

Manufacturing Industries in Nepal: Prospects and Challenges

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Abstract: *This research paper is to represent the importance of the manufacturing industry in Nepal. The country has its major dependence of economy on the services sector as indicated by the figures of the GDP. This paper review is showing the prospects and challenges associated with the manufacturing industries of Nepal. The purpose of the study is highlighting the challenges for this critical part of the economy so that the decision making bodies have the clear idea for the betterment of the industry. And to find new areas for the new industrialists who join the industrial sector of the country. This will help the potential areas of growth to be prioritized and a speedy growth for the manufacturing sector will be possible. The design of the study was based on the model that previous researches were consulted and the gap was found. The gap is fulfilled by providing a critical analysis of the all the prospects and challenges which the manufacturing industry of the Nepal is facing. Products that have high demand in the country itself should be given the primary importance for establishing the new industry. Neighboring Indian market should fully use to sell all excessive products of the industry. The industry of the Nepal has to accommodate the labor of agricultural sector which contributes more than sixty percent of the population. The land locked borders of the Nepal are also a big challenge for the industries which are related with import and export products. Utilization of good relation with India will be very helpful for the industries of the country. Also people will have to prioritize the idea of purchasing the made in Nepal.*

Keywords: Manufacturing, Nepal, Gross Domestic Product, economic growth

1. Introduction

Economic growth is an essential part for any country for its sustainability in the twenty first century. So is the case with Nepal. Nepal has its major dependence on the services sector for its gross domestic product (GDP) growth. Agriculture and industrial sector make the remaining share in the country's economy. For sustainable economic growth it is necessary for the country to increase the share of industry which is at present contributing one fourth of the total GDP growth. Manufacturing industry has changed the dynamics of the many economies in the world. China is the best example of it which has become the second largest economy of the world just because of manufacturing industry. This has incentivized many of the economies in the world to change the outlook of their economy. The countries have learnt the lesson that if they want to have the sustainable economic growth then they must focus on the manufacturing industry. Nepal has the growing industry in manufacturing sector. Many industries are growing at a fast speed and many new plants are being constructed. Industries like that of bricks, cigarettes, sugar, beer, shoes, matches, chemicals and cement are key industries of the country. They are flourishing in the country because of their growing demand in the country. But at the same time some industries are getting recession in their growth.

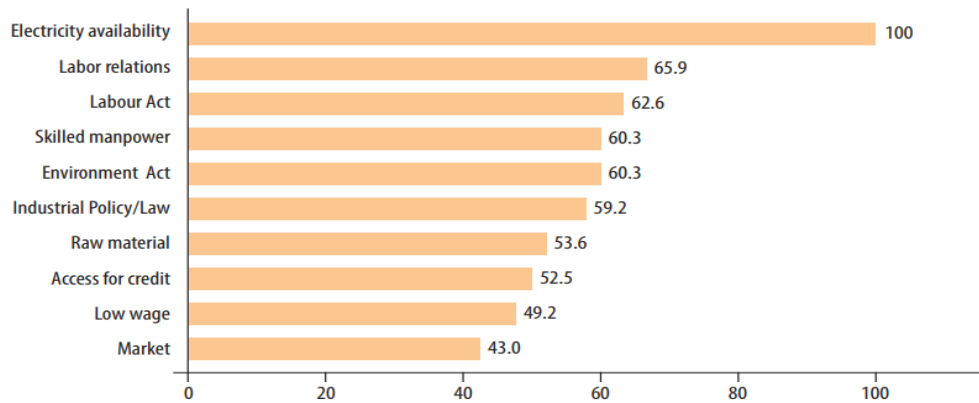
2. Background

Developing the manufacturing sector in any state is essential in the alleviation of poverty, attainment of growth,

development and prosperity, generation of employment to the citizens and non-citizens in the country, alleviation of poverty in that it aids in the reduction of the people living below poverty level in the country, promotion of trade in and outside the country and it spurs growth of income nationwide. Unfortunately, the manufacturing sector in Nepal has been unable to achieve all these as it is desired to be achieved. Manufacturing sector in Nepal has been experiencing growth that is not even over years because of weaknesses that have been longstanding in their effort to adopt the current new technology, power shortage in the state, the poor infrastructure in the state, competition and downturn in economic globally, difficulties in the present trading conditions in the state and political processes which are stalled. Additionally, the establishments of manufacturing sectors in Nepal are mostly local raw materials and labor intensive based. There are a number of regulatory measures and policy initiatives that have been taken by the government of Nepal over years in strengthening the manufacturing sector of the state.

