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# A Glimpse of Industrialization in Nepal: Reality and Challenges

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## **Abstract**

*Nepal is land locked nation with concise number of population and difficult geographical structure. Industrialization is one of the major challenges of Nepal for Economic development. In this study, it analyzes major challenges of industrialization in Nepal in term of economic prosperity and development. The study followed qualitative research design and only used secondary source of data that were collected through different libraries and internet. Conclusion of this study is based on the analysis and interpretation of data collected from the different sources. Access on global market, lack of infra structure for industries, political instability, lack of capital and skilled manpower, lack of the access on sea transportation and weak road network, lack of raw materials are the major challenges of industrialization in Nepal.*

**Keywords:** *Industrialization, Nepal, Challenges, Economy.*

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## **Introduction**

Industrialization is related to the phenomena of establishing industries in a nation or territory. Encyclopaedia defines industrialization as economy process as means of transformation of the economy from agriculture to manufacture of good that as, "Industrialization is the process by which an economy is transformed from a primarily agricultural one to one based on the manufacturing of goods. Individual manual labor is often replaced by mechanized mass production". Industrialization is basically related to the production related to the phenomena transformation away from an agriculture to industry that help to shifts the economy from small scale to large scale (Battle, 2002).

Industrialization began in west mainly in England during the time of early seventeen century. At that time cotton, mill and iron industries are popular in west that Aston T. (1998) Notes, "The Industrial Revolution was the transition to new manufacturing processes in Great Britain, continental Europe, and the United States, in the period from about 1760 to sometime between 1820 and 1840" (p.1). In the context of Nepal industrialization began during nineteen centuries after establishment of industrialization council in 1878, however, history of cottage industries is very long in Nepal. Baskota (1979) notes:

Industries in Nepal began to appear after the Banepa-Kuti trade route was opened in 639 A.D. Due to encouragement to producers of cotton and woolen clothes, paper, food, copper and wooden crafts, ceramic pots and statues, etc., Nepalese economy had realized a grand support for the time being. King Mahendra Malla had emphasized on protectionist policy for cotton mills in

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the country. Even after the unification of Nepal kingdom, King Prithivi Narayan Shah had followed the same model of policy. His emphasis on the use of domestic products, export of herbs, and shift of dwellings if they are on the mines-land, restriction of the inflow of foreign products, learning skill and technique from abroad etc. clarifies it. But the growing inclination of the rich and sophisticated families towards the cheap and qualitative foreign products caused a trend of decline of cotton producing industries in Nepal by the beginning of the 19<sup>th</sup> century.

Under Rana regime, the reign of JuddhaShumsher recorded some traces of industrial development in the country. One cotton mill was established in Birgunj and Biratnagar each. The establishment of the Department of industry by 1940 A.D. carried out training program to villagers on weaving, and running cottage industries. After 1956 A.D., Nepal practiced plan-based economic development. Naturally, industrial efforts were made in planned order since the first periodic plan (1956-61). Now it is already five decades of planning experience Nepal has made and certainly industrial journey of the country has forwarded.

The first five-year plan (1956-61) had general objectives in industrial sector like restoration of sleeping industries plus expansion of some new ones. Allocating some 7.5 percent of the total outlay to industry, the plan recorded some praiseworthy actions in the field. For example, the first industrial policy of Nepal 1957 was formulated to create an industry-friendly environment in the country. To institutionalize this, Industrial Development Center was also set up in the same year which, later, was renamed as Nepal Industrial Development Corporation (NIDC) in 1959. The NIDC was mainly aimed at providing financial and technical assistance to private industrialists and entrepreneurs. Moreover, the Factory and Factory Workers' Welfare Act was also announced in 1959 to remove the confusions inherent in company laws, so as to attract workers to the industry and make its growth. Also, the first industrial policy 1957 was changed in 1961 with a view to provide additional facilities to private industries. As an assistant action, Tribhuvan Highway linking Kathmandu and Indian border plus Kathmandu-Hetauda Ropeway Service was also carried out. Thus, the first plan set a sound base for industries, both at policy and institutional ground, though having no any specific target in the field (Adhikari, 2020).

