

E-Seminar Title: First NSC E-Seminar No 1, 2007: The State's Role in Private Sector Development in New Nepal

Subject: Designated Discussant's Comment on Ms. Mallika Shakya's Paper

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The paper's philosophical foundation is 'Socialism' of the west especially those of Nordic and Continental Europe and fond kid of the developing countries. The socialist in Nepal propound that these countries have reached this level of development through socialism but forget that the foundation of their development was laid by innovative entrepreneurs of the 18th and 19th centuries under capitalism. Modern day socialism in the west has restricted the growth in the developing countries through protectionism, control on free flow of goods, services and manpower globally. While talking about PSD someone should start with a notion of 'No Role of State in Private Sector Development'. States whether in developed world or under developed are there to coerce but not to develop the nation. In a typical developing country like Nepal policy interventions are translated into permissions, license, quota, cartel etc. Implementation of these will become paradise for the nexus of 'politicians — bureaucratic and business people' for corruptions and distributing favors to their kith and kin.

Shakya is in favor of two concepts for New Industrial Policy for Nepal: SEZ and Export Promotion Agency (most probably: in Government sector!). The experiences of SEZs have already proved that they are not effective in a highly regulated and protected economies like: India in 80's due to bureaucratic hassles and they are of no use in an open free economy, Switzerland does not have any SEZ and Hong Kong and Singapore did not care about these. For a country like Nepal which does not have substantial industries to protect can turn the whole country as SEZ by applying a single rate of 5% tariff on all imports (Nepal has about 10% average tariffs now). Industrialists in Nepal in private conversations tell that the costs involved in getting duty draw back is more than 10% of the amount depending on its scale. ..They are more than willing to pay 5% tariff rather than wait for more costly duty draw back system. Marketing is a very skilful profession which needs involvement of highly motivated individuals. Marketing in foreign countries (exports) is still more demanding and costly. How lowly paid government appointed officials of Export Promotion Agencies can sell domestic products in international markets.

Shakya emphasizes government to focus on labor intensive policy. For an economist point of view there are only two types of technologies: efficient and inefficient. Any technology which uses more resources (capital or labor) for per unit of product than its competitors is inefficient. If the market is distorted by foreign exchange controls, restricted labor laws then government needs interventions for labor intensive policies, if left without such market distortions then entrepreneurs themselves will use more labor if it is less expensive than capital.

In Nepal today we have lot more leftists available than necessary. Out of 8 parties active in Nepal 6 are declared communists and two dream that only Socialism can bring prosperity here. The dose of extra state interventionist policy will be too much to swallow for a liberal who believes only one system of: individual liberty, limited government and true decentralization. The miniscule of liberals in Nepal have to work hard to face the attack from the Nepali left in the west: especially from the "Full Bright Marxist" and "Keynesian Left". Forget about attack within Nepal.