

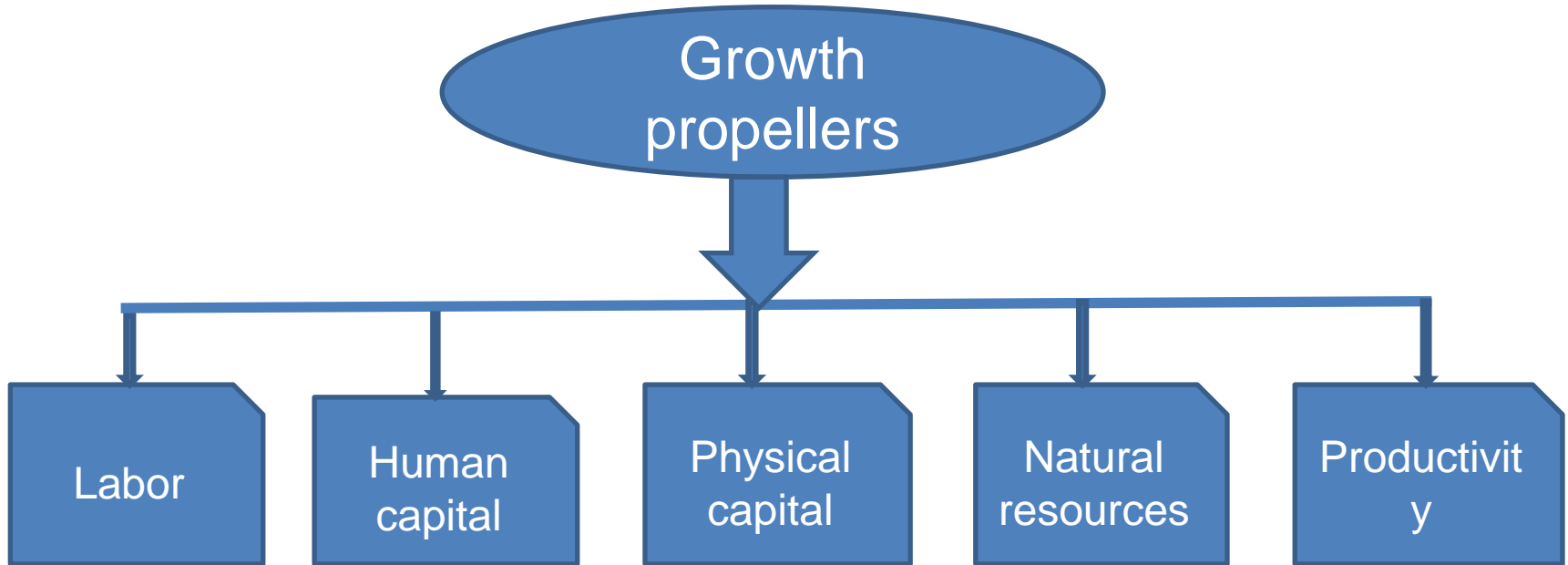


Source: World Bank

Presentation roadmap

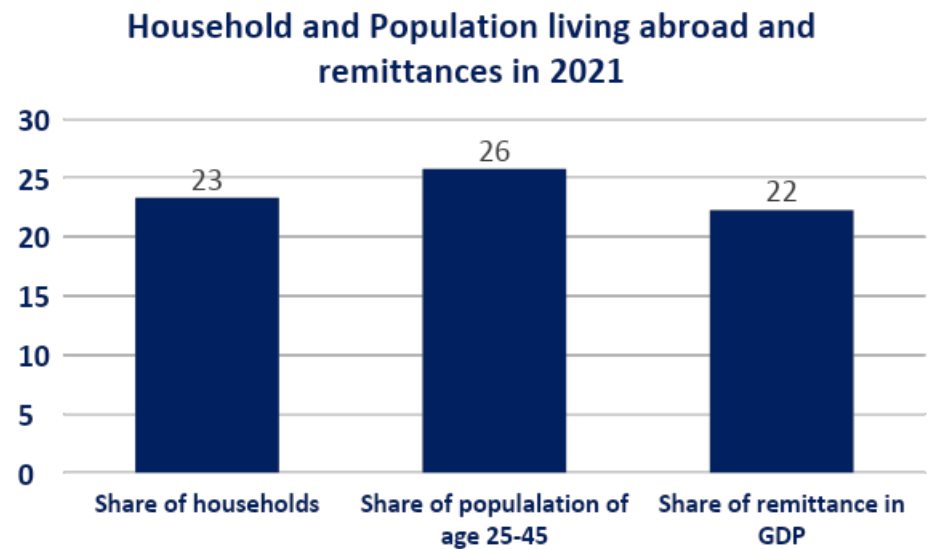
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Prosperity is built on five pillars (factors)