After the establishment of democracy in 2007 B.S., Nepal entered into the age democracy and the process of industrialization rapidly growth in Nepal that mention in above paragraph. Democratic government brings various programs for industrialization on Nepal; however, the system had been collapsed by the king Mahendra in 2019 B.S and new type of restriction began in the nation (Khatri, 2018). At that time kings and his government established some industries from the side of sates but restriction have been continued for the foreigners till 2047 B.S. After 2047 (1990) new era began in Nepal in the direction of industrialization and various international communities and person have taken interest to establish industries in Nepal, however, Maoist civil war began in 2052 B.S and again process of industrialization blocked in Nepal. Such block was continued till 2063 B.S. In 2072 B.S. new constitution promulgated on the foreground of interim constitution 2063 B.S. and open the gate way for industrialization in Nepal, however, challenges are still remained in industrialization process that challenges are briefly analyzed in this study.

## Objectives of the Study

Analyzing the current situation of industrialization and its' challenges is the general objective of this study. Specific objectives are as follows;

- To highlight the glimpse of historical industrialization in Nepal
- To examine the government' attempt on industrialization
- To analyze the causes of industrialization

## Methodology

The study focused on major challenges of industrialization of Nepal. The study followed the qualitative research design. Secondary source of the data was collected by using library research method. Books, booklets, journals, research reports, articles, newspapers, internet-based materials like online journals, online reports are the main source of data. These data were published from Central Bureau of Statistics, Ministries of Finance, Industry, Commerce, and Supplies etc. Collected data were managed through presenting in table and paragraph description.

## Literature Reviews

Various writers' researchers and economists analyzed the various aspects of industrialization in Nepal. Pacheco-lopez and Thirlwall, (2013) notes, "Industrialization, which the industrial revolution has placed at the heart of structural changes, has consistently raised the levels of production and employment, which has led to unprecedented income growth. So, promoting the development of the industrial sector can be a key to achieving sustainable development. It is indeed now well established in the growth and development literature that there is a strong relation between the growth of manufacturing output and the growth of GDP" (p.5). Industrialization plays an important role on economic development. Kaldor (1967) shows the relationship between industrial development and economic growth and based on empirical results, characterized the manufacturing sector as "the main engine of fast growth" (p.23). Industrialization is one of the landmarks of economic growth. Without industrialization.

Industrialization only can develop in a nation through policies that encourage businessmen to facilitate for the establishment of industry. In this regard, Abor and Quartey (2010), the econometric evidence suggests higher productivity growth in those industries, which are able to produce on a large scale, have higher protection and semi-skilled work force, but lower capital intensity and no public sector domination". Like that Bajracharya, P. and S. Sharma, (1996), notes:

Institutional metamorphosis is a pre-requisite for sustained growth of industries. The government should take initiative to bring this change. Meritocracy is the only option to promote a culture of professionalism. Public institutions must reduce their licensing and regulating roles and transform to facilitating roles. The institutions should work to welcome both foreign and domestic investors rather than harass them. In view of the balance of advantages and disadvantages with respect to competing countries, Nepal will have to outcompete them in institutional support for the productive sector. Since there are numerous institutions relevant to the industrial sector, this chapter will only give a brief description of these institutions and highlight the important issues and recommendations for each of the"

Above reviews and comments show that environment is necessary to run industries in a nation. In the context of Nepal also environment of establishing industries is the first and foremost condition

that only support economic development and prosperity. Without proper management of the business environment industrialization will not lead into the right track. The study briefly analyzed the circumstance and fulfilled the gap of research which has not been studied. The study highlights the current situation, legal policy and challenges. Likewise, the conclusion of the study leads to new directions of the research objectives and tries to reach into the rear of the problems.

## Industrialization in Nepal

In modern time, industrialization begins in Nepal with the establishment of Balaju Industrial Estates in 1963 with the technical and financial assistance from the United States of America (USA). The industrial estates play a significant role to facilitate manufacturing enterprise in the nation. Government provides land, roads, energy, water supply, sewerage, communication etc. at that area. Like that 1988 Industrial Development Management Limited (IDML) was established. According to the Ministry of Finance Report (2018) following are the main industrialized areas of Nepal.

