

CONSEQUENCES OF THE MILITARIZED CONFLICT AND THE COST OF VIOLENCE IN NEPAL

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Three days after the gruesome assassination of the Inspector General of the Armed Police Force, Krishna Mohan Shrestha, the Government and the Maoists separately announced the 'cease-fire' for the second time on January 29, 2003. Till that day, the violent domestic upheaval had claimed nearly 8,000 lives. Of these perhaps 80 per cent of the casualties of violence was the civilians rather than the armed combatants. If one were to define this conflict in accordance with the international parameter of civil war averaging the death toll of 1,000 persons a year, the Nepali situation confirms to this pattern.

The observation made by the former Secretary General of the United Nations, Boutros-Ghali rings true in this context when he says the "fierce new assertions of nationalism and sovereignty" accompanied by the "new assertions of discrimination and exclusion," (Boutros-Ghali 1995) have added complexities in internal dispute settlement by transforming the characteristics of domestic conflicts with devastating consequences caused by violence, massacres, human rights abuses, mass population exodus and disruption of socio-economic bases threatening the state structure, thus inviting repression by military means. The repressive measures that the governments have taken have multidimensional impact on the societies in question. The security first decision taken by the governments has, on the one hand, feed the interests of security sectors and the associated agencies in both quantitative and qualitative increase in armament and, as a consequence, their influence in national decision-making process. Such a process, in sequence, encourages militarism impacting on the social sphere and disrupting democratic process.

Advocacy for sharpening of the military edge has discouraged the demands for basic needs, on the other hand. Social sectors are denied their claim for development with the argument that development cannot occur without defence. Though violence is directly related to political structure of a given state, its severe impact on society and development is glaring as a consequence of the state's reaction to the challenge. Socio-economic decline is one of the noticeable effects caused by the violent conflict as the transfer of resources to security needs of a state becomes the policy imperative. The profound search for security of the regime leading to the state sanctioned violence, in other words, increase in the structural violence, would not only be expensive as well as destructive but also would be ineffective as resistance and reaction to state reprisal grow. The forced closure of hundreds of schools in Nepali villages and development works with government's diversion of funds to security needs is an example that militarization can set and burgeoning domestic conflict costs. The fall out is obvious. Social cleavages would further develop and conflict ensues. When the governments insure violence through militarization, the insurgents transform themselves to terrorism moving targets from forces of repression to innocent civilians and infrastructure destructions. Despite its different facets and definitions, terrorism has been most pertinently defined by Carr as the "warfare deliberately waged against civilians with the purpose of destroying their will to support either leaders or policies that the agents of such violence find objectionable" (Carr 2002: 6).

The Maoist insurgency in Nepal has created ruptures in society, economy and politics. The conflict unending has not only proved the inefficacy of the Nepali State in managing the challenge but also exposed the institutional fragility of the State in coping with disorder with rising cost of conflict. Along with the intensification of the violent conflict has intensified the enormity of cost as a premium. And when the conflict is not limited to the combatants and the State is razed as a battlefield, assessing the impact of the conflict and estimating the cost becomes difficult. Though the economic cost of violence can be quantified, the human and social costs and the psychological trauma of the people can never be really assessed properly. The problem of verification even in the case of estimating economic cost remains in a data scarce or an information lapsing country like Nepal. Some scholars have suggested certain measures to estimating costs of violent conflict (e.g. Arunatilake et al 2000; NPCS 2001; Kelegama 2002), and sensitized the issue for serious consideration by

countries engaged in domestic conflicts.¹ Their works have drawn increasing interests and attention towards studying the socio-economic effects of violent domestic conflicts particularly in South Asia where social science studies on such aspects are still in infancy.

The discussion below can thus be considered an exploratory attempt to contextualize the case of Nepal in understanding the socio-economic costs of violent conflict. This is only a preliminary and provisional assessment reflecting on the costs of violent conflict in Nepal rather than a comprehensive scientific assessment on the subject in actualizing the losses. In order to understand the issue, the paper begins with a brief overview of the context leading to the Maoist insurgency and militarized conflict in Nepal. Following this, the consequences of violence are assessed. Third, the cost of violence would be appraised within the framework of the direct, indirect and long-term cost categories. This will follow by some preliminary estimates of the cost of violent conflict. Finally, the paper will assess the total estimated costs and conclude with some observations.

Overview of the Situation

Situated landlocked in the high Himalayas with high a cost economy Nepal is identified as one of the least developed countries in the world. Constitutionally, Nepal is a declared Hindu State but with a multinational society. Out of 23.15 million populations that the 2001 census has recorded some 80.6 per cent is Hindu and 10.7 per cent Buddhist with 4.2 per cent Muslims, and other minority religious groups (NPCa 2002).

Traditionally, the country is a monarchical state where the institution of the Hindu monarchy remains above the law of the land. Social system following the Hindu ethical code is thoroughly discriminatory. Caste has become the socially dominant phenomenon and an exclusionary social institution in the construction of social hierarchy restricting claims to social opportunities by those considered low caste, impure and untouchables in the social sphere. Social exclusion, therefore, is chronic and all pervasive. On the other hand, patrimonialism functions unassailed despite the political change from absolute to constitutional monarchy. The institutional role of the State has continued to be monopolistic by design. Social opportunities are denied to the majority and concentrated in the hands of the minority with the mode of social relationships based on patron-clientele system. The

multiparty polity in the post-1990 period had reinforced this embedded social structure rather than discouraged it (Kumar 2001).

At the functional level, the economy of Nepal stands at the margin. Gross Domestic Product slumped to a negative growth rate of - 0.5 per cent in 2001/02. The Central Bureau of Statistics has computed the negative trend in the growth rate as being dismal at 0.43 percent in the first 8 months of the fiscal year 2002/03 (Himalayan Times May 15, 2003). Dependency on the external sources has increased in terms of aid and loan. Foreign Direct Investment (FDI), on the other hand, decreased simultaneously with the challenges facing the State. In 2001, Nepal received \$21 million FDI, which is down by more than 50 per cent in 2002 at \$10 million. The poor showing of the FDI is one of the direct consequences of the opportunity cost lost. Per capita income, on the other hand, remains at \$236. But the income inequality has widened sharply between the urban and rural population. According to the data available for the year 1997, Nepal's average per capita was \$142 with a regional variation of \$298 for urban areas and \$131 for rural areas. The people living in Kathmandu – the capital of the country – had a per capita income of \$446 compared with \$146 in Eastern Tarai, \$110 in Mountains, and \$107 in Western Tarai. The bottom 20 per cent of the household in Nepal then received only 3.7 per cent of the national income, while the top 10 per cent had a share of nearly 50 per cent (NSAC 1998:114). The rampant poverty coupled with the high illiteracy rate, unemployment, gender inequality and deprivation feature the part of structural violence. As basic necessity to the people is denied, social vulnerabilities have added to the condition of human insecurity. The festering problems of poverty and social inequality have further damaged the national ethos.

Politically, the Nepali State is juxtaposed between the pulls and pressures of systemic change caused by democratization. Demands channeled by legitimate forces were hardly met. Despite the reform measures undertaken by the governments in the socio-economic and political spheres, their behaviour betrays their commitments. Instead, corruption and incompetence marred the political system. The third largest political party represented in the House of Representatives between 1991 and 1994, the United People's Front (*Samyukta Jana Morcha*) – the previous incarnation of the Maoist Group – had submitted a 40-point demand related to nationalism, public welfare and people's livelihood to the government on February 4, 1996 with the ultimatum of otherwise

launching a movement in case the government fails to respond (UPF Demands 1996). These demands were put to the government against the background of the State suppression through 'Operation Romeo' in September 1995 against the activities of a faction of the United People's Front who were declined to be given the recognition of being a political party, thus, denied participation in the 1994 mid-term elections. In May 1998, the Kilo Shera II police operation invited fierce resistance and retaliation by the Maoists. But they had not disturbed the national election to proceed on schedule in 1999. Subsequently, despite the imposition of national emergency and the counter-insurgency mobilization of the armed forces, the democratic governments had largely failed to contain the spreading Maoists' violence. Ultimately, as the caretaker government under the democratic political dispensation could not hold the national elections for the House of Representatives as stipulated in the Constitution 1990 due to Maoists' violence, the king reasserted the executive power of the State by dismissing the government for being "incompetent" on October 4, 2002. The consequence obviously is that not only has the Maoists' insurgency destabilized the Nepali State, it has but also destroyed the democratic polity established after the successful *Jana Andolan* of 1990.

The Nepali State, thus, has failed both in its institutional and functional roles. Statism is generally premised on the concept of three integrative functions: security, representation and welfare. In neither of the institutional obligations of the State, Nepal has qualified its existence in the domestic sphere, except from being able to carve the recognition from the Westphalia international system. Functionally, with depleting resource base and diminishing productive capacity, Nepal has become a classic case of the rent-seeking state as its vulnerability related to economic survival is conspicuously pronounced. In this sense, Nepal remains a traditional state that do not govern but control through coercive measures in which the "state [is] triumphing by the hands of executioner" (Sorel 1941:121).

Within the past decade, Nepal's image from a peaceful, though, a poor democratic country has changed dramatically. Central to this change has been the violent upsurge of the Maoists that has encompassed the country totally. Power politics that the democratic competition fostered had led some of the major political parties to name the Maoists as the friendly forces and had lend them both moral and material support till their cadres were made the targets of the Maoists onslaught. The Maoists were also thought to be an extra source to balance the party politics and

electioneering process – particularly in the 1997 elections to the local bodies – and turn the results in one's favour. The mess that the politics created has led to enhance the Maoists' resolve.

The violent spread of the Maoists' movement can be described in three phases: *Phase One* – February 1996 to July 2001 (before the truce I), *Phase Two* – November 2001 to January 2003 (before the truce II), and *Phase Three* – after truce II. Beginning with a political demand for restructuring the State, the Maoists movement has entered the intensified guerrilla war with numerous districts in Western Nepal under their control by expanding base areas, forming "people's governments," and ultimately instituting the United Revolutionary People's Council with the leadership of Babu Ram Bhattarai to govern Nepal under the "Naya Satta" (new regime). Although the Maoists have yet to establish their firm roots with control of any territory inside the country, they had been given the benefit of doubt of having a new regime with the People's Army by the Chand government while negotiating for the "cease fire" of January 29, 2003.

