

ISAS Brief

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Can One Still Do Business in Nepal?

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The most critical question that comes to the mind of any businessman hoping to venture into Nepal at the present time is: “Can I really do business in Nepal?” This was the sentiment echoed by members of the Singapore Business Federation (SBF), the Institute of South Asian Studies (ISAS), the Singaporean business community and Ambassador Gopinath Pillai, Chairman of ISAS, in his opening address during a workshop organised by the SBF to showcase Nepal on 9 June 2009.

We keep watching and reading about various setbacks in Nepal such as the protests, the obstruction of the Parliament, the recent walkout by the Maoists from the government and the establishment of a new coalition government. These events make one wonder if Nepal really is a safe place to travel to, let alone do business in.

Although we have experienced a 12-year conflict-ridden environment, I must say that the economy, to a large extent, has remained on track during this period with an average growth rate of three percent. In fact, following the peace agreement which took place two years ago, we have seen an unprecedented pace of widespread development in Nepal, with the rate of growth increasing to 5.6 percent in 2008.

As a consequence of the conflict, there have been some critical departures and structural changes, both on the economic and social fronts. One key development was the abolition of the 240-year old monarchy and the birth of a new republic. This transition marked the beginning of a new era for the country and its development.

Just a New Nepal or an Economically Vibrant Nepal?

When the Maoists started their revolution, they spoke about the creation of a “New Nepal”. At that time, the Nepalese business community questioned the Maoists about their definition of a “New Nepal”. Would it be an “economically more vibrant Nepal” or a Nepal which would once again face some of the dilemmas born out of the age-old orthodox conviction of a communist state? These were crucial questions in determining the future direction of the country.

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The Nepalese business community, on its part, engaged the Maoists in dialogue over a period of two years even before the latter joined mainstream politics. Furthermore, it was pleased to learn that the Maoists were prepared not only to enter mainstream politics but also support the economic agenda proposed by the private sector.

In this context, the Confederation of Nepalese Industries (CNI) put forward an economic agenda for “Double-Digit Growth” right after the Constitution Assembly elections. In fact, the inauguration of Nepal’s Economic Summit, which was planned, designed and organised by CNI, was the first formal programme which then Prime Minister Pushpa Kamal Dahal (also known as Prachanda) addressed. This Summit provided an opportunity for the participants to discuss business developments; a plan to achieve rapid, inclusive and sustainable economic growth; and bring about a change in the social agenda.

The Economic Agenda and the Challenges

The last government, led by Prachanda, came up with a clear set of guidelines to achieve a 10-percent growth in Nepal in three years’ time. This requires investments of between 175 billion Nepalese rupees (close to US\$2.5 billion) to 400 billion Nepalese rupees (close to US\$5.5 billion). It means increasing the total investments by over twofold.

To achieve this, Nepal needs a political and economic system which is functional and disciplined. It also needs to be effective in dealing with some of the core issues in the society, in particular, the Maoists, who have always remained outside mainstream politics. The social agendas have to be appreciated, understood and adopted by the people at large, while the Maoists have to show the same commitment towards Nepal’s economic agenda – which deals with the liberal and market economy.

The international business community needs to be given the confidence and comfort that its investments will not only remain safe in Nepal but will grow and give much better returns than Nepal’s neighbouring countries. This is not an easy task.

During the Maoist-led government, then Finance Minister, Dr Babu Ram Bhattarai, clearly defined the direction for growth which was built into the budget. There was a 40 percent growth in the revenue and taxes collected last year. The success of the collection which, by and large, was carried out without the imposition of unreasonable or unsustainable taxes on the people, was due to better compliance. Finally, there was a sense of discipline in the system.

In the Parliament and Constituent Assembly where I take office, almost 500 out of the 601 members belong to communities which previously had not been integrated into the national economic and social mainstream. Social integration in this context refers to the provision of education, healthcare, employment and, above all, food and shelter. These people have been left out of the socio-economic and political system and have been victims of Nepalese politics. However, they have finally their legitimate place in the nation’s polity. I am convinced that no one can make this 50 percent of the Nepalese community revert to their previous condition. The state will have to support the legitimate expectations of these people and give them quality education so that they can engage in healthy competition with the rest of the society.

