

# Economic Analysis of Civil Conflict in Nepal

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## Abstract

The armed conflict between the Unified Communist Party of Nepal (Maoist) and the Government of Nepal increased the expenditure of the state on security almost doubled from 1.6 percent of the GDP to 3 percent between 2001 and 2004. The defense budget increased from Rs. 4 billion to Rs. 12 billion a year which was largely because the number of Nepalese Army increased from 46,000 to 96,000. There are numerous studies conducted on Nepal's socio-economic and political aspects during the civil conflict. Much research has focused on the impact on trade and commerce, but little attention has been paid to the increasing security expenditure during the conflict. To fully recognize this dimension of expenditure of the state we must therefore understand the increasing security cost during the conflict, not just the impact of conflict on trade and commerce. Examining various data and information on economic analysis of civil conflict, this paper studies the effects of increased expenditure on defense required during the Maoist insurgency in Nepal. What was the opportunity costs of increases in security expenditure by Nepalese government to invest its war against the Maoist rebellion? How sudden increase in security spending by the government reduced development expenditure and investment of Nepal? How conflict has impacted significantly in the development of education, employment opportunities, health services, and public and private investment?

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