During the phase I, despite the governments' restraint, reaction and reprisal of the Maoists' activities, the State remained uncertain on the question of dealings with the growing menace. Though the parliament had tried unsuccessfully to adopt the anti-terrorism law on several occasions, the public pressure and political opposition had averted the attempt. Commissioning of the studies on the Maoist problem had produced reports; particularly the Dhimi Commission report in 1997 had recommended political initiatives for the resolution of the problem peacefully (Dhimi Commission 1997). Another report prepared by the Deuba Commission in 2000 had likewise stressed on negotiation urging the government to create conducive environment for talks (Deuba Commission 2000). On the other hand, governments since 1997 had considered the use of the force but to no avail. Despite the attrition of the civil police forces, the governments thus were undertaking a policy of appeasement towards the Maoists and bring them to the negotiation table. In July 2001, through a dramatic turn of events leading to the resignation of the Prime Minister Girija P. Koirala² (Rising Nepal, July 20, 2001), the Maoists agreed to a truce with the successor government led by Sher Bahadur Deuba even before the new prime minister had taken the oath of office.

Phase II was followed by the failure of the three rounds of negotiations subsequently held after the announcement of the truce I on July 23, 2001 (Rising Nepal; Dristi Weekly, July 24, 2001). The issues in contention

were the Maoists demands for the (1) announcement of an interim government, (2) election to the constituent assembly, and (3) institutionalized development of a republican system (Kumar 2001). Although the government had recognized the Maoist as a political force to negotiate with, it had however refused to budge. The government had conveyed its position on monarchy and multiparty democracy as non-negotiable that led the Maoists to withdraw from the talks and resume violence by striking at the military garrison. Consequently, the government had declared the state of emergency, announced the Maoists as terrorists, adopted the anti-terrorist act and released the military from the barracks for counterinsurgency mobilization.

Another turn of event led to the truce II. The king's assertion of the executive power of the state on October 4, 2002 has led to the emergence of dramatic personas in the Nepali political scene. Though the political context has become triangular between the king, the dismissed political parties upholding the constitutional order and the Maoists bent to destroy the old order represented both by the monarchy and multiparty democracy, the pairing of them representing diverse ideals proved difficult. These three groups in the triangle remain uncompromising.

Although the king and the political parties have upheld the virtue of the constitutional monarchy and multiparty democracy, divergence of views on the constitutional context remains. The parties believed that the king had overstepped his constitutional role by asserting the executive power and favoured reinstatement of the dissolved parliament as a compromised position. The king, on the other hand, intends the political parties to remain subservient to his will through the practice of 'guided democracy.' Yet the political parties have shunned the Maoist violence and have not bought the Maoists' proposal of dethroning monarchy. Political parties that remain the only constitutional and legitimate force in the triangular context for political power and democratic order have apparently lost the contest at the moment as they represented only the power of the silent majority of the people, not the power of the coercive forces controlled both by the king and the Maoists. The arrogance of power cushioned by the forces of violence has led the government appointed by the king to withdraw the terrorist tag, red corner notice and bounty from the heads of the Maoists as *salami* to bring the Maoists to the negotiation table through separate statements announcing the truce on January 29, 2003, throwing the political parties at the margins.

The truce II begins the Phase III leading to the adoption of the code of conduct by the protagonists and the two rounds of negotiations under the Chand government appointed by the king. However, the controversy over the agreed decision on confining the military within the five kilometers of the barrack came to the fore as a member of the government negotiation team publicly disputed the agreement and the army defied the decision. Subsequent to the controversy Prime Minister Lokendra Bahadur Chand resigned (dismissed) from his post and Surya Bahadur Thapa has been appointed by the king as the new prime minister on June 4, 2003. This change in the government did not change the issue. Adherence to the previous commitments remains the Maoists' precondition for a deal. The national trepidation continues.

Between February 1996 and the first half of 2003, Nepal has been in the midst of devastating crisis that has increasingly threatened to tear the country apart. Talks initiated by the parliamentary government previously broke off due to the absence of an overall strategy on the part of the government in 2001. Following this, the government took a number of measures to increase security; for example, emergency was imposed, anti-terrorist law adopted, military mobilized and parliament dissolved to sidestep legislative hurdles. Despite these efforts to bolster the government's military policy to crush the Maoists, insurgency grew by leaps and bounds. Rising death tolls of the 'Maoists' caused by the indiscriminate killings by the security forces who were provided impunity by the anti-terrorist law, however, did not compensate for the loss of face of the government concerning human rights of the citizenry (AI 2002). The government has lost administrative control of territories even in some district surrounding the Kathmandu valley only with its weak and symbolic presence in the district Head Quarters. Leading to disintegrating civil order, the horrendous level of violence has contributed to social chaos. Continuity of this trend would certainly make Nepal a classic case of a failed state that apparently has already occurred with the collapse of the state authority³ (King and Zeng 2001: 625).

Consequence of Conflict and Violence

Nepal had previously experienced rebellions and violence in history. The case presented by the Maoists insurgency is, nevertheless, overwhelming and unprecedented in consequence. This long festering violence initiated by

the non-state actors has created a tremor in the national life. This conflict has a widespread impact on the people in unnerving them with growing sense of vulnerabilities and insecurities, despair and hopelessness, which is compounded by the failures of successive governments to assure the people of their safety. Contrarily the senseless measures that the governments have taken in the name of security have further harassed the people on the roads and pavements, and at homes through mid-night knock at the doors. There is no legal redress to the people arrested, kidnapped, killed and disappeared. Thus, the political, social and legal rights of the people have eroded sharply as civilians have become the suspect in the eyes of the State in uniform.

The Nepali people have supported the government's anti-terrorist resolve expecting the rule of law to prevail. People are now thoroughly disappointed because the government has used terrorism as a façade to overcome all the likely oppositions to its policies and practices. Though the government has taken multifaceted measures to face the terrorist menace, the priority, however, has shifted to the militarized approach in resolving the conflict. The large-scale funding of the security forces, despite its abysmal human rights record, is evidently an aid to the militarized approach. The continued strengthening of the security forces in effect sanctions the abuses. Military actions and collateral damages have increasingly become permissible as conflict ensues. Despite the prescient warning (Kumar 2003) against such a policy, the government is preparing to inflame the conflict as the global "war on terrorism" has assured of its needs.

Second, the military has obtained a considerable leverage against the government by dictating its terms of engagement in the domestic conflict. This has happened because of the weakening of civil authority at a time of political crisis confronting the violent conflict. Due to the inter-and-intra-party rivalries, the political leadership was badly split and the competence of the government to cope with the violent challenge was severely undermined, as the army under the supreme command of the monarch was demanding for a national consensus to get mobilized. Evidently, both the Home Minister and the Prime Minister had lost to the army in the contest for civilian supremacy and the military subordination to the elected authority.⁴ The unprecedented challenge posed by the violent domestic conflict, however, brought about the military into prominence with the collapse of democratic authority. Under the monarchy, the army has

become the sole arbitrator of national policymaking in determining the course of actions against the Maoists.

The situation, thus, has exposed the institutional inefficacies of a decadent state by throwing the government into wilderness. The government has expanded its roles subscribing to the recommendations of the security forces and currying favours from the advisors on counter-terrorism activities, which obviously is a synonym for state terrorism. The part of the problem is such that the networking of the state in its anti-terrorist drive has instilled an intensive fear of impending harm and inscribed torture and even death in the general psyche of the people. Another part of the problem is that it is not necessary for the state to demonstrate credulity in the exercise of meeting its political ends through naked violence, but through subtle means applied with politically convenient measures in discouraging opposition to the government's position.

Third, the political conflict has given a lease of life to the bogus people to bounce back to the central stage of national politics as patrimonialism writ large. This is the case reflecting on the unintended consequence of radicalism promoting conservatism and encouraging political right in making democracy an expendable commodity. Violent conflict in Nepal has damaged the political ethos with severely undermining democratic practices by forcing governments to rely heavily on security forces and, in turn, overridingly influenced by the latter in the decision-making process. The impact of violence on political institutions and society is therefore considerable that cannot be statistically measured and economically explained.

Fourth, the violent conflict in Nepal has, however, become a war on national debilitation in economic term. Already condemned to live on the economic margin, the Nepali State has lost the capacity to cope with the stress caused by the violence. Losses of agriculture production, declining industrial outputs already running under capacity and the absence of labour caused the economy to slump. For example, the ferocity of economic effects caused by the Maoists' violent thrust has been recorded by a report based on the field survey of 53 districts in Nepal. It says about 427,500 landowning people throughout the country and more than 2.5 million persons from their homes are displaced. Almost 70 per cent of cottage industries in the rural areas are closed and agricultural production has declined drastically in the absence of labour forces of both sexes (CESOD

2003). Likewise, the Economic Survey 2002/03 has noted the disturbing economic scenario caused by the plights in the agriculture sector, which remains the backbone of the national economy (MOFa 2003). Decreasing exports and increasing imports even for subsistence has presented a chasm between the purported policy of economic development for arresting market and the state of underdevelopment in Nepal. The round about effects of the violence conflict thus is de-development of national economy requiring a long-term recuperating period.

Finally, the violence has disrupted social fabric. Dislocation and mass exodus of people from their domiciles swollen the number of internally displaced peoples (IDPs), some surviving on the Rs.100 a day dole provided by the government, and others waiting for the relief. Though the government has no accurate record of the IDPs, the data of some 2.5 million people displaced (CESOD 2003) are not disputed either. Of these forcibly ejected people, over 600,000 people had migrated to India by crossing over the open border. This is normal in the case of Nepal whenever troubles strike the question of survivability. On the other hand, crowding of the Kathmandu city and reports on the rise of petty crimes coupled with widowhood and orphanage are some of the grievous consequences of increasing social anomalies caused by the violent conflict.

