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Nepal: Where making a profit is a crime



Rainer Zitelmann

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KATHMANDU, NEPAL – AUGUST (Photo by Mailee Osten-Tan/Getty Images)

Maoist policies have made the Himalayan nation of Nepal one of the poorest in Asia, says Rainer Zitelmann

On December 11 2023, I landed in Kathmandu, the capital of Nepal. Nepal lies between China and India and has a population of around 30m. Kathmandu is located in a valley in the middle of the Himalayas with the highest mountain on earth, Mount Everest at 29,030 ft.

Agreeing on a schedule is not easy, as I learn that Nepal celebrates long and hard. Several of my original suggestions weren't possible, as Basanta, the head of a libertarian think tank who invited me to Nepal, explained: "Actually, the festivals runs from 15 October until 19 November, but there will be a gap of 15 days in-between and we were

planning our program in the gap between the two holidays. But people will still be in a holiday mood on those days". Officially, there are 35 non-working holidays in Nepal, more than anywhere else in the world, but the people I speak to say there are actually over 50.

Basanta Adhikari is the founder of the Bikalpa-an Alternative, an aspiring public policy think tank. This man with a long beard – even longer than Karl Marx's – is now an ardent freedom activist, even naming his daughter Liberty and his son Freedom. But at one time, he confessed, he was a follower of the teachings of Stalin and Mao.

With an average annual income of \$315 per capita, Nepal is the second poorest country in Asia after Afghanistan and one of the ten poorest countries in the world. Poverty is clearly visible in the streets, both in the capital and beyond, and the stores and houses are run-down.

Seven constitutions in 80 years

Nepal is also very unstable politically. I wonder if there is another country in the world that has had seven different constitutions in 80 years? Nepal was a Hindu kingdom for 240 years. After a 10-year civil war with the Maoists a democratic federal republic was proclaimed in 2008. Since then, there have been 11 governments in Nepal and most Prime Ministers do not even stay in office for a full year.

In 2023, the Maoist rebel leader Pushpa Kamal Dahal (also known as Prachanda, or "the fierce one") was appointed Prime Minister for the third time. In the 2008 Constituent Assembly elections, the Maoists won half of the 240 seats. Of the 119 parties registered with the Nepal Election Commission, at least 86 are either socialist, communist, Maoist, Marxist-Leninist or otherwise left-leaning. As I drove back to Kathmandu airport, I saw red flags with hammers and sickles everywhere outside an event venue. The Maoists were holding a huge conference there.

Basanta explained: "Most political parties in Nepal believe in leftist ideologies. After India gained independence in 1947, the country pursued socialist policies. China introduced communism after its revolution in 1949. Nepal is in between these two countries, and they have a great influence on us. Our political leaders look up to Mao and Nehru as their role models, they very much take inspiration from them."

It is surprising that Maoism was so strong in Nepal in the 1990s. At that time – after the collapse of the Soviet Union and the socialist regimes of Eastern Europe – communism was in decline all around the world. China still officially honored Mao but, in reality, Deng Xiaoping was busy implementing a policy that was the opposite of Maoism. And it was precisely at this time that Maoism experienced a major resurgence in China's neighboring country.

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Fortunately, that era is now over. But I wonder why the people in Nepal can't see that so many other countries in Asia have become successful through free market reforms, while they are still living in misery. Whether it's Taiwan, Singapore, South Korea, Vietnam, India or China – more market and less state have led to greater prosperity everywhere.

The 328 per cent tax rate

Nepal, on the other hand, only ranks 142nd out of 177 countries in the Index of Economic Freedom. I met the entrepreneur Niranjan Shrestha from the Laxmi Group, one of the largest companies in Nepal. He has a number of business interests, including in the car import segment, and said that the figures Arpita quotes are an understatement: "A BMW X5 costs the equivalent of around €400,000 euros in Nepal due to the high taxes. On this specific model, the luxury tax amounts to as much as 328 per cent."

I also met around a dozen employees of the libertarian Samriddhi Foundation. During our conversation, I realised that Nepal really is a socialist country. No one is allowed to make a profit of more than 20 per cent on any goods they sell. If you make a bigger profit, you either have to bribe the tax inspectors or pay a fine, and in the worst case you could lose your company. Originally, the law provided for a prison sentence of five years, which has since been reduced to one year.

I also asked the entrepreneur Niranjan Shrestha about this 20 per cent profit limit. Shouldn't there be a campaign against it? "The problem," he explained, "is that not only politicians, but most people in Nepal think that profit is theft, that profit is a bad thing. Envy of the successful is the source of this evil."

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There are many other government restrictions on economic life, for example long lists of areas of the economy in which foreigners are not allowed to invest. Foreign investment is largely unwelcome – in part because there is a fear that India would gain too much influence.

The country's rating in the 2024 Index of Economic Freedom is particularly poor in the "Investment Freedom" category, where Nepal scores only 10 out of a possible 100 points (the same as Cuba). Only five out of 176 countries in the world have a worse score in this category, including three socialist countries and one Islamic dictatorship (North Korea, Eritrea, Venezuela, Zimbabwe and Iran).

I met several impressive people, including my publisher Rajeev Dhar Joshi. I learned a lot from Rajeev about the realities of people's lives in Nepal. I was amazed to learn that, according to him, in well over 90 per cent of marriages, the parents still choose the spouse. "Love marriages are an exception. They are increasing in Kathmandu, but the rule is still that the parents propose a spouse." You can reject their suggestions, even several times. "That happened to me. I was rejected seven times by women because they didn't find my job attractive. So, I changed jobs and then found the right woman."

Scores of ambitious people are leaving Nepal today – hundreds of thousands of highly qualified Nepali's have already emigrated to the United States and countries in Asia. It's what happens in all socialist countries that don't lock everyone up, whether East Germany, Cuba or Venezuela: the best and the brightest leave the country. I hope that one day there will be a move towards more capitalism in Nepal, so that these people can come back to their country with what they have learned elsewhere and help to build a prosperous society in their home country, too.

Excerpt from Rainer Zitelmann, The Origins of Poverty and Wealth: My world tour and insights from the global libertarian movement