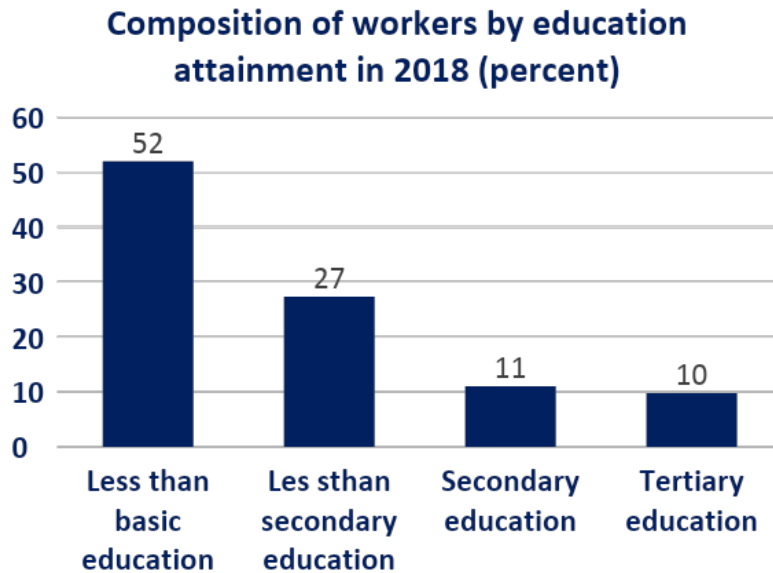
No country has developed by exporting its people, the central pillar of growth.

- **Estimate varies; about 4 million Nepalis are working at the worst manual jobs in the world.**
- **Yet, those inside the country are not employed well: 55% are subsistence workers.**



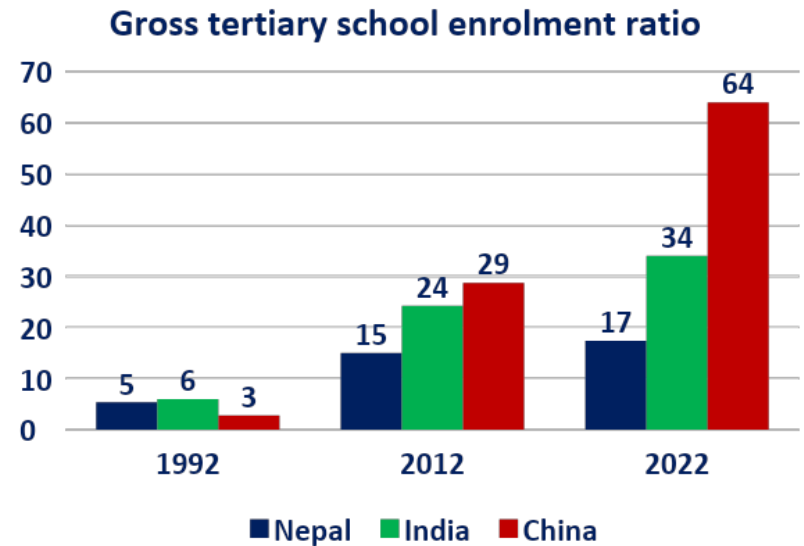
Source: National Statistics Office, National Population and Housing Census, Nepal, 2021

Four-fifths of workers have less than secondary education



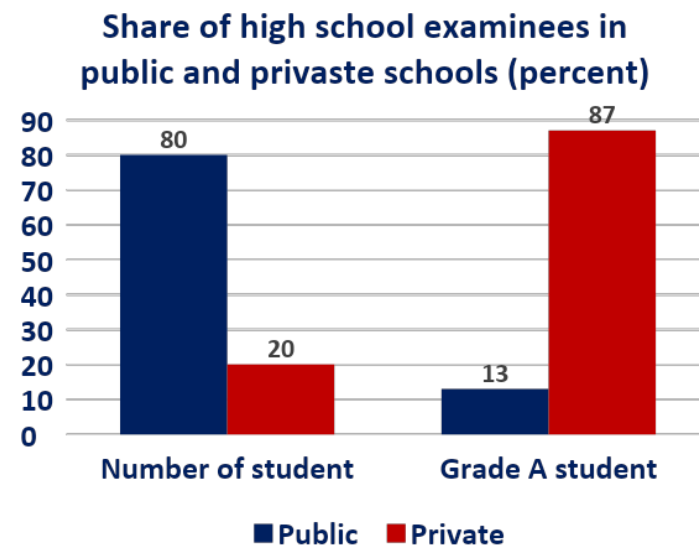
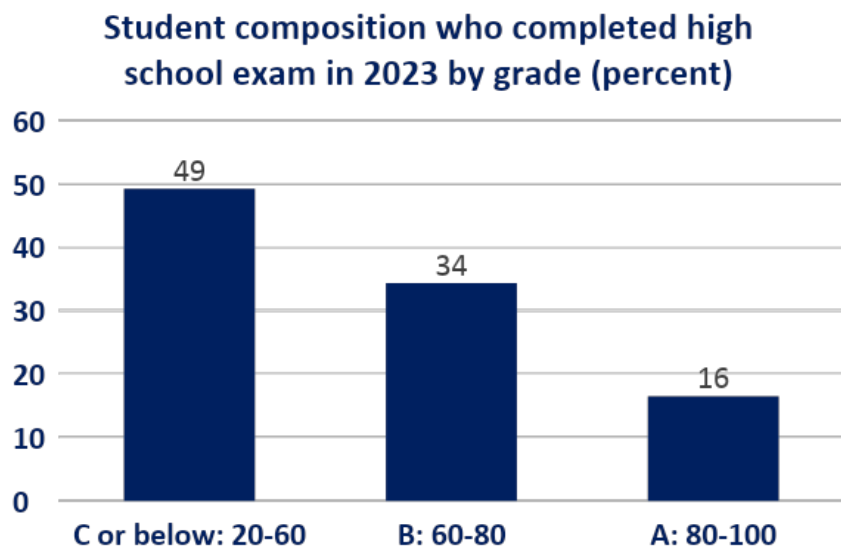
Source: Central Bureau of Statistics Nepal: "Report on Nepal's Labour Force Survey, 2017/2018"