Measuring the Cost of Violence

Simple arithmetic method is not followed while calculating the cost of conflict. As the cost involves the concept of Human Security, comprehending the dimensions of human cost of conflict is rather difficult. But for general understanding, three crucial elements are undertaken as explanatory tools to assess the cost of conflicts dividing these into direct cost, indirect cost and the long-term cost. The direct cost relates to the process of damages and destructions caused by the conflicts both in physical and infrastructure spheres and the consequent militarization of the social sphere incurring the high costs of armament and resources debilitation. The indirect cost incorporates the effects of the conflicts that will be assessed in terms of the loss of production, investment and capital flights, and income from the service sectors, etc. The long-term cost is the consequence of the first and second costs factored to aggravate the social, economic and political impact of the conflicts causing instability and uncertainty as well as decay in the institutional capacity of the democratic

state to sustain the process, as exemplified by the case of Nepal. According to some studies, the direct cost includes estimates for (a) direct government military expenditure, (b) opponent's [Maoists'] military expenditure, (c) government expenditures on relief services, and (d) the cost of lost infrastructure. The indirect cost includes (a) Businesses losses due to Maoists, strikes and bandhs, (b) lost income from reduced tourist arrivals, (c) lost earnings due to lost foreign investment, (d) lost income due to lost human capital of dead or injured persons, (e) lost income due to displacement, (f) output foregone [in the affected areas], and (g) lost income due to foregone public investment (Kelegama 2002; Arunatilake et al 2000). The discussion below follows accordingly.

While measuring the costs and the consequences of the militarized conflicts in Nepal, it should, at the outset, be noted that the infrastructure destruction caused by the conflicts cannot be valued only with a price tag because such damages and destructions, unlike in the industrialized and economically affluent countries of the West, cannot be repaired and recommissioned immediately for use and utility. Being underdeveloped area of the world the economic cost of the infrastructure damage could be low but can be unaffordable for both the state and society. Again because of the perceptual impact of the assaults on the infrastructure symbolizing the pride of the state could deeply become a factor in assessing the cost and consequence of damage or likely damage caused by the conflicts. For example, the case of the 9/11 that destroyed the twin towers of the World Trade Center in New York has led to international uproar against terrorism.⁵ A comparable but more significant case was the December 13, 2001 terrorist attack on the Indian Parliament in New Delhi, which, though, caused the war hysteria in India, was taken entirely in different perspective by the world. Thus damages caused by the Maoist insurgents in Nepal on a telecommunication repeater tower in some remote districts of the country could be valueless to the people of the world beyond, but for a country that has built the repeater tower with foreign aid and technology, its use value and utility cost is not less significant.

Direct Cost

Assessing the cost of conflict even in terms of the direct cost is certainly an uphill task. Because the methodology adopted to calculate the cost may vary sharply in each and every case. For example, Nepal, though involved

in several skirmishes and conflicts militarily internally, has yet to mention the military operation cost separately in the defence budget. The Nepali defence budget contains the gross estimates of expenditures for a fiscal year classified into service-wise and category-wise budget estimates. Allocation of budgetary resources for defence generally can be understood as indicator for security expenses. But these are moreover the maintenance cost expenditures of the armed/security forces rather than operation expenditures. Similar is the case with the paramilitary, police and other agencies tied to security. Thus, one has to rely mostly on the guesstimates to describe and determine the operational cost of conflict. For instance, the operational cost of conflict in Nepal is estimated at Rs.10 million a day since the declaration of national emergency on November 26, 2001. This operational cost makes up of supplies from food⁶ to fuel and special allowances to the security forces. But the amount cited could be a figment of expenditure incurred in reality. Reportedly, within the first month of military mobilization after the declaration of emergency, the national exchequer has to spend Rs.500 million more than the stipulated cost for counter insurgency by transferring 50 per cent of originally disbursed Rs.2 billion for the aid of Village Development Committees (VDCs) amounting to Rs.1 billion (Kantipur, January 26, 2002).

Table 1: Defence Expenditure 1991/92 –2001/02

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Based on Budget Estimates											
Def. exp. as percentage of GDP	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.1
Def. exp. as percentage of total government exp.	5.4	5.2	5.3	4.5	4.3	4.2	4.2	4.3	4.5	4.3	4.5
Based on Actual Estimates											
Def.exp.as percentage of GDP	1.0	1.0	0.9	0.9	0.9	0.8	0.9	0.9	0.9	0.9	1.4
Def. exp. as percentage of total government exp.	5.6	5.6	5.6	5.1	4.6	4.6	4.6	5.0	5.3	4.8	7.0

Source: Based on the Expenditure Allocation Books popularly known as the Red Book for the years indicated.

Table 2: Trends in Budgetary Allocation under Crucial Headings in Nepal
(in NRs. 000)

Fiscal Year	Total expenditure	Regular expenditure	Royal Palace	Defence	Home	Social Services#	Debt Servicing
1990/91	19,791,000	7,465,000	42,295	1,113,888	750,307	751,259	2,308,000
1995/96	51,647,800	22,821,500	64,165	2,193,900	1,935,200	1,589,550	7,226,500
2000/01	91,621,335	43,512,746	929,65	3,816,488*	5,959,678* +1,856,000**	9,482,150	12,762,800
2001/02	99,792,212	49,321,941	116,285	5,829,776*	7,528,693*	13,533,612	14,114,000
2002/03	96,124,796	57,445,121	387,900+	7,494,805*	7,699,865*	14,129,865	16,347,469
2003/04	102,400,000	60,555,000	329,175	7,184,221	7,053,671	20,650,576	17,551,116

* Indicates actual and revised estimates;

** the amount was allocated for raising the armed police forces to strengthen security situation.

< The amount indicates the development expenditure for the King and the Royal Palace as classified in the Nepali version of the Budget Document of 2002/03, p. 8-1.

Social Service expenditures include both regular and development expenditures on Education, Health, Drinking Water, Local Development and other services.

Source: *Budget Speeches, Kathmandu: Ministry of Finance, Documents of the Years Indicated.*

In the year 2001/02 the estimated defence allocation was Rs. 4,512 million. However, the revised estimate of expenditure shows an additional increase of Rs.1,309 million reaching the total expenses to Rs. 5,821 million. On top of it, as per the Ministry of Finance sources, nearly Rs. 5,000 million was allocated for security related expenditure after the declaration of national emergency on November 26, 2001. The total security expenditure for the FY 2001/02, including Rs. 7,529 million under the Home Ministry, therefore, was approximately Rs. 18,350 million. This is over 50 per cent increase in the amount of the initial estimate of budgetary allocation on that particular year. The finance ministry also disclosed that Rs.4 billion had already been transferred from development sector to the security sector. Despite this, demand for extra amount of Rs.12 billion over the regular budget allocated for the subsequent year is mounting, which, according to the finance minister, would crumble the nation economy⁷ (Rajdhani, May 1, 2002). The following year in 2002/03, the revised budget estimate puts a figure of combined security expenses at Rs.15,194 million (MOFa 2003: 58).

The increasing security needs of Nepal are also partially met from the friendly sources. In the year 2002/03, the United States has committed \$17 million (Rs.1.33 billion) for defence related assistance; the United Kingdom provided 6.5 million sterling pound (Rs.780 million) for security related expenses. India provided IRs.2 billion (Rs.3.2 billion) worth of military hardware and equipment with a promise of IRs. 1 billion worth of arms assistance (Kathmandu Post, April 25, 2003). The government, on the other hand, has imported 5000 units of M16 A2 rifles from the United States along with 5500 units of Belgian guns as the first instalment of supplies to the army. Along with this the Deuba government had disbursed Rs. 780 million (\$10 million) for the purchase of one unit of Sky truck, 1 unit of MI-17 helicopter and 1 unit of Eqrual Helicopter in July 2002 (*Dristi Weekly*, May 13, 2003). Thus the total security expenditure (budgetary allocation and foreign aid combined) amounts to Rs.21,284 million in 2002/03 exclusive of the cost incurred by the supplementary spending. At the conservative estimate, security expenditures of the two fiscal years (2001/02 and 2002/03) make a total of Rs.39,634 million. This is equivalent to 10 per cent of the Nepal's 2000 GDP at factor cost.⁸

Earlier, the government had balanced the military demands for arms with social needs. In the period of normalcy, Nepal had imported arms worth \$20 million in 1988. An additional weapon of \$10 million was

imported in 1990. In 1994, another \$10 million was spent for arms purchase (USACDA 1996: 137). Acquisition of 3000 units of M16 rifles was made in 1998 (Kumar 2002). The Procurement Office of the Masters General of Ordnance Department of the Royal Nepal Army Head Quarters, in an advertisement on May 8, 2001, had notified the arms dealers for enlisting the specifications of arms ranging from communication equipment to Armoured Personnel Carrier (APC), Military Aircraft and Battle Tanks (Gorkhapatra, May 8, 2001). Exactly two years after, such advertisement again reappeared in the government newspaper (Gorkhapatra, May 14, 2003), which is an indication of arms spiral in the period of crisis. The security forces had, however, put a priority on the acquisition of 17 military helicopters for their mobilization needs.

According to the fiscal year 2002/03 financial allocation, the comparative per capita cost expenditure on 50,000 Army is Rs.144,564 (US\$1,853) and 40,000 Police is Rs. 157,596 (US\$2,020), whereas the total per capita cost expenditure on General Administration comprising some 113,000 civil servants employed at the Prime Minister's Office, Cabinet Secretariat, National Planning Commission along with under 21 different ministries is Rs. 30,377 (US\$389). The National per capita in the year 2001/02 was US\$ 246. (Budget Speeches, 2001 and 2002; Economic Survey 2001/2002). Recruitment in the army has begun in accordance with the military plan of developing a Corps and Command Head Quarters. With over 3 Division plus of armed forces (63,000),⁹ 25,000-strong paramilitary (armed police) and 42,000 civil police sustained by the invisible forces of the Intelligence services and the security bureaucracy, the concomitant expansion and expenses are encroaching upon the social sectors. The planned expenses of \$70 million for weapon purchase would be an additional burden for an already shrinking national economy (Bhattarai 2001). For example, the combine security expenses comprising the Defence and Home Ministries in the year 2001/02 was 23.13 per cent of the total regular expenditures, which progressively reached 25.63 per cent in the fiscal year 2002/03. Comparably, the ratios of debt servicing were 28.62 per cent and 28.46 per cent respectively in these two fiscal years (MOFb 2001 and MOFc 2002). Thus, security spending and debt servicing combined gobbles up nearly 55 per cent of regular expenditures in addition to the emergency security assistance provided by the friendly countries.