3. Problem Statements

Despite various plan and policy provisions, positive laws and rules, the investors have been facing many barriers to enabling the environment in the industrial sector. Road closures, strikes by laborers and Nepal Bandh (total closure of the economic activities) are frequently declared by either political parties or any groups



It is quite amazing in Nepal that even the government. Even hospitals, telecommunication, sanitation and electricity workers have a tendency to go on strikes and force the country to fulfill their unnecessary as well as unethical demands. The major problems are:

Geographical complexities:- Nepal is a landlocked country. This is due to the fact that it is bordered by India on three sides and China on one side. This means that there is a challenge when it comes to matters imports and exports since the country does not have a port of its own. However, Nepal has the choice of fostering suitable diplomatic relations with its neighbors to allow them access port facilities for their transit goods. The rugged terrain due to the fact that the land is not an even surface, poses a challenge when it comes to matters infrastructural development. It is always a challenge to reach these areas in the interior with rugged terrain.

Lack of Corporate Culture and Institutions:- Lack of corporate culture and institutional development energetic people of Nepal are unable to develop managerial and entrepreneurial skills for maximum utilization of available resources. Business community is not taking risk by establishing new industries. However, they are actively participating in trading.

Socio-Cultural Constraints:- Socio-cultural values are one of many interacting factors that can impact economic as well as industrial development and influence on how we approach the process of economic development due to a set of values, beliefs, traditions and habits.

Inadequate Physical and Social Infrastructures:- Physical infrastructures such as road, energy, communication, irrigation and social infrastructures such as education, health and sanitation are insufficient. That is why private sectors are also centralized in urban areas only. Therefore, the industrial sector of Nepal does not flourish even though its process started 60 years ago and is suffering from basic requirements.

Lack of Political Stability and Will-Power:- Nepal has been unable to mobilize resources even if it has sufficient water resources, human resources, natural beauties, cultural heritages and bio-diversities because of long standing instability and lack of strong willpower of political leaders.

Market Imperfection:- Imperfect market becomes a barrier to achieve economic efficiency and fair business activities. On the contrary, under perfect competition, a firm or industry can operate at the point where there is no surplus of capacity that means resources are fully utilized.

Low Competitive Power and Human Resource Development:- In this age of global competition, it is not just enough for the Nepalese firms to be competitive at the domestic level. For that industrial sector should have to improve economies of scale through technological advancement, marketing strengths, efficient production and distribution systems as well as affordable labor. Building up skill and competitive human resources is the key for catching opportunities for market opening and widening. East Asian countries have good examples of success stories. So, industrial sectors have low competitive power due to less development of human resource than required.

Poor research and development:- Following the high competitiveness in the global market, Nepal has to step up research and development in order to be mapped in the manufacturing industry. The Nepal manufacturing industry keeps lagging behind since there is very little investment towards research on production methods and techniques. With the ongoing technological advancements and industrial revolutions, it is important for a country like Nepal, with high productivity potential attributed to the availability of resources, to consider exploring new ways of production. Contrary to doing this, the country will continue losing its meaningfulness, relevance and competitiveness in the global market.

4. Methodology

The basic goal of this study is to explain the Nepal manufacturing industries, their productivity, growth, factors affecting on outcomes, prospects of manufacturing and the problems entailed with them. To derive the reasoning from above objectives, this chapter presents the research designs with various sources of data, procedure of data collection, and the tools & techniques that are applied herein this research. The study is fully based on secondary data and information collected from various books, booklets, journals, research reports, articles working papers, newspapers, and websites published articles. The basic concept of manufacturing industries in Nepal is drawn through review of literature. The study used both qualitative and descriptive methods of data analysis.

5. Prospects of manufacturing industry in Nepal

Economic growth is the steady process by which the productive capacity of the economy is increased over time as the potential capacity of existing resources whereas development is the process of improving the quality of life of the people. Economic growth is measurable and economic development can be used to describe the underlying determinants of economic growth. However, to achieve rapid economic growth through industrial development, there should be development of export oriented manufacturing industries. Promotion of export based industries and diversification of export market are the major factors which significantly contribute to expanding economic activities and uplift the living standard of the people. The development of manufacturing industries for exports is a crucial factor in achieving economic growth and development. The export markets have to be diversified to achieve the full impact of economic growth and development. Therefore, there is opportunity in the following areas for promotion and development of the industrial sector as well as to improve prosperity of the country. The major prospects of industrial development in Nepal are:

Forests:- The country has managed to maintain a 40.4% forest cover. Also conservation areas amount to about 23.4% of the country’s land (MoF, 2018). The country is endowed with a variety of herbs.