In human capital also, neighbours have left Nepal far behind



Source: UNICEF

Education system has failed majority of students as the education outcomes are determined by family wealth

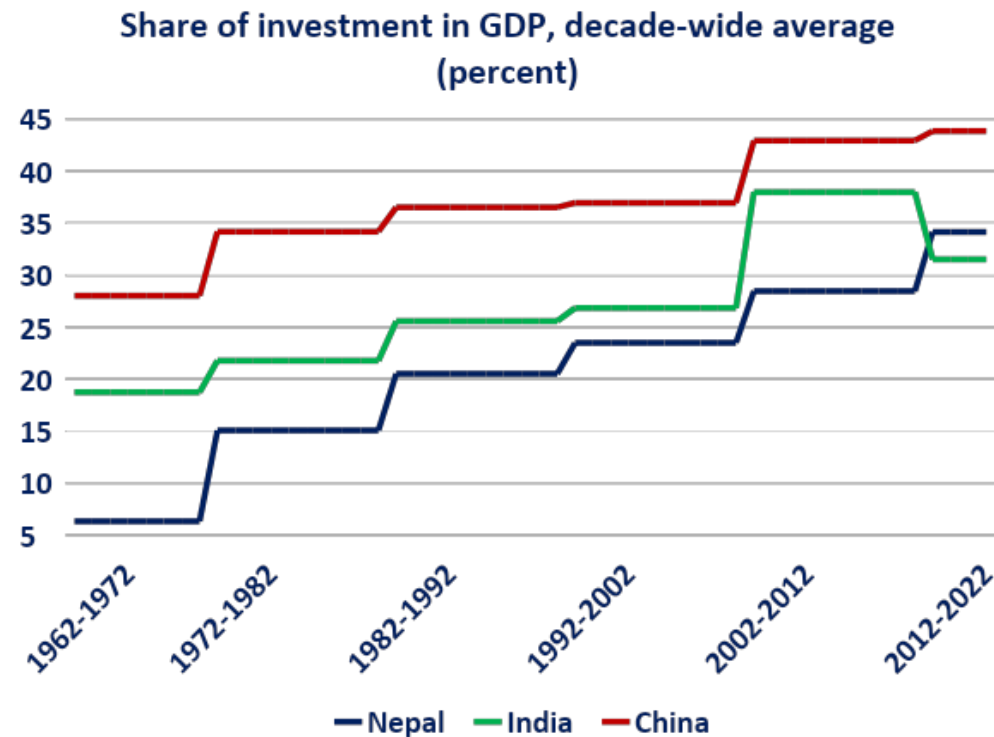


Source: Different Nepali Newspapers, 2023

- **Perverse impact:** education, a tool of equality, is perpetuating inequality.
- **Unfair:** The ladder of economic mobility is not only kicked away, in some ways, poor are financing the education of the elites.

- Public capital is very low, as revenue is hardly enough to run the government.
- Private investment is replacing public investment and most of it goes to duplication, not creation, of economic activities.

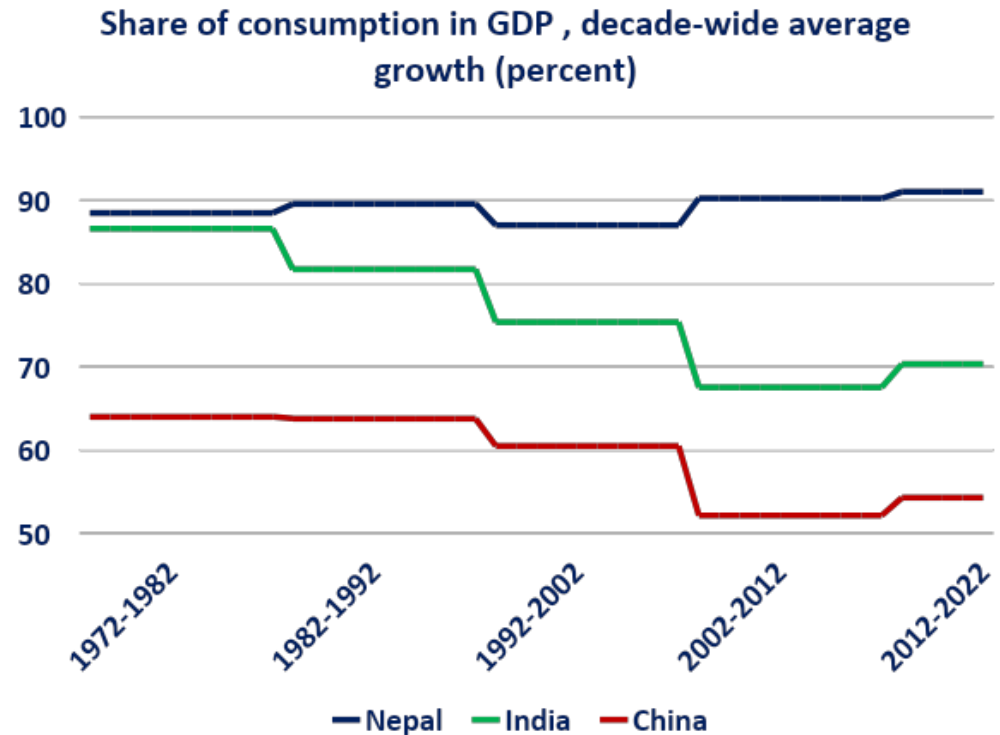
The second pillar of growth, investment, is also low.