Here, it would be of interest to note and contemplate that three weeks before the declaration of national emergency on November 26, 2001, Prime

Minister Deuba had laid a written answer to the 20th Session of the House of Representatives regarding the composition of the Royal Nepal Army. Accordingly, the army comprised of 1,763 ranking officials, 229 officer cadets, 19 medical officer cadets with 45,400 soldiers making a total of 47,411 army personnel (Rajdhani, November 2, 2001). By the time of this writing, the army has fielded 3 Division, 17 Brigade, 42 Battalion and 132 Company along with platoons and sections and 10,000 reserves. The total estimated number of armed forces has almost doubled to some 90,000 (including reserves) in comparison to the number provided at the House of Representatives.

The military strength of the Maoists, however, is thoroughly speculative. In 1998, the estimated number of the hard-core Maoist guerrillas was 2,000plus. The generally agreed number of Maoist guerrillas in 2002 was around 10,000 supported by 15, 000 militias, thus making a total of 25,000 armed rebels (Kumar 2003). Considerable increase in the number of the Maoist force can also be assumed on the basis of the claims made by the government security forces of killing some 4,935 Maoists between February 13, 1996 and October 4, 2002 (INSEC 2002). Likewise, the Maoists as being the indigenous insurgent group has much relied on the local sources of finance rather than external funding. Tracking the sources of the Maoists finance is rather difficult. Their extortion and looting activities as well as funds raised by imposing tax and levy on the people living in the areas dominated by the Maoists and donations volunteered by sympathetic political and business communities are the main sources of the rebel group. The Table 3 below is an indicator for Bank robberies as being the major source of the Maoists' finance followed perhaps by extortion/donation from the more prosperous section of the Nepali society. Even political parties, particularly the CPN (UML), who had treated the Maoists as their first cousins, had reportedly donated Rs. 800,000 to their cause (Deshantar Weekly, July 13, 1997). Some report, therefore, suggests that perhaps the Maoists of Nepal are amongst the richest terrorist groups in the world with the estimated sum accumulated between \$64 million - \$124 million from various sources (Lintner 2002:25). This money converted into Nepali currency amounts to between Rs. 4,992 million and Rs. 9,984 million.¹⁰

**Table 3: Bank Robberies by the Maoists
Rastriya Baniya Bank (National Commercial Bank)**

Date	Branch	Cash	Gold/Silver	Weapons
058/08/10	Salleri, Solukhumbu	15,000,000	5,000,000	4 unit of Guns
058/08/08	Syanja Putali Bazar	1,500,000	undisclosed	4 unit of Guns
058/08/08	Narayanpur, Dang	1,600,000	undisclosed	3 unit of Guns
0580/4/03	Kharanitar	84,000	From the counter	x
05801/02	Dhailadubba, Jhapa	14,500,000	undisclosed	4 units of Guns
057/12/30	Necha Bihibare	5,900,000	undisclosed	4 unit of Guns
057/05/07	Bhajani	100,000	From counter	x
056/09/19	Phalebas	6,100,000	undisclosed	3 unit of Guns
056/08/15	Melunga	2,500,000	undisclosed	3 unit of Guns
No Date	Necha Bihibare, Solukhumbu	1,299,000	4,578,000	x
No Date	Lukla, Solukhumbu	1,900,000	100,000	x

(Cont.)

No date	Arjun	700,000	600,000	X
	Chaupari, Syanja			
No Date	Galyang Bazar	No money	4,500,000	X
No Date	Narayanpur, Dang	1,500,000	4,800,000	X
No Date	Lamahi, Dang	1,500,000	undisclosed	X
No Date	Chaurjahari, Rukum	400,000	1,700,000	X
No Date	Mangalsen, Achham	14,400,000	4,300,000	X
No Date	Payalpata, Achham	550,000	8,000,000	X
No Date	Lalbandi, Sarlahi	100,000	100,000	X
No Date	Lamki, Kailali	5,200,000	undisclosed	X
No Date	Satti, Kailali	200,000	undisclosed	X

(Cont.)

Nepal Bank Ltd.					
Date	Branch	Cash	Gold/Silver	Weapons	
058/08/08	Waling	18,200,000	1,600,000	6 unit of Guns	
058/08/08	Syanjha	6,600,000	2,500,000	2 unit of Guns	
058/08/08	Ghorai, Dang	37,600,000	2,530,000	6 unit of Guns	
057/07/22	Haat	2,000,000	x	x	
057/06/08	Dunai, Dolpa	43,300,000	2,700,000	4 unit of Guns	
056/11/21	Panchadewal, Achham	1,300,000	5,100,000	5 unit of Guns	
056/11/20	Bhingri	undisclosed	undisclosed	Undisclosed	
056/02/21	Khimti	1,700,000	1,700,000	3 unit of Guns	
056/02/03	Gumi, Surkhet	2,500,000	5,400,000	2 unit of Guns	
055/07/09	Rukumkot	Couldn't break vault	2,000,000	3 unit of Guns	
054/06/(?)	Khahare, Dhading	2,000,000	Transfer money	x	
Agriculture Development Bank					
058/08/08	Ghorai, Dang	28,500,000	x	3 unit of Guns	

Source: *Himal Khabarpatrika*, December 1-15, 2001, p.17; *Rajdhani* July 29, August 27, 2002.

The dates mentioned are in accordance with the Nepali calendar usually confirming to the English calendar between 1997 and 2001. Quoting the Chairperson of the Rastriya Banijya Bank, Ganesh Adhikari as a source, the Rajdhani Daily says that within the seven years period the Maoists had looted Rs 110 million from 18 Branches of the Bank located at different districts of the country. Of the total amount Rs 475 million was in cash and Rs 555 million worth of gold and silver deposits and ornaments. The *No Date* data in the table are in accordance with the disclosure of the Bank's Chairperson (Rajdhani Daily, July 29, 2002: 9). On August 25, 2002, the Maoists had looted Rs.5.5 million in Nepali currency, Rs.1.3 million in Indian currency along with 14 packets of gold/silver amounting to a total of Rs 10 million from the vault of Nepal Bank Ltd. at Chandranigahapur of the Rautahat district after simultaneous attack on the police post and the Bank. (Rajdhani Daily, August 27, 2002: 1). Similarly, the Maoists had looted a total of Rs.85, 983 from the Rastriya Banijya Bank, Talchok, Pokhara during the busy business hour of 11 A.M. on November 3, 2002 along with a gun and five round of bullets from the Bank guard (Rajdhani Daily, November 4, 2002: 12). On the other hand, *Kathmandu Post* on May 12, 2002 has reported that the Maoists have looted Rs.330 million from different Banks.

As the figures culled from different Bank sources put it, the Maoists have looted a total of over Rs. 110 million from 18 branches of the Rastriya Banijya Bank, Rs. 193 million from 17 branches of the Nepal Bank Ltd., Rs. 43 million from some 187 branches of the Agriculture Development Bank, Rs. 105 million worth of food grain etc. from Nepal Food Corporation, besides the property damages caused by arson. This total makes a lost sum of Rs.451 million. Data gathered from the secondary sources differ with each other that remain to be verified properly. The table should therefore be read in the context of increasing economic activities of the Maoists on resource accumulation spree.

Yet, it would be impossible to classify the money spent on arms and maintenance of the fighting forces by the Maoist high command. The Maoists had initially relied on the guns and ammunition forcibly collected from the homes of private citizens who had kept arms under license. They had also increased their firepower with the possession of looted weapons after successfully attacking several police posts and military barracks.¹¹ As the government security forces in Nepal are lightly armed, it can be assumed that the Maoists are also not better equipped either. Reports of

arms catches by the security forces indicate that the Maoists are heavily relying on the homemade guns and inexpensive but deadly explosives, landmines and mostly on the looted weapons. Acquisition of arms from dubious sources, including AK-47 assault rifles, is frequently reported because of their accessibility in the South Asian underworld. Thus, it can be anticipated that the Maoists are sourcing arms from beyond the country and spending some fraction of their 'income' in equipping the 'People's Army.' A conservative estimate therefore can be made that the Maoists military spending at the most have been 5-6 per cent in comparison to the government spending on the security forces. This amounts to Rs. 1,944.25 to Rs.2,138.25 million. The former figure is more than the government's defence spending in 1990/91 and the latter is equivalent to the government's defence allocation in 1995/96, a year prior to the beginning of the Maoists' 'People's War.'

The Maoists, however, does not function in isolation. They have extensive contacts beyond the open border in the South with the Indian revolutionary organizations like the People's War Group and Maoist Coordination Centre providing them sanctuaries as well as moral and material support. Through an umbrella organization called the Coordination Committee of Maoist Parties and Organizations in South Asia (COMPOSA) formed in mid-2001, the Nepali Maoists have maintained closer ties with Maoists groups of Bangladesh and Sri Lanka. Despite this, the crucial network for the Maoists remains India. Both as a critical support base and as a conduit for weapons supplies through shadowy means, India has become a hub of activities for the Maoists of Nepal in particular because of the multimillion Nepalis residing in various parts of the country. Though, the Indian government in July 2002 had disbanded their flagship – the Akhil Bharatiya Nepali Ekta Samaj – supposedly penetrated by the Maoists, it has, however, not succeeded in squeezing the support for the Maoists.