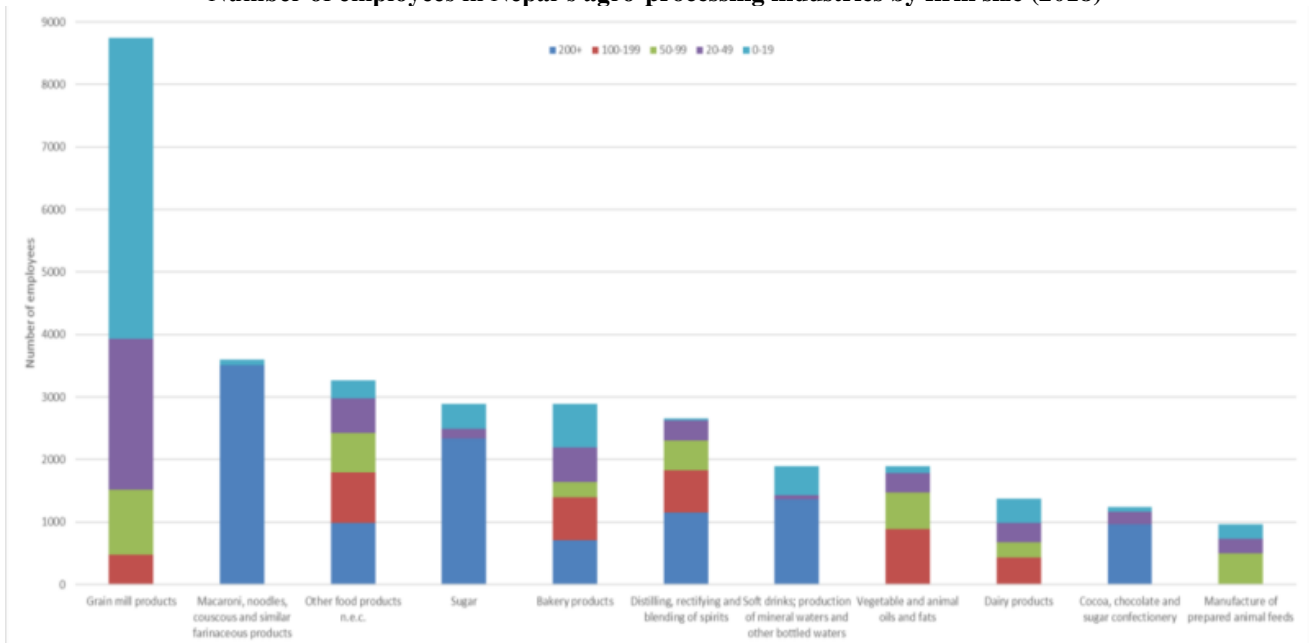
Tourism:- Nepal is full of natural beauty, great Himalayas, adventure places, unique cultural heritages, wide range of biodiversity and historical religious places. So, there are ample opportunities in the tourism industry.

Human Resource Development:- Nepal has also potentiality to improve and capitalize her human resources through applied education and different vocational training which would be appropriate to mobilize her available resources as its potential capacity like in East Asia. Above mentioned prospects are positive indications of bringing the pace of the industrial development of country and catch the track of prosperity. Any industry requires a skilled and empowered human resource to achieve big strides. This may be carried out through vocational training and applied education. This would ensure the resources are utilized to the maximum increasing competitiveness in the global market.