Source: World Bank

- Nepal has turned into production-less consumption center.
- Growth is about forgoing consumption today in return for higher living standards tomorrow.

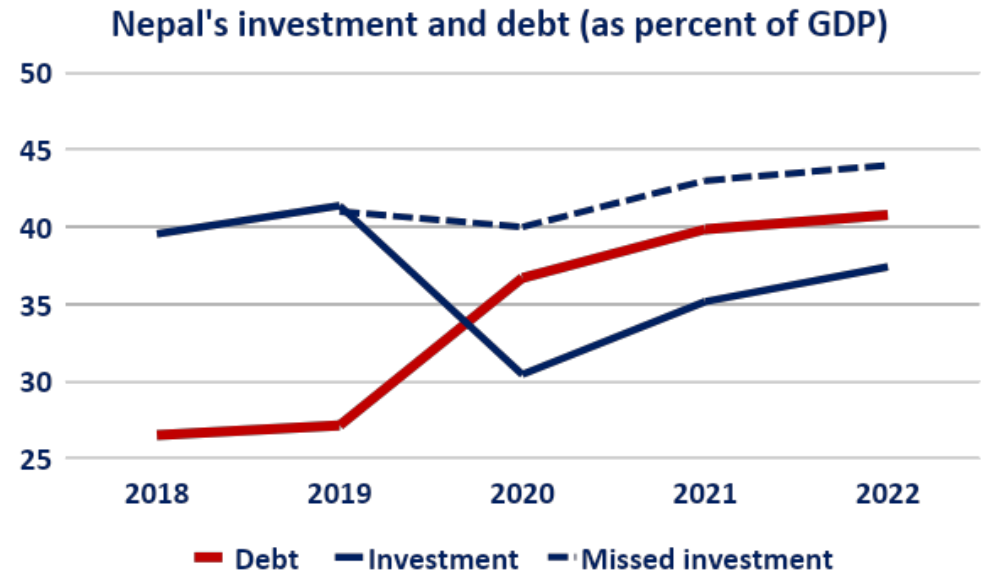
High consumption is one of the reasons for low investment



Source: World Bank

Even foreign borrowing is not invested, but consumed

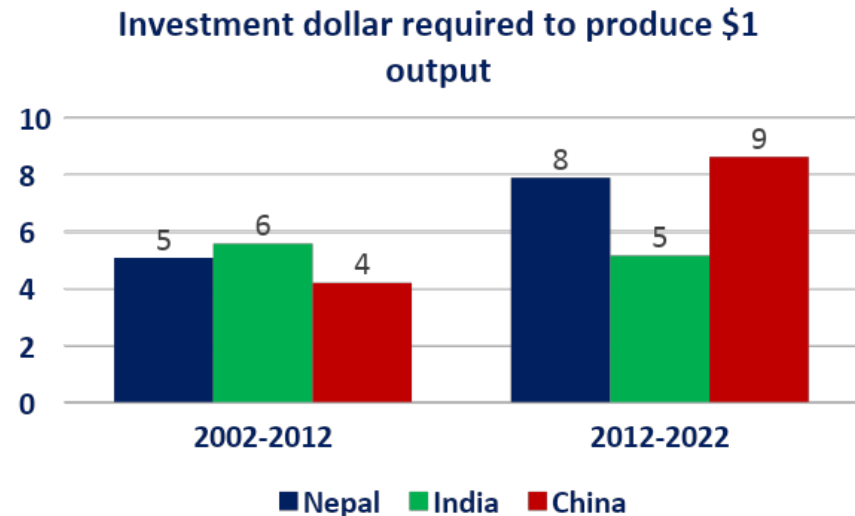
- If all foreign loan was invested, investment would have been seven percentage-points higher than actual.
- Which would have raised GDP by one-percentage point, even by Nepali standard.