To comprehend the cost of internal conflicts, also described as the subaltern conflicts, and arrive at a reasonable estimate of the cost, therefore, is beyond the capacity of this author. Although the cost of domestic conflicts has not been computed officially on a comprehensive basis, a substantial, albeit inadequate, way to measure the cost of conflict is to look at how Nepal has raised and strengthened the paramilitary forces besides the police and the armed forces and the expenditure incurred through the budgetary allocations. Nearly 25,000 paramilitary forces that Nepal has

fielded and the tremendous amount of monies spent on them under the expenditure heading of the Ministry of Home Affairs can be factored as the initial cost of conflict. The near doubling of the armed forces after November 26, 2001 as well as naturally multiplied the basic cost, although expenses on the part of insurgencies and the resultant carnage it caused can never be appraised correctly. Raising of the paramilitary forces through ordinance was a crisis decision made by the democratic government on April 12, 2001. The expenses on the paramilitary forces and the surging number of the armed forces are, therefore, the direct cost of conflict that the fragile economy of the country has to incur.

The economic cost of militarization is directly related to the social sector development needs. Increasing security expenditures in Nepal is influenced by domestic turmoil; the situation would have been different in the case of normalcy. Though the State would have incurred normal expenses for the maintenance of the security forces even in the absence of the violent conflict, the case for raising the paramilitary forces would never have occasioned nor the rapid increase in the force structure of the army would have assumed primacy. The Table 1 above shows defence expenditure, as a percentage of GDP, is constant on the average for over a decade despite an actual increase in the total government expenditures on defence. Conflict costs the State to spend more on security and nudge out the human development having more direct relationships with the economic activities of the country. The repercussion is stark as growth retards with increasing security expenses. Some studies have sensibly established the negative impact of higher military expenses on economic growth (Whynes 1979; Ball and Leitenberg 1984; Ball 1988). In the case of underdeveloped economy of Nepal the impact is more pronounced as the government was even forced to discard the Integrated Internal Security and Development Programme (IISDP) launched in 2001 in view of providing relief and sustainable development to the people trapped in the Maoist affected areas while coping with the Maoist challenge after emergency was declared in November 2001.

If one were to take only two fiscal years of 2001/02 and 2002/03 as a benchmark for foregone development, the resources diverted from the development expenditure to security expenses had not only affected the growth but also created the condition of economic stagnancy with constricting productive investment. Throughout the decade of the 1990s, Nepal's average growth rate was 4.5 per cent. GDP growth plummeted to a

negative rate of -0.5 per cent in 2001/02, which is expected to improve to 2.4 per cent in the fiscal year 2002/03¹² (MOFa 2003). Economic recovery to the 1990s level, perhaps, would require Nepal in doubling the investment for development. Such a feat would be possible only in case there would be change in both internal and external environment. Thus the economic cost of the violent conflict would amount to more than what has been spent on conflict related activities.

Therefore, the awesome burden and destruction caused by the perennial internal conflict since 1996 cannot be comprehended both in terms of the monetary and human costs. The lost opportunity cost of the conflict is more tangible which can neither be recovered nor repaired. One of the direct consequences of the opportunity cost lost is the poor show of the Foreign Direct Investment (FDI) to which the government concerned is yet to express its sensitivities. FDI is generally considered an addition to existing capital stock and a measure to decrease dependency on foreign aid and loan. Though in an economy thoroughly nurtured by dependent development, FDI cannot be correlated with the aid/loan provided by bilateral and multilateral donors, it can, however, make positive impact in the overall productive cycle of the national economy. FDI is correlated with the risk factors. Political instability and domestic tension drive out as well as discourage investment, thus, destroying the potential of production and growth. This can be factored as the opportunity cost lost as the direct consequence of violent conflict.

The overall impact and the cost of conflict are therefore directly related to human security. The body count is perhaps a way of measuring the gravity of the tragedy, but the rising death toll pales into insignificance when the human miseries caused by the pain of the conflict are visibly expressed in the faces of the survivors reflecting the trauma of living with the situation they are forced to adjust with. Reconstructing their vulnerable life to normalcy would nevertheless be a cost that would haunt the distant future of both the people and the State.

Thus, it would be appropriate to conclude that the continuing violence of different magnitude and the resources waste caused by the conflict has weakened both the processes of governance as well as development of the country as the forces of fragmentation are also growing strong simultaneously with the growth of the repressive organs of the Nepali State. Both the State and non-state protagonists have pulled resources for their

sustenance primarily from the indigenous sources. In this contest for power, the powerlessness of the State is pronounced poignantly.

The Cost of Conflict and Violence: Some Preliminary Estimates

Besides the costs incurred by the militarization of the conflict borne by the government and the Maoists, the cost of the government expenses on relief services and the loss of infrastructure/capital assets make up the direct cost of conflict. Although precise data on the cost of relief services are not available, there are reports on the government's despondency on the distribution of even Rs.100 a day relief to the affected people and the failure to compensate the losses to the security forces. Provisional relief services initiated by the donor agencies have been disrupted by the Maoists hostility even towards World Food Programme. The government's plan to resettle IDPs has suffered from a serious financial crunch as well as the ever-deteriorating security situation in the Maoists' affected areas. As noted before, the government had to give up the plan to introduce IISDP mostly in 13 seriously affected districts immediately after the declaration of national emergency in 2001. Thus rebuilding of the lost infrastructure and providing relief to the needy remain on the agenda. As per a government source, the cost of the infrastructure loss in the year 2001 alone was Rs.16 billion (Kathmandu Post August 4, 2002). The tremendous cost of damages and destructions caused by the Maoists can be exemplified by citing the case of Arghakhanchi District – a district ranking 40th in the development spectrum – that incurred an estimated loss of Rs.219 million on September 9, 2002 as a consequence of the Maoists' attack, arson and looting (Bhandari 2002). Likewise, the destruction of the Khimti-I hydel power project's headwork and intake of 60MW capacity power plant and 500kw Jhankre electricity scheme on October 8, 2002 damaged around Rs.963 million worth of infrastructure leading to over Rs.3 million revenue losses per month (Kathmandu Post, November 4, 2002; Nepal Samacharpatra, December 10, 2002). The actual value of reconstruction when taken in the future would exceed the preliminary cost assessed.

Indirect Cost

In terms of the indirect cost, the Maoists have made tourism and development as their specific targets to bleed the government white in their process of destabilization and destruction of the state capacity to sustain

challenges caused by violence. Their strategy remains to kill two birds with a stone. Their violent activities have reaped the propaganda harvest beyond the country by raising a fear psychosis of Nepal being an insecure place for visitors, thereby drastically reducing the chances of tourist influx and cutting at the edge of the foreign currency revenue earning sources from tourist industry and mountaineering whose contribution remains substantial to the national economy. The violence therefore has succeeded in inflicting damage to tourist industry and hotel businesses, airlines and other related services forcing these service sectors to drastically reduce the employed work force. On the other hand, Nepal has been projected the world over as a violent place unsafe for tourism leading foreign governments to issue travel advisory notifying their citizens to refrain from visiting Nepal. Insurance companies in Japan have also notified their clients discouraging them to visit Nepal. On the face of the government's inability to take any constructive measure to curb the Maoists' challenges even under Emergency, as evident by the two days *Nepal Bandha* on February 22-23, and the three days on November 11-13, 2002 on the Maoists' call, it is but natural that the peoples' personal insecurity has expanded beyond comprehension. Pointedly, the destruction of civilian infrastructure caused deliberately as a strategy of debilitation has led to people's exodus to safety and survival.

The paralysis of the government has damaged the residual credibility affecting the structure of production, loss of life and property as well as dislocation and disappearance of the people without any remedial measures for rehabilitation of national life. Several non-governmental organizations (NGOs) involved in development activities in villages and districts of Nepal had to give up their works because of the Maoists' threat to life of their personnel. The killing of an NGO official working under the American aided project had an adverse impact on their activities. Recently, the killings of 13 security personnel at Kavre had forced the Japanese government to suspend the road construction project linking Kathmandu to Janakpur indefinitely that was being built after 43 years of inception.

Estimates of Business losses due to Maoists, Strikes, Bandhs etc.

(i) Between March 1991 and November 2002, Nepal and Kathmandu Valley strikes/bandha has occurred for 75 days. Though it would be very difficult to arrive at an accurate figure of the losses in business and other activities in relations to economic affairs caused by a day's bandha, an

estimate, in accordance with the calculation arrived by the Federation of Nepal Chamber of Commerce and Industry (FNCCI), suggests that the losses incurred by the business and service sectors would amount to Rs. 600 million at the minimum. One day's *bandh*/strike would cause detrimental effects on the arrival, tour and sightseeing of some 27, 281 tourists. According to the Nepal Tourism Board, the tourist industry comprising 600 travel agencies, 445 trekking agencies, 100 rafting agencies along with 800 hotels with 250 thousand workers will have to bear a loss of Rs. 30 million by a day's *bandh*/strike. On the educational sector, a day's strike/*bandh* would cause 28,226 educational years' loss (*Himal Khabarpatrika*, May 29-June 14, 2001:43). Of the total 75 days, the Maoists and its sister-agencies have called the Nepal *bandha* for 53 days in the past seven years between 1996 and 2002. The Maoists call of Nepal or Valley *bandh* has always gone unopposed. In the months of October and November 2002 there were 5 days' Tarai, Kathmandu Valley as well as Nepal *bandh* to which the people had complied and businesses closed.

The three days' Nepal *bandh* (November 11-13, 2002), according to an initial estimate of the Federation of Nepal Chamber of Commerce and Industry (FNCCI), will incur a loss of Rs.3.5 billion (*Rajdhani Daily*, November 12, 2002: 9). This latest estimate shows the loss about to be incurred by the business sector has increased probably because of the comparative advantage involving the service cost. If one were to take the figure of over a billion rupees loss to the State by a day's *bandh*, the total loss to the country would amount to over Rs.100 billion (*Rajdhani Daily*, November 12, 2002).