The Global Economic Meltdown vis-à-vis Nepal

When the economic downturn began in September last year, everyone in Nepal was worried because there are two million Nepalese working in different parts of the world and they remit US\$3 billion annually. This is part of the reason why we have a Balance of Payments surplus and that is what has kept Nepalese industries floating and markets growing.

There are sometimes benefits of not being so closely integrated with the world economy – this is precisely what has happened in the case of Nepal. Surprisingly, we saw an increase in foreign remittance rather than a decrease. With Nepal being a low-cost, inexpensive destination, we were able to maintain the flow of inbound tourism in the country. The stock market continues to remain strong and vibrant, as does the real estate market. The enthusiasm of investors remains at an all-time high.

Future Plans and Requirements

I have received much advice in the course of my interactions with SBF, ISAS, Singapore Indian Chamber of Commerce and Industries, and other organisations in Singapore that this is probably the best time for Nepalese companies to promote collaborative efforts with Singapore. Singaporean companies are looking for new countries and opportunities, and Nepal has liquidity, untapped potentials and the will of the business community to grow. In addition, Nepalese businessmen have demonstrated that they are a highly resilient group.

What are the areas that Nepalese companies are keen on?

- We are seeking human capital, technology, new ideas and credible companies to work with us in developing Nepal's infrastructure. This is going to be the next single largest priority for Nepal.
- We have to construct a new airport, highways, new railway linkages and dry ports. More importantly, we have to build special economic zones to attract not just investments, but also technology, brands and managerial skills. If the Nepalese government invites the private sector to come in and take over the management of Tribhuvan Airport (Nepal's only international airport), and build another airport outside the valley, and if a company such as Surbana plans, develops, and handles the construction management, with a company such as Changi Airport to operate it, it would prove to be a profitable business partnership because these companies have an impressive track record and an international reputation.
- For the first time in Nepalese history, over 2000 MW of hydropower projects (in the nine months of the Maoist rule) were granted, and survey licenses and a substantial number of Power Purchase Agreements were signed. Now, hydropower projects totalling 7,000 MW are on their way to being licensed.

Nepal has the distinction of remaining on the path of economic growth despite a highly charged political environment. This has been possible because of the deregulation and emancipation of the private sector-led economy which started in 1990. Currently in Nepal, there is a new social agenda with a national consensus. The direction cannot change.

Regardless of who presents the budget – Dr Bhattarai, Surendra Pandey or Binod Chaudhary – the key components of the budget will remain unchanged. The budget has to address the social agenda, which has more or less been fixed, and it has to address the reconstruction of major infrastructure, for which the projects have been identified and the priorities set.

Of course, there are structural and institutional problems in implementing local development projects in Nepal. However, we have collected 120 billion Nepalese rupees in taxes. This is probably the first time that Nepal has seen a surplus resulting from total revenue and expenditure. Nepal has managed to be self-sufficient without borrowing funds or relying on donor contributions. Nepal is on track, and we have come a long way. The process was definitely painful, but I think it has begun to reap rewards.

Conclusion

The stage is set for the Nepalese economy to move in the right direction. However, in all honesty, the speed of its progress may be impeded by divergent politics which Nepal is trying to sort out in the present juncture.

There has been a lack of trust and confidence among the parties in the government and opposition. Some of them were not confident of the Maoists delivering the provisions of the 12-point agreement which included the return of private property, the containment of their unarmed forces, such as the Youth Communist League, and non-interference in critical institutions such as the army. Similarly, the other parties were unable to provide a sense of assurance to the Maoists that, even in the post-integration period of the People's Liberation Army, the Maoists would be safe and treated like the other members of the society. This crisis of mutual confidence led to the latest 'army fiasco', leading to the fall of the Maoist government in a completely untimely manner.

However, the good news is that everyone in Nepal believes that the need of the hour is to write a constitution that would create a positive environment in which the aspirations of the 30 million Nepalese, who have suffered for decades, can be addressed. For this, all Nepalese will have to work together as we did against the erstwhile regime with the help of the seven parties, the Maoists and the international community.

There is, therefore, no option but to bring together all the stakeholders. And they will have to agree that Nepal's national government must remain stable so that the social and economic agendas are implemented and the constitution is written.

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