Source: World Bank

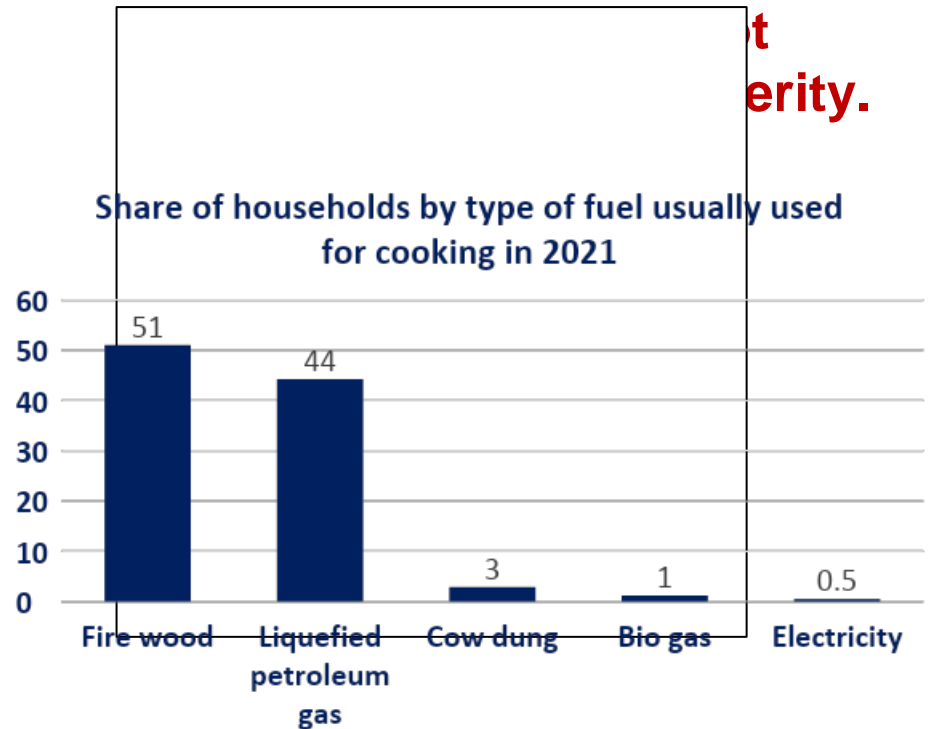
- To produce \$1, Nepal invests \$8, whereas India needs only \$5: Nepal's investment return almost half of India's.
- Investment returns should be higher for low-income country (bar corruption and other risks) but not in Nepal.

Misallocation, rather than low investment, is a more pressing issue.



Source: World Bank

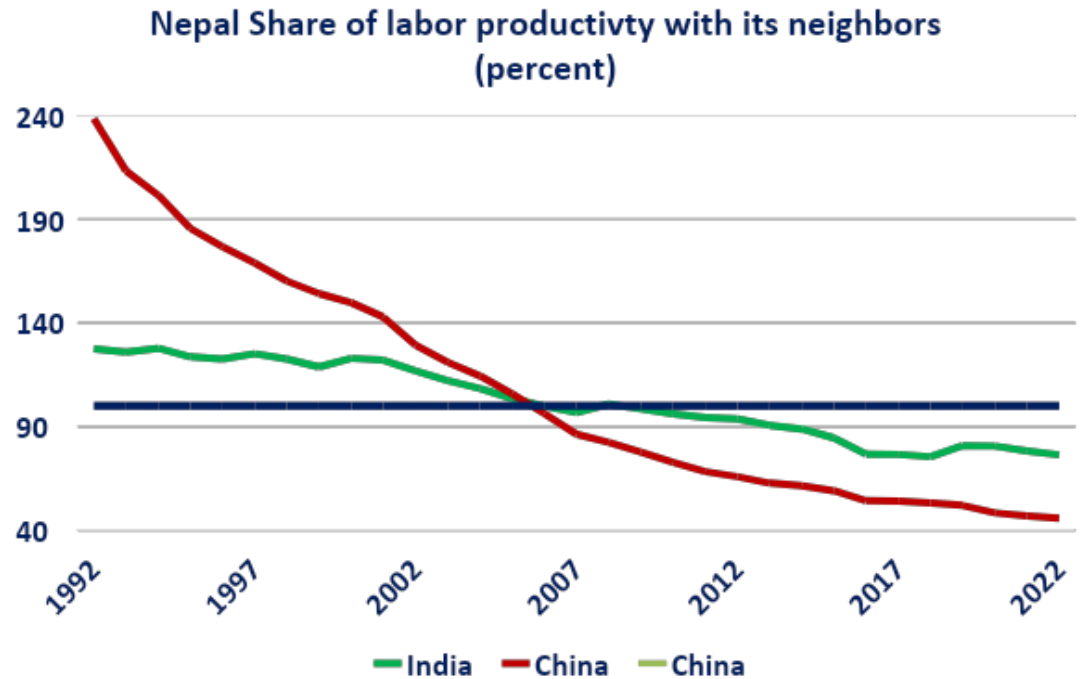
- **Land:** either abandoned or one of the most expensive places in the world.
- **Natural beauties:** underrated because of bad physical infrastructure.
- **Just take an example of electricity,** the most-hyped “hydro richness” of Nepal.



Source: National Statistics Office, National Population and Housing Census, Nepal, 2021

A typical Nepali worker produces a lot less than Indian and Chinese counterparts

- Labor productivity (output per worker) of a Nepali worker is declining rapidly.
- In 2022, it was 45% of a Chinese, and 76% of an Indian.