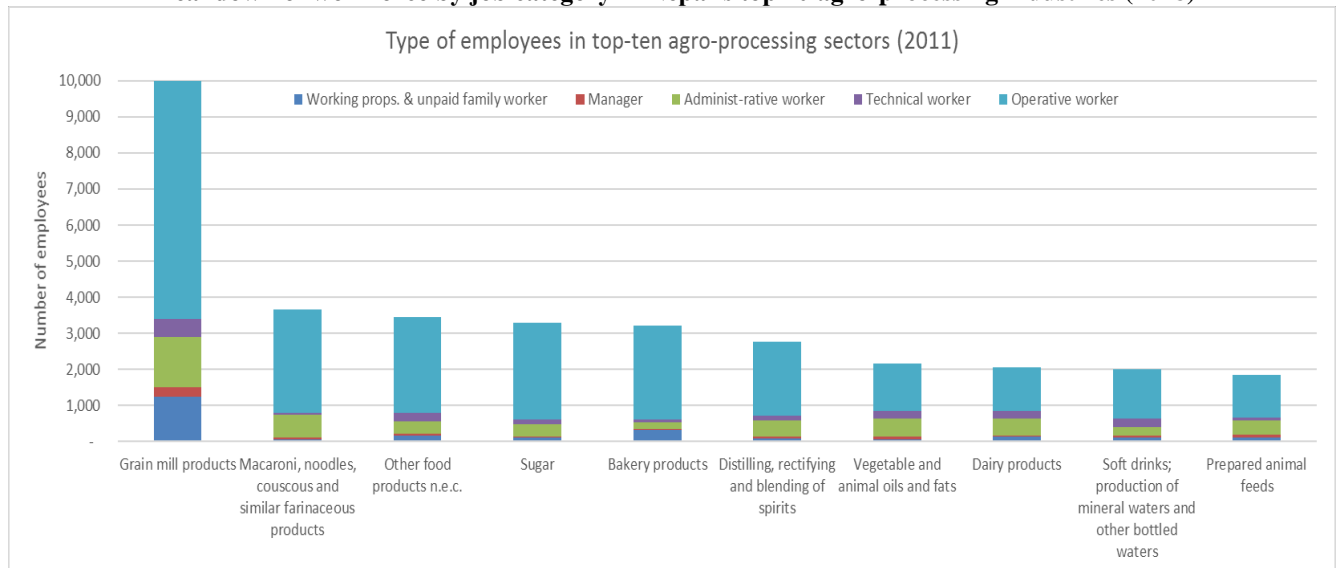
Information Technology:- With the modern technological advancements and utilization in productivity and businesses, Information technology definitely becomes a prospect. It is the new means of running manufacturing enterprises and the entire business fraternity. A grasp of information technology and strategic venturing will certainly be very profitable.

Agro-processing:- Majority of the people are dependent for their income and employment in agriculture and contribute 27.59 percent in GDP (MoF, 2018). So, possibility of agro-based industries such as sugar, tea, mango juice, apple juice, bel juice, tobacco, honey, milk, fish, meat and floriculture etc.

Number of employees in Nepal’s agro-processing industries by firm size (2018)



Breakdown of workforce by job category in Nepal's top 10 agro-processing industries (2018)



Note: Figures in columns showing average numbers of workers per firm are derived by dividing the number of workers in each category for the whole subsector by the number of firms in each subsector. Source: CBS (2014b)

Hydro-electricity:- There is a significant prospect of hydroelectricity due to high water current and 6000 rivers whose length are about 45000 km as well as estimated that about 44000 MW of economically feasible electricity can be generated from the available water resources. So, it has potential to promote industrial as well as agriculture production.

6. Results

The manufacturing sector is normally at the heart of sustainable economic growth. In Nepal, for the past 60 years, there have been initiatives to boost the growth of the manufacturing industry. However, these initiatives have not been very fruitful since the sector has not impacted economic growth in Nepal. The challenges encountered by Nepal include poor physical and social infrastructure, which derails the manufacturing industry. Poor business cultures result in poor managerial and entrepreneur skills, which adversely affect new industries and resource utilization. Political instability and a lack of determination deter investments. Investors are discouraged from making investments by a hostile state of political stability. Unwillingness to utilize resources also factors in as a challenge. Other challenges faced by the manufacturing industry in Nepal include the vicious circle of poverty that makes capital attainment issues, hindering the creation of new industries. The cycle keeps getting repeated unless there is external intervention. Poor human resource development makes the Nepal manufacturing industry less competitive than the other industries in the rest of the world. The country is challenged geographically since it is landlocked, and the topography in some areas poses a challenge to infrastructural development. Unclear laws and policies, the lack of inclusivity during policymaking, and uncertainty in implementing these policies are problematic to the manufacturing sector as a whole. Corruption and

delays also negatively affect the industry. Low investment in research and development results in retardation in the industry since new production methods are not explored. When well utilized, there are areas in the sector that will pave the way for a great change.

7. Conclusions

Manufacturing industries development are recognized as the principal of sustainable economic growth to provide stability and development, but its development trend is slow and challenging up to now as well as its contribution in GDP is less than 10 percent. In Nepal, 40 | The Economic Journal of Nepal (Issue No. 150) plans and policies reform efforts of over 60 years for the development of the industrial sector, but unable to improve economic performance through this sector. Similarly, the manufacturing industries, entrepreneurial skills, technological capability, political will power and good governance constitute the key problems of industrial development. As a result, the country is facing an ever rising negative balance of trade as well as balance of payments situation. However, Nepal has a potentiality of hydro-power, tourism, herbal products, agro-processing, and human resource development. Accordingly, with the hope of more stable governments at federal, provincial and local level, a positive and enabling environment is required for the development of the industrial sector.

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