Quoting a member of the National Planning Commission, the *Kathmandu Post* reported, "Loss incurred by the country due to the Maoist attack during the year resulted in a loss of some 10 per cent of the Gross Domestic Product (GDP)." While the loss incurred in tourism, exports business activities and transportation sectors due to security problems stood at Rs. 20 billion, the loss of infrastructure due to the Maoist attacks was Rs. 16 billion and other losses has been Rs.4 billion making the total of Rs.40 billion loss in the fiscal year 2001 (over \$500 million). Unemployment figure rose by over 200 thousand in the same year (*Kathmandu Post*, August 4, 2002).

(ii) Tourism in Nepal has been one of the most lucrative industries generating revenue and foreign exchange. In 1995, the total tourist arrival in

the country was 363,395 generating \$117 million foreign exchange earnings. This was a year before the Maoist insurgency begun in 1996. (A comparable figure of tourism in Kashmir in 1988, a year before that state again plunged into another round of violent conflict, was 722,000 visitors contributing \$200 million in the tourist economy.) Tourism in Nepal had picked to a number of 491,504 in 1999 with a slight decline to 463,646 the following year and plummeted further to 362,544 in 2001 corresponding to the unforeseen events of the Indian Airlines passenger aircraft hijacking en route to Delhi from Kathmandu on the Christmas eve 1999, the Hritik Roshan episode 2000, the Royal massacre 2001 overwhelmed by the violent Maoist insurgency. Foreign exchange earnings from tourism in 1999 had picked to \$168 million, which slightly declined to \$167 million in 2000 (NPCb 2002 and NPCc 2000). Though one of the prominent reasons for the decline in the tourist arrivals in Nepal has been the effect of the 9/11 the world over, the travel advisories issued by the US and the EC governments to its citizens against visiting Nepal in view of the ensuing political instabilities and the rising tide of Maoist violence coupled with national emergency have detrimental effects on the overall nature of the industry catering to prospective visitors. The direct fall out of the declining tourist trade is reflected in the lay off of the 700 officials from different Travel Agencies (Rajdhani Daily, September 15, 2002: 1). As the Royal coup of October 4 and the ensuing Maoist insurgency indicate, the year 2002 was also disappointing for the tourist economy of Nepal. According to a disclosure of the Nepal Tourism Board, a total of 250,000 tourists visited Nepal in the year 2002, which is 27.65 per cent low in comparison to the previous year and 50 per cent less than the year 2000. This, according to the data of previous five years, is the lowest tourist turnout (Rajdhani Daily, January 2, 2003: 1; NPC 2002).

Though there are hardly any reports on the Maoists' physical attack on tourists, they have however troubled the tourists/ trekkers with forcible extortion of money. A recent article written by an Australian trekker on how the Maoists had to be paid Rs.4,000 per person as trekker as their "rate" and their offer of the helicopter lift for Rs.7, 000 from Sheduwa and Makalu base camp on October 5, is evidence of insecurity faced by trekkers and tourists. Ironically, it was also noted that the helicopter ride that the Maoists had offered was perhaps the same missing helicopter of a private airliner (Pengelly 2002).

(iii) Similarly, another crucial aspect of the national economy affected by the violent conflict and associated instability has been Foreign Direct Investment (FDI). Though Nepal has never been a favourable destination for the FDI, it has attracted over 39 countries to invest in around 7,000 projects that had initially contributed to generate some 85,000-employment opportunities. FDI in Nepal has however hovered around Rs. 2 to 3 billion with India and China in the front row of investors. As per the data available, altogether 97 joint venture industries were approved for registration in the fiscal year 2000/01 with the total project cost amounting to Rs.8 billion. The fixed capital of these industries amounted to Rs.6.2 billion of which the total FDI was Rs.3 billion constituting 48.4 per cent (NRB 2001:7). The current state of FDI as gleaned through very recent data is as following.

Table 4: General State of FDI in Nepal

Joint Venture Industries	Numbers	Registered Cottage and Small Scale Industries	5116
(1) Operating Industries	340	Manpower Engaged in Large Manufacturing Establishment	191,853
(2) Under Construction	42	Manpower Engaged in Small Manufacturing Establishment	121,270
(3) Licensed to Operate	150	Fixed Capital Investment	Rs.3 billion
(4) Approved by Government	188	Joint Venture Banks	6
		Financial Companies	4
		Insurance Companies	6

Source: Author's computation of the raw data compiled from the Federation of Nepal Chamber of Commerce and Industry records, May 15, 2003.

Unfortunately, Nepal is yet in a position to attract the potential big investors like the United States and Japan as the US Kodak Company had experienced a setback in Nepal in its initial stage. This has discouraged the high profile investors, except Pepsi and Coca Cola, to dig into the Nepali economy with considerable profit motives. In the case of India as being the leading investor the type of investment is the portfolio investment rather than direct investment. Besides the Maoists fear, strikes and *bandhs* are two crucial factors damaging to investors' confidence that have also led to capital flights with the closure of industries and businesses. The high risk and the low rate of return have also crucially compromised incentives provided even to the portfolio investors.

Although the policy of economic restructuring undertaken by the governments since 1992 has eased the business environment further encouraging export sectors like carpet, garment and textile industries, this propitious investment situation soon deteriorated internally because of perennial political instability and escalation of violence. The controversies surrounding the use of the child labour in these industries have further damaged the investment environ and export potentiality of the commodities produced. These industries are, in turn, also dependent on the massive imports of raw materials and labour as the latter disappeared with the bursting of the bubble. As the indigenous component in such industries particularly remains the local labour, the wages earned by the local labourer could be factored at the most as 10 to 15 per cent of the total earning that the country has made out of the FDI in these thriving export industries, exclusive of the revenue. With the flight of the portfolio investors has flown out the money earned as profit. Thus the impact of the foregone FDI and the cost incurred by the loss to the national economy can be considered as modest even though the private sector businesses have suffered the most as a consequence of internal and external causes and the labour engaged facing unemployment.

The Human Cost

(iv) According to a recently released data by the Government (Home Ministry and the Royal Nepal Army), a total of 7,973 Nepalis have been killed during the insurgency between February 13,1996 and October 31,2002. The figure released therefore suggests that the armed conflict in Nepal has claimed on an average of 1,139 persons' life per year in nearly seven years. The intensity of killing has however increased after November

26, 2001 with the imposition of national emergency and the mobilization of armed forces against the Maoists by branding them as terrorists. Of the total 7,973 people killed, 4,366 were killed between November 2001 and October 2002. The Army has claimed that 4,050 Maoists have been killed with around 400 seriously wounded during the period. On the other hand, the army has lost 219 soldiers including officers with 308 wounded during the encounters. This figure suggests the loss of life ratio of the army vs. Maoists is approximately at 1:19, which is very high even while comparing to the conflicts in Kashmir and Sri Lanka where guerrillas had inflicted more damage and fatalities to the security personnel. The data, in total, say that the seven years old insurgency has claimed the lives of 6,011 Maoists, 873 civil police, 773 civilians, 97 armed police and 219 soldiers, thus making a total of 7,973 people of various strata killed (Kathmandu Post, November 1, 2002: 1). A comparable figure for the people killed preceding the declaration of emergency was around 2,700 in the past five years.

This data was released at a press briefing held at the Royal Nepal Army Head Quarters on October 31, 2002, immediately a day after the National Human Rights Commission has publicized a report asserting that 95 per cent of the people killed by the security forces were the commoners, and they were killed by the army in "fake encounters." (Rajdhani Daily, October 31, 2002). The Army in particular has considered the report "unbalanced," implying that the report has tilted in favour of the Maoist position. Therefore the report of the Commission has been termed as "incredible" by the Army (Rajdhani Daily, November 1, 2002). However, Krishna Bahadur Mahara, one of the top Maoist leaders, who was also an influential member of the past three rounds of negotiations with the Nepali government in 2001, has refused to accept the claim of the army that they had killed more than 4,000 Maoists, in an exclusive interview to the CNN. The army, according to him, has killed more than 80 per cent of the innocent civilians (Mahara 2002), thus, inadvertently supporting the report of the Human Rights Commission.

Despite this controversy over the report of the National Human Rights Commission prepared after on the spot inquiries on the human rights situation in 35 districts of the country, it is glaringly evident that the death toll is mounting and the number of the people killed in the post-emergency days amounts to 13.23 people killed per day on regular basis, which negates the situation as being far from normal.

Besides this, the excesses committed both by the Maoists and the security forces in the context of the 'People's War' are traumatic. Torture, extortions, rapes, arbitrary arrests, unlawful killings and disappearances featured the bloody landscape of violence. As an outlaw, the Maoists have deliberately undertaken actions to spread terror as much as possible by targeting the civilian population to bring them into submission with heinous criminal activities defying the motives and essence of the ideals behind the 'People's War.' One of the glaring failures of the 'People's War' has been that the Maoists guerrillas had not been able to intermingle with the masses as the 'fish in the water.' Rather they had to move as the armed band to survive in the villages both for shelter and food. The villagers' helplessness had therefore occasioned with the reprisals of the security forces treating them either as the Maoists' suspect or sympathizer. Similarly, the Maoists have justified their criminal actions behind the veil of punishing the 'enemies of the revolution.' But they have yet to provide any counter-evidence against the evidence of abduction, kidnapping and use of the children in combat situation, except from denouncing these allegations as sheer propaganda.

Contrarily, the security forces that had already gone into rampage in the name of maintaining law and order, but with the intention of repressing and eliminating the Maoists as was evidenced by the Romeo and the Kilo Shera II operations in the past, have been given a cater blanche by the government along with the declaration of national emergency, mobilization of the armed forces and adoption of the Terrorist and Disruptive Activities (control and Punishment) Act against terrorism. Section 20 of this act provides immunity from persecution to members of security forces "or any other person" for "any act or work performed or attempted to be performed by him in good faith under the Act" (AI 2002). Provision of this impunity thus has considerably foiled commitment to human rights legislation by bringing people to the mercy of the security enforcement agencies.