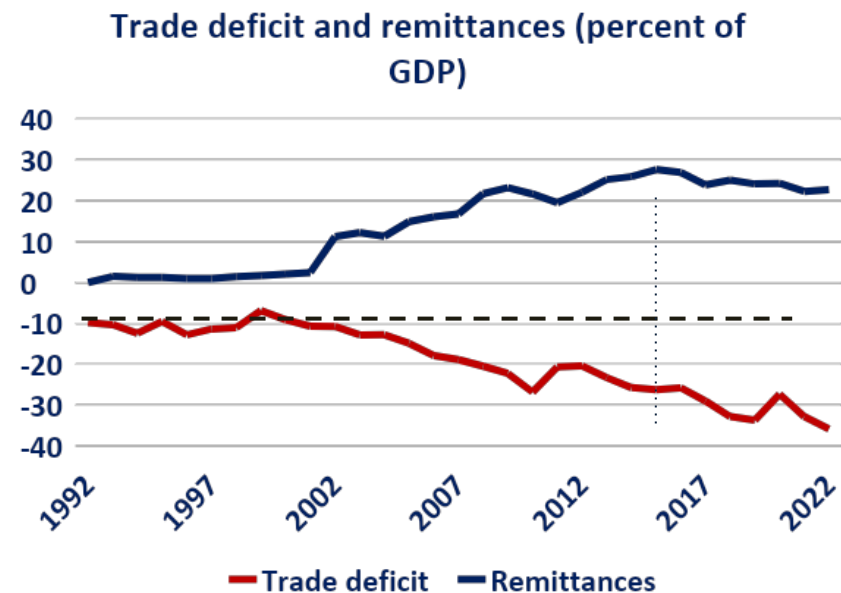
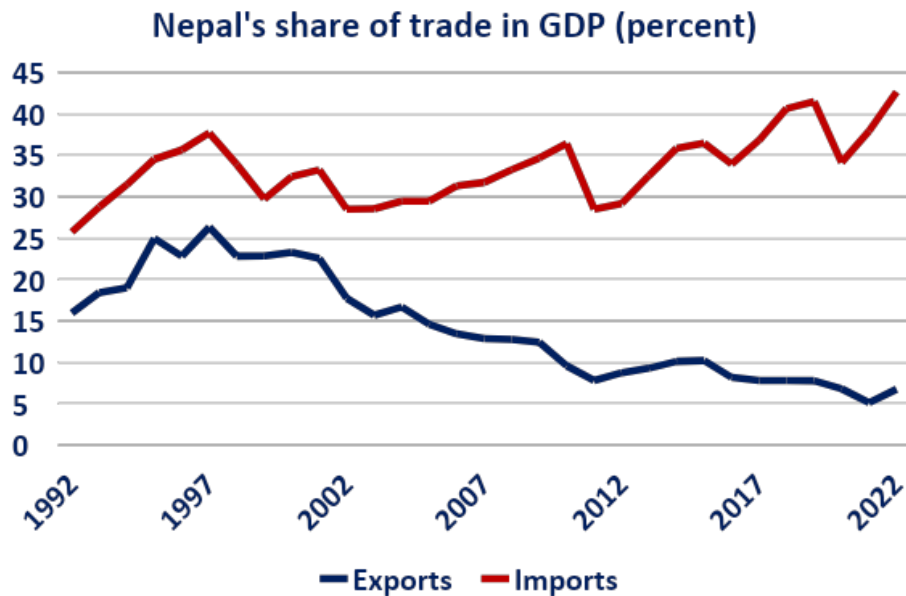


Source: World Bank

One reason for falling productivity is that ideas, pedal of productivity growth, are hard to find in Nepal.

- **Countries that generate new ideas have smart workers, vibrant entrepreneurs and world class companies.**
- **That is what China and India have.**
- **But Nepal does not have absorptive capacity—skills to understand the existing blueprints—even to adapt new technologies let alone innovate.**
- **Entrepreneurship is unheard of: How many rich people in Nepal have been rich because of their entrepreneurship?**

Nepali companies have no presence in the foreign market, a place that would have made them more productive.



- **Poor countries that have developed has done so thru exports.**

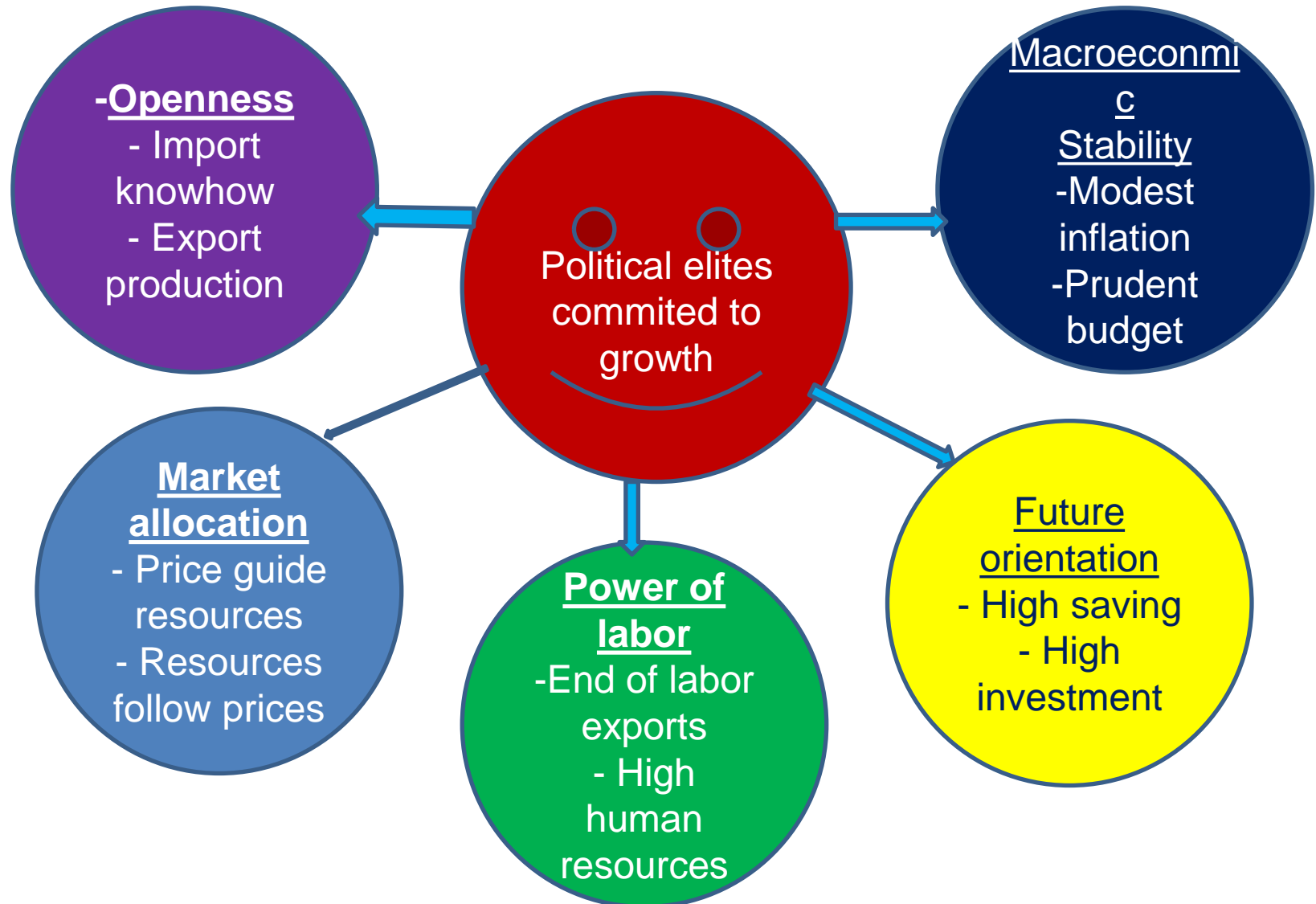
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We may not know fully why growth has been illusive, but we do know at least partly why.

- **Is it our history?**
- **Is it our geography or destiny?**
- **Is it our culture?**
- **Is it our lack of purpose?**
- **Is it policy-induced?**
- **Is it lack of motivation?**

Globally, the success stories command six characteristics and Nepal has none of them because of policy mistakes.



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Conclusions

- A nation's utmost objective is to achieve higher standard of living for its citizens, and in it, Nepal has failed throughout its history.
- The failures are overwhelming; all pillars of prosperity are severely weakened by anti-growth policies.
- Yet, it is a taboo to talk about economic growth, the most pressing issue.
- None of the political parties have good ideas.
- Make no mistake, the key to Nepal's prosperity belongs to Nepal.
- But prosperity is possible only if the political elites get serious, a big IF.
 - Country with an unshakable commitment of its political elites has attained prosperity, whereas country lacking it has not.
- With a Hope that there will be a genuine quest for prosperity among elites, I make the following policy recommendations as a start.

Policy suggestions, given there is motivation to be prosperous

- **Start rule of law**
- **Eradicate the deprivation of two Es (employment and education)**
 - Make job creation a top government's priority
 - Transform the public education from a symbol of despair to a beacon of hope
- **End the present trend of wealth transfer and promote wealth creation**
 - Discourage real estate speculation
 - Raise public investment to at least 8% of GDP and put it on infrastructure
- **Aim to be in par with our friends, Indians and Chinese**
 - Produce graduates that are as good as Chinese and Indian counterparts
 - Aspire to win the Chinese and Indian markets, not their foreign aid