The most tragic aspect of the insurgency, however, is coping with violence by the survivors of conflict directly experiencing violence in their lives. In this case, women and children are disproportionately affected as in each and every case of violent conflict around the world. Aside from widowhood and orphanage, their future remains bleak not only because they lose their bread earners but also because of their estrangement from the society they live in and the government's general neglect for their unwelcome presence. Although the miseries of the women and children of

the war-torn areas are extensively recorded, their plights and struggle for survival are treated with sympathy in the newspapers' columns; their lives are made further disgusting when used as propaganda tools. Women and children living in the villages without the protection of the able-bodied men in the family as the latter had either been killed or ran away from their homes to safety to avoid the ire of either the Maoists or the security forces have routinely become more vulnerable to harassment, intimidation and agonies because they are treated suspiciously. The government announced a meager compensation for the widows of the servicemen killed and distribute honour medals to prove its sincerity but shrink from taking any responsibility for their rehabilitation and make them the able bodied head of their households.

Apart from this, there are other women and children victimized by the conflict. Women fighting for the Maoists cause are in sizable number either as a consequence of indiscriminate killings of their loved-ones by the security forces or under the influence of indoctrination or forced participation. The record of the women killed as the Maoists by the security forces are yet to be made public. But there are several recorded cases of torture, molestation, rapes and killings of girls and women committed both by the Maoists and the security forces remaining unaccounted for by the government. (AI 2002; INSEC 2002). CWIN, on the other hand, has recorded the number of the child victims suggesting a figure of 146 violent death of the children, 96 fatally wounded and more than 100 children kept behind the bar with arbitrary arrests. With the increasing intensity of violence more than 2,000 children have become orphan and around 4,000 children have been dislocated from the villages (CWIN 2001; Pradhan 2002; Pradhan 2003).

Unnatural deaths and disabilities are the consequence of conflict. Many of those killed in the violent conflict have lost their productive lives. Both the Maoists guerrillas and the member of the government security forces killed and disabled were in their prime of life. They were the young people averaging 15-30 working age groups. Compared with the number of dead recorded by the Defence Ministry and the INSEC (2002), the number of wounded, maimed and disabled could be definitely higher, even though the accurate number of civilian casualties is not available. However a cautious assessment of the situation suggests that the figures of casualties could be few than assumed because of the 'take no prisoners' policy pursued both by the Maoists and the security forces. Irrespective of the casualty figures, the

fact, however, remains that a majority of the dead, wounded and disabled comprised the productive cost lost who could have been economically active at least for 30 more years. Besides the dead, the Maoists casualties have also remained unknown. Speculations vary widely depending on the source.¹³ Hence, of the wounded and disabled Maoists, many of the injured in particular could have rejoined the guerrilla force.

However, in the case of deaths, the country has substantially lost the potential contribution that the individual would have made over the entire productive lifetime. For instance, the killing of the schoolteachers not only affect the earnings and productive contribution of the professional manpower, their immediate families and friends but also affects the social costs of replacement of the trained manpower. Similarly, the direct loss to the nation caused by the reduced labour force, their deaths and fatal injuries affecting the productive capacity of families and friends should be included as factors in cost calculation, although the loss of labour should be the major ingredient. By conservatively considering the lost labour cost of the 8,000 dead – perhaps 90 per cent of them being the young people – the loss caused by the dead on the basis of average income of Rs.60,000 per annum per person, their average age and estimate of their earnings before retirement should be calculated. Given the potentiality of 30 years of service each individual would have earned Rs.1.8 million in 30 years making a total of Rs.14.40 billion at the present price value.

(v) The exodus of people from their domiciles and the potential contribution of productive labour also constitute the lost cost. No authoritative data are available in this particular case. But, according to the CESOD survey (2003), some 427,500 landowning people and 2.5 million people from their homes are displaced, who are yet to be resettled. The government has yet to pursue any welfare and rehabilitation plan seriously. There are neither welfare centers nor any scheme of proper distribution of allowances for the internally displaced people. Rehabilitation of the IDPs is not only beyond the capacity, but also beyond the immediate concern of the government. Reports on the government's plan to set up a relief fund of Rs.500 million for the victims of violence (Kathmandu Post, November 12, 2002) have appeared but yet to be administered properly.

Of the displaced landowners, most are living with their relatives and friends. Perhaps 30-40 per cent of them have bought new property in the cities, which is indicated by the sudden surge of the real estate prices in

Kathmandu. Similarly, of the 2.5 million people displaced, if the 600,000 temporary migrants to India is deducted from the total, 1.9 million people still remains as the IDPs. The survival of these people is at stakes. In the absence of the data on the breakdown of the working age and non-working age people, it should thus be assumed that hardly 5-10 per cent of nearly 2 million people are engaged in different odd jobs in unorganized sectors earning a real wage of around Rs.200-250 per day. Their earnings should be put against the data on the closure of 70 per cent of cottage industries in the rural areas and the collapsing agricultural outputs due to the absence of labour of both sexes. A sensible estimate therefore can be made that the earnings of some 25 per cent actively engaged people from uncertain and irregular labour would be a merger amount in comparison to the loss of outputs from agriculture and cottage industries.

Note should however be taken that the people emigrating to India as well as the IDPs are mostly unskilled and semi-skilled labour forces, thus low wage earners. It should also be noted that Nepalis from the hills and Tarai regions have a tradition to go to India as seasonal labour to work in farms and factories and send remittances back home. This situation arises out of the perennial domestic unemployment. Again, the prevalent condition in the country is that there will mostly be a single person as a bread earner in a household of 5.2 family sizes. Assuming that the number of 2.5 million displaced people makes families of 480,769.2 persons, thus the number of people out of work and productive activities constitute the latter figure. This total figure corresponds to the number of unemployed people rising above 200,000 persons for the fiscal year 2001/02 (Kathmandu Post August 4, 2002). Despite this, it would be difficult to make a clear-cut assessment of the economic cost borne out of the displaced people. A safe assessment therefore would be to rely on the data provided by the National Planning Commission as 'other losses' comprising Rs. 4 billion for the fiscal year 2001/02.

(vi) Except two districts of Manang and Mustang, the Maoists violence has spread in the rest of the 73 districts. The violence and destruction is no more confined to a particular territory even though the most affected areas are the mountainous districts in the mid-Western Development Region of the country. Despite the declaration of emergency and military mobilization, the districts of Rolpa, Rukum, Jajarkot and Kalikot have been the strongholds of the Maoists that the Home Ministry had admitted (Rajdhani

Daily July 25, 2002:1). According to the ranking of 75 districts based on the overall composite index of development, these four districts fall in the category of worst districts of the country¹⁴ (ICIMOD 1997: 22). Total households in these four districts are enumerated as 112,208 inhabited by 622,115 people (NPC 2000:10; NPC 2002: 10). As noted earlier, the per capita income of the people living in the Mountain regions averaged \$110 in 1997. As the 'People's War' has caused a complete halt in development activities especially in these four districts, the situation has definitely worsened than what it was before the violence started. Rolpa in particular and the other three districts were the targets of the government's 'Romeo' and 'Kilo Shera-11' security operations. During these two operations the government forces killed 528 'Maoists' and the Maoists had killed 170 people, including police personnel (Maharjan 2000: 172).

Documentary evidences on the property loss and infrastructure damages are however not available. Despite this, the agonies of the people living in the Mirul village during operation Romeo are the proof of police brutalities. Arsons and lootings by the security forces have been routinely appearing in the press. Losses in these areas are yet to be accounted for because of the Maoists presence among other reasons. As these areas concerned are most backward and underdeveloped the losses could be trivial in economic terms. But the effects of insurgency and government repression are tremendous as a consequence of which the people living in these areas are pushed towards further economic destitution with denial of human rights.

(vii) This comprises the losses incurred by the development foregone by the government critically impairing the health, education and social sectors' development despite the allocation of a large quantity of amount under the development budget headings. With the Maoists' clamour for violence, the government shifted its priority from development to defence. It acceded to the pace of militarization declaring the process as the "investment for peace" that will be the "motto as peace and security is the pre-requisite for development"(MOFb 2002:7). Poor investment policies coupled with the foregone investment led economy to slump to a negative growth. Financing defence/security by transferring resources from investment in productive sectors has also discouraged private and foreign investors as insecurity has damaged the investment climate. Reduction of public investment is the consequence of burgeoning security expenditure directly affecting programmes on rural development, health and education as the resources

allocated to the local development ministry are mostly transferred to the security needs. In this context, the foregone IISDP exemplifies the government's insensitivity. Likewise, regular expenditure has surpassed the development expenditure in budgetary allocation, which is not a healthy trend in the management of national economy. To induce a life in the economic activities the government needs an additional investment to avert the crisis. This would necessitate the government to borrow heavily from the foreign sources, which would be tied to certain conditionality.

To be obvious, it can, therefore be assumed that the cost to the economy would not have been a negative growth from a reduced public investment in case of the absence of violence and conflict. The sum of the cost foregone can be obtained by simply equating the gap between the average growth of GDP by 4.5 per cent and the negative growth of the GDP by – 0.5 per cent preceding and after the escalation of the conflict. At the rate of 4.5 per cent economic growth the situation of the country could have definitely been positive while entering the new millennium.

Crude Estimates of the Cost of Conflict

It should be recognized at the outset that this study has attempted to enumerate some quantifiable cost of conflict. This is indeed a preliminary attempt in understanding the cost requiring refinement and further research to comprehend and conceptualize the consequence of the militarized conflict and the cost of violence to an underdeveloped country like Nepal. Crudely put, this paper intends to impart some sensitivity on the issue involved as the escalating cost of violence could certainly destroy the Nepali State. Militarism and militarization of the State is one such potential cost becoming unbearable through the national means. Another substantial cost would be the trauma of living under anarchy. The discussion on the issue of the cost of conflict should also comprehend the fact that, "A sad phenomenon of the merciless war is that the nation has to contend with a growing number of widows and the households headed by women"(Bastiampillai 2001: 57). Perhaps this would not be a new experience for the Nepali womenhood. The *Lahure* culture had reproduced widowhood, as a consequence of the two World Wars in the past century and the inter-state wars in South Asia. The escalation of the intra-state conflict has further expanded this phenomenon impairing the prospects of human security in an already underdeveloped country in which

underdevelopment itself is a significant threat to human security constituting a cluster of structural violence. To state the obvious, human rights denied is human security foregone.