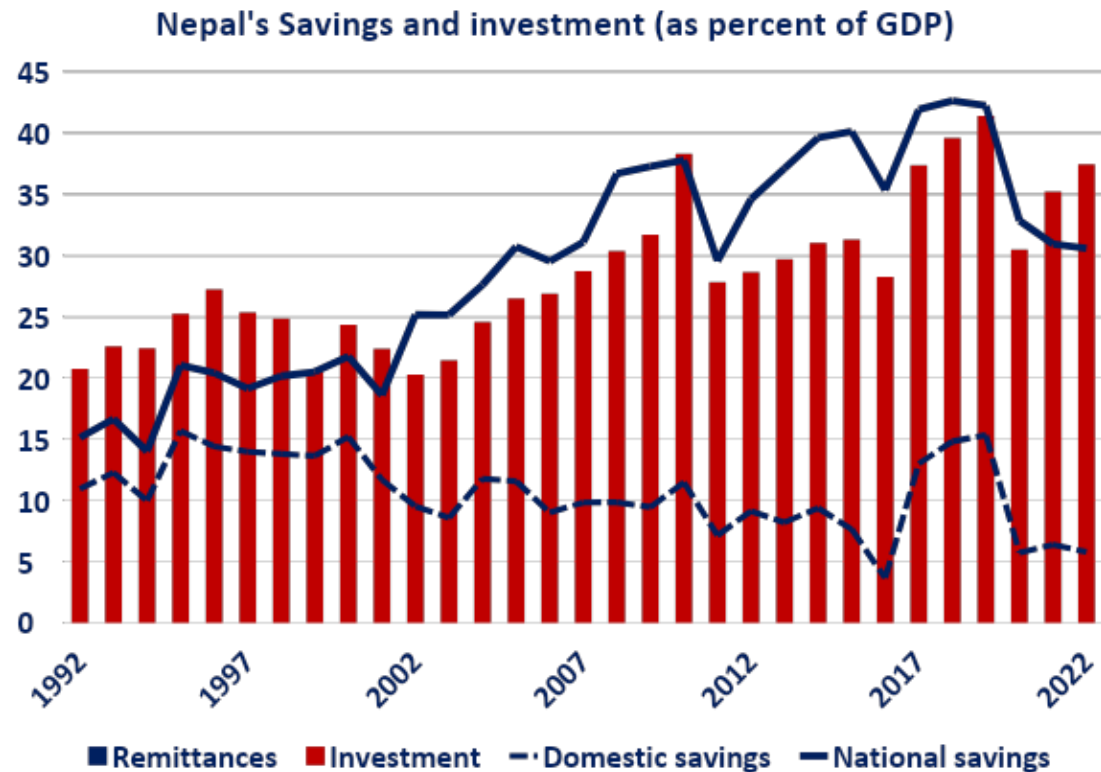
Policy recommendation cont.

- **Focus on export and agriculture**
 - Tie potential government support to companies' exports success
 - Tailor banking loan and investment towards increasing agricultural production and exports
- **Make it loud and clear that private sector, not the government, is the main engine of economic prosperity.**
 - Maintain business climate
 - Let market work in all sectors except in non-university education and health
 - Promote competition including free entry and exit (eliminate syndicates)

Thank you!

- A large part of national saving is not invested but used to buy real estate (wealth transfer not creation).
- Whatever is saved, bad policies divert it into unproductive sector.

Investment comes not from domestic saving but from remittance and borrowing.



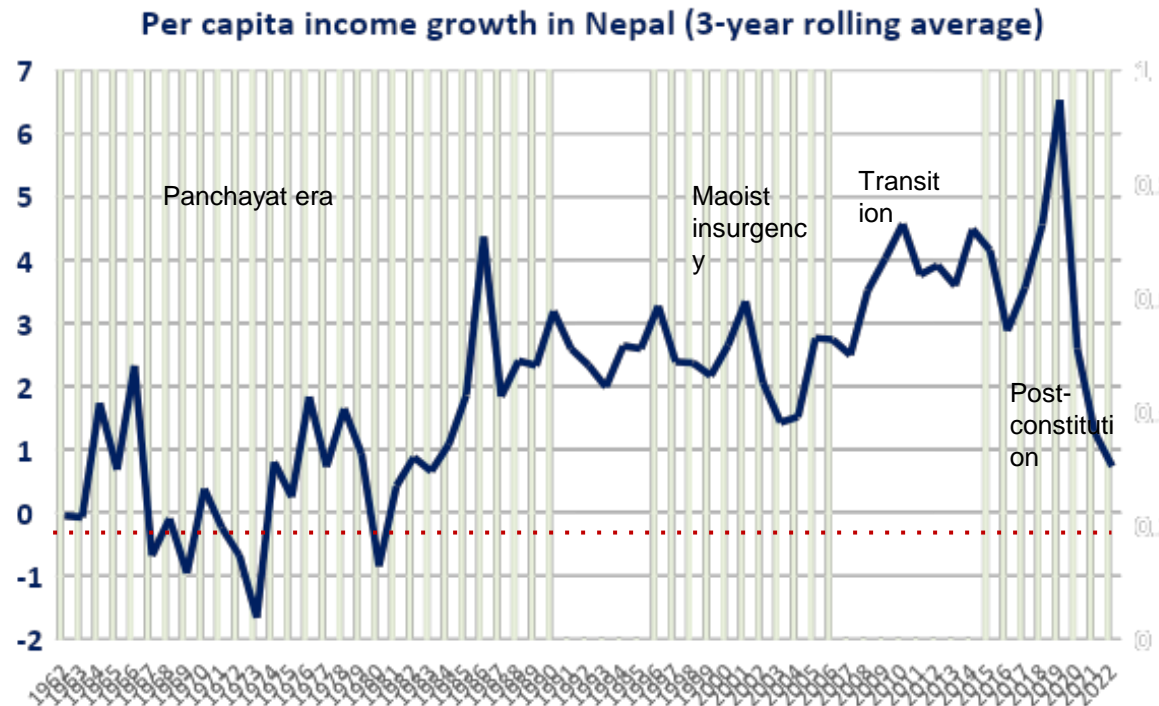
Source: World Bank

But Nepal has the potential to be a prosperous nation.

- **Past glory**
- **Unused labor and migrated workers**
- **Eager to learn youth**
- **Majestic natural beauty**
- **Abundant water**
- **Surrounded by friends; two large world markets**
- **Blessed with enduring people**
- **Somewhat settled political equilibrium**

Nepal has never got any growth momentum in history

- The more recent decades look slightly better but these were overall globally high-growth period.



Source: World Bank