Table 5 provides the summary of the cost sketched that, indeed, has not included some substantial costs related to human insecurity because of these like the lost health care service, educational opportunities, freedom of movements and participation being not easily quantifiable.

According to these crude estimates, the total cost of violent conflict by the year 2002 has been at least Rs. 219.46 billion. This amounts to 49.04 per cent of national GDP of Rs.446.18 billion for the year 2002/03, which is equivalent to \$ 2.81 billion. This is not a meager sum for a country whose development is financed by the foreign aid and loan, and the revenue is retarding to meet the regular expenditures. The conflict unending could therefore be a national catastrophe.

**Table 5: Crude Estimates of the Cost of Conflict
(in Rs. Billion)**

Category	Costs
Direct Cost	
Direct Government Security Expenditures	39.63 bn.
Maoists' Military Expenditures	1.94 –2.13 bn.
Government Expenditures on Relief Services	NA
Cost of Infrastructure, Bank Loss, Extortion	25.0 bn*
Indirect	
Business losses due to Maoists/Strikes/Bandhs	100.0 bn.
Lost Income from Reduced Tourist Arrivals	11.5 bn.**
Lost Earnings due to lost FDI	6.5 bn.**
Lost Income due to Lost Human Capital	14.4 bn.
Lost Income due to Displacement	8.0 bn.+
Output foregone in the severely affected area	NA^
Foregone public investment	12.30 bn. #

- * The FNCCI has estimated the cost of infrastructure loss to over Rs. 15 billion (Rajdhani Daily March 15, 2003). The vice-chairman of the National Planning Commission had put the lost cost of infrastructure damages for the year 2001 at Rs. 16 billion (Kathmandu Post August 4, 2002). Independent sources, however, suggest that, if valued in terms of current market prices, the total cost of infrastructure loss since 1996 could be around Rs. 20 billion.
- ** Computed on the basis of the tourist arrival that has gone down from the pick of 491,504 persons in 1999 to 250,000 persons in 2002 conservatively estimating their 7 days stay spending Rs.26, 660.40 on the average;
- ** Inclusive of the expected FDI and wages earnings by the local labour between 2000 and 2002;
- + For two consecutive years inclusive of agricultural productivity loss, loss incurred by the closure of cottage industries and value of labour;
- ^ Development works in these areas along with some adjoining districts have come to a halt costing the local economy around Rs. 50 – 80 million;
- # The amount indicates for local development sectors only. According to Fiscal Year 2002/03 Budget, a sum of Rs.5,889.6 million had been allocated for the local development sectors. After the dismissal of the local bodies, the amount has been frozen and transferred to the security sector (Budget Speech 2002/03: 23). In the previous year 2001/02, a total development expenditure of Rs.6,406.1 million was allocated for the local development sectors (Budget Speech 2001/02: 30). Development works were disturbed after the declaration of national emergency in November 2001.

This article draws largely from Chapter 6 of the author's forthcoming book What Vision for Security Future in South Asia.

Notes

1. There are some other studies done by academics preceding these commendable works cited, but prominently in the context of other conflict zones like notably that of Blakely (1999), Cranna (1994) and Bunselmeyer (1975).
2. Prime Minister Koirala had to resign on July 19 largely due to the military defiance of the government in rescuing the 71 police personnel abducted by the Maoists from the Holeri Police Post, Rolpa District on July 12, 2001. Following the Holeri event, the Deputy Prime minister and Home Minister Ram Chandra Poudel had tendered resignation the next day, thus weakening the position of the government. *Kantipur Daily*, July 14 and July 20, 2001.
3. There are three criteria on the basis of which State failure can normally be defined: State failure comprises of sustained military conflicts between insurgents and central governments, aimed at displacing the regime; sustained policies of the protagonists resulting into the deaths of substantial portion of members of communal or political groups; and abrupt or disruptive regime transitions with inclination towards authoritarian rule. The case of Nepal is obvious in these respects. The attributes of state failure are derived from the State Failure Task Force data as cited in King and Zeng, 2001.
4. The Home Minister Govinda Raj Joshi had to resign on September 29, 2000 after publicly complaining about the military's reluctance to aid the police force fighting for their survival at Dunai, the headquarters of Dolpa District against the Maoists on September 25, 2000 (Gorkhapatra, September 30, 2000). For details see the Press Statement of the Home Minister Govinda Raj Joshi on September 29, 2000. The Inspector General of Police, Achyut Krishna Kharel was also removed from the post subsequently on October 16 (Kathmandu Post, October 17, 2000). After the Holeri incident of July 12, 2001, Prime Minister Koirala had decided to resign after holding long talks with King Gyanendra on July 19, 2001.
5. The losses caused by the 9/11 (September 11, 2001) attack on New York City amounts to \$33 to \$36 billion in lost wages, business, property damage and cleanup, reported the Federal Reserve Bank of New York on November 12, 2002. The report provides a way out how the losses are accounted for. The losses, estimated from October 2001 through June 2002, include \$7.8 billion the 2,795 people killed at the

WTC would have earned and \$21.6 billion to cleanup and replace the twin towers. The report says that the productive potentiality of the New York City economy was badly hit by the 9/11 attacks. Services industries like airline, restaurant, hotel and financial services business alone accounted for 42,000 of 51,000 private sector job loss in October 2001. The financial service industries of many businesses headquartered at the WTC lost 12,000 jobs in October 2001, an additional 6,000 jobs through June along with 20 per cent job loss at the City's two airports. Between \$3.6 and \$6.4 billion loss was caused from job cuts and reduced business hours. The Reserve Bank report also calculated the income loss of the victims of the attacks at the WTC on the basis of average income of the trade center employees amounting to \$127,000 a year, their average age and estimating how much they would earn until they retired. The loss amounted to \$2.8 million per employee. See The AP dispatch from New York on November 13, in *Kathmandu Post*, November 14, 2002. In the South Asian context, measuring the loss accounting for the cost of conflict/war has yet to occur. Besides the cost of "war against terrorism" has directly fattened the US defence budget, which is also supplemented by the defence budget hikes in the EU and other countries allied with the United States. As a consequence of the attacks, the US Congress authorized an emergency appropriation of \$40 billion for "war against terrorism," an additional \$14 billion was provided to cover the period till September 2002. The cost of war in Afghanistan was estimated at \$10.2 billion by the US Congressional Budget Office. As well the initial rehabilitation cost in Afghanistan was \$4 billion plus package committed during the Tokyo Conference in January. See *SIPRI 2002*, pp. 239-40.

6. Citing a defence ministry source, one newspaper reported that a food packet for a field army costs Rs.245 for his regular meal. 10,000 food packets had already been supplied to those in combing operation amounting to Rs.2,450,000. The Army has planned to purchase more dry foods to sustain its needs. *Rajdhani Daily*, July 2, 2002.
7. On December 2, 2001, the finance minister had reportedly said that the nation would sustain the military requirements without any constraints on resources to cope with the Maoists challenges. The government is determined to pump whatever resources the army needs. For that the government would slash the budgets under other heads, draws on the

internal loans or budget deficit. But the government would do whatever it takes to end terrorism. *Rising Nepal*, December 3, 2001. Perhaps this 'commitment' has encouraged unrestrained demands from the security forces.

8. For the estimated GDP at factor cost see *Economic Survey Fiscal Year 2000/2001*, p. 6.
9. Further plan to recruit 15,000 of the retired officials from the Royal Nepal Army, ex-Gorkhas from the British and Indian armies was also reportedly being considered. *Rajdhani Daily*, July 25 and 26, 2002.
10. It demonstrated the Maoists' ability to raise resources to finance their organization and the 'People's War.' The Maoists have practiced imposing tax, levy, collected donations, indulged in extortions and robberies, kidnapping and demanding ransom, but no report has yet emerged about their liaison with drug and human trafficking nexus spread over South Asia along with other criminal syndicates. Domestically, they have disbanded some grievous social ills like gambling, alcohol drinking, and discrimination against women and girl child widely practiced in Villages. This social content of their policies had initially drawn widespread sympathy and support to their cause in the villages and informed circles.
11. The Spokesperson of the Royal Nepal Army Head Quarters. Colonel Dipak Gurung has repeatedly stated that only 15 per cent of the arms looted by the Maoists have been recovered. Unless these arms are completely recovered or surrendered, the army would not stop its operations.
12. To meet the growing security expenditures, the government was forced to cut down the budgetary allocations to nearly 4000 VDCs by 50% of Rs. 500,000 per annum. The government had also slashed Rs. 4.5 billion from different development projects, of which Rs. 3 billion had been diverted from the Water Resources and Local Development projects. Against the background of the shrinking revenue source, the Finance Ministry has estimated a lapse of Rs. 10 billion to meet the requirements. The government, however, thinks that the required amount would be raised through restructuring the revenue taxation to collect around Rs. 2 billion as well as Rs. 3 billion overdraft drawn from the Central Bank. *Himal Khabarpatrika*, January 29-February 12, 2002, p. 42; and February 13-27, 2002, p. 34.

13. The people living in the conflict zones have been found more speculative, the army exaggerative and the Maoists suppressive while accounting the casualty figures. On the other hand, the media reporting of each and every violent encounter is dramatized by the story of the Maoists' cadres' use of *Doko* (woven basket of bamboo) to carry their fallen comrades over the stiff mountain terrain and leaving the beheaded bodies of dead comrades after violent encounters with the security forces.
14. The ranking of districts are computed in accordance with their classification based on the weighted scores of 4 prominent indicators concerning (1) poverty and deprivation, (2) institutional and infrastructure development, (3) women's empowerment, and (4) natural resources (ICIMOD 1997:13). Comparably, Rukum and Rolpa are the worst even among the four districts under the Maoists control.

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