**Table: 1 Major Industrialized Area**

S.N.	Industrial Estates	Estd. Year	Financial Assistance	Location
1	Balaju	1960	USA	Kathmandu
2	Patan	1963	India	Lalitpur
3	Hetauda	1963	USA	Makwanpur
4	Dharan	1972	India	Sunsari
5	Nepalgunj	1973	India	Banke
6	Pokhara	1974	Nepal	Kaski
7	Butwal	1976	Nepal	Rupandehi
8	Bhaktapur	1979	Germany	Bhaktapur
9	Dhankuta	1980	Nepal	Dhankuta
10	Birendranagar	1981	Netherlands	Surkhet
11	Gajendranarayan	1986	India	Saptari

Source: IDML, 2018

Above table shows the currently established industrial areas of Nepal. Data shows that there have been established 11 industrial areas in Nepal. The first industrial area was established in 1960 in support of the United States of America. In the above-mentioned industrial area, in total, there are 700 industries were established in this industrial area, however, only 611 industries are running in Nepal (MOICS, 2018).

During the early industrial venture, the Nepalese industrial policy was the one of protection. The protectionist policy mostly emphasized on import-substituting industries, high import-tariff etc. In a sense, the protectionism aimed at self-reliance, having less or no type of linkage to the outer world. Hada, (2016) notes, "Protectionism is an inward-looking policy that Nepal adopted for long till 1990. In that period, the economy could not have the merit of comparative advantage as it

tried for all at once" (p.45). As the imports were restricted by high tariff and/or quota, the domestic industries did not consider efficiency aspect. Import restriction had naturally caused export disturbance. In such a muddy climate of inefficiency and market lessness, neither foreign capital nor domestic private capital could be attracted much. As a result, the evergreen capital-scarce economy of ours could not much consolidate its plans on industry sector, despite some less-frequent foreign assistance. Nepal's unsuccessful isolated effort proved that nothing comes out of nothing (Dhakal, 2009). Although the industrial policy was changed time and again and industry was highlighted in different planning, the end-result could not be altered significantly. The root cause behind all this may be mainly referred to the very inward-looking industrial policy of the government that ridiculously adopted tariff and non-tariff barriers alternatively.

Except these industrial area industries have been established in different parts of the nation like industries of Jeetpur (Bara district) corridor, Biratnagar corridor, Nepalgunj corridor. Most of the industries are established in Terai region due to facilities of road transportation, access of electricity, labor and market. To enhance the industrialization in Nepal IDML has been working since the date of its' establishment. Major functions of the IDML areas:

- To provide developed land, buildings, electricity, water, access roads, drainage and other necessary industrial infrastructure to industries established in the industrial district.
- To carry out feasibility studies and see if new industrial districts are feasible, with the objective also to continue establishing new ones for further industrialization.
- To collect information, conduct studies and carry out analyses on feasible projects within the district and sell such information and publish them.
- To conduct the requisite research/studies for the promotion of the industrial districts; to participate in national and international exhibitions/fairs for industrial promotion; and to open the way for the industries themselves to participate.
- To study the possible impacts of industrial, commercial and economic policies on industries.
- To provide suggestions, advice and consultations to the enterprises in the districts regarding cost-effective and beneficial operation.
- To encourage establishment of industrial districts by the private sector, through popular participation or as cooperatives and cooperate with them.

S.N.	Policies	Main Features
1	Industrial Policy - 1960	Tax holiday and more facilities to the industries established in remote areas. Special consideration on customs duty.
2	Industrial Policy - 1974	Focused was on protectionist strategies and development of small industries. Supported by high tariff barrier and quota restrictions. Developed the government enterprises.
3	Industrial Policy 1981	Financial incentives for productivity-oriented ventures. To attract foreign investments. Special attention for export promotion zone (EPZ).
4	Industrial Policy 1987	Encouraging private sectors. Promoting industrial development

5	Industrial Policy 1992	Classification of industries in Nepal. Special attention for development of cottage & small-scale industries. Privatization of the public enterprises. Promoting competitiveness among the private industries for reducing the production cost. Developing industrial zones.
6	Industrial Policy 2010	Development of quality infrastructures and environment friendly new technology. Focused on joint efforts of public, private and cooperative sectors. Prioritized export potential products by using local resources. Enhancing enforcement capacity of the government. Promotion of good governance. Coherence between industrial, trade and transit policy. Development of agriculture and forest sector. Increase employment generation and boost per capita income. Promote Special Economic Zones (SEZs). 'One- activities. No work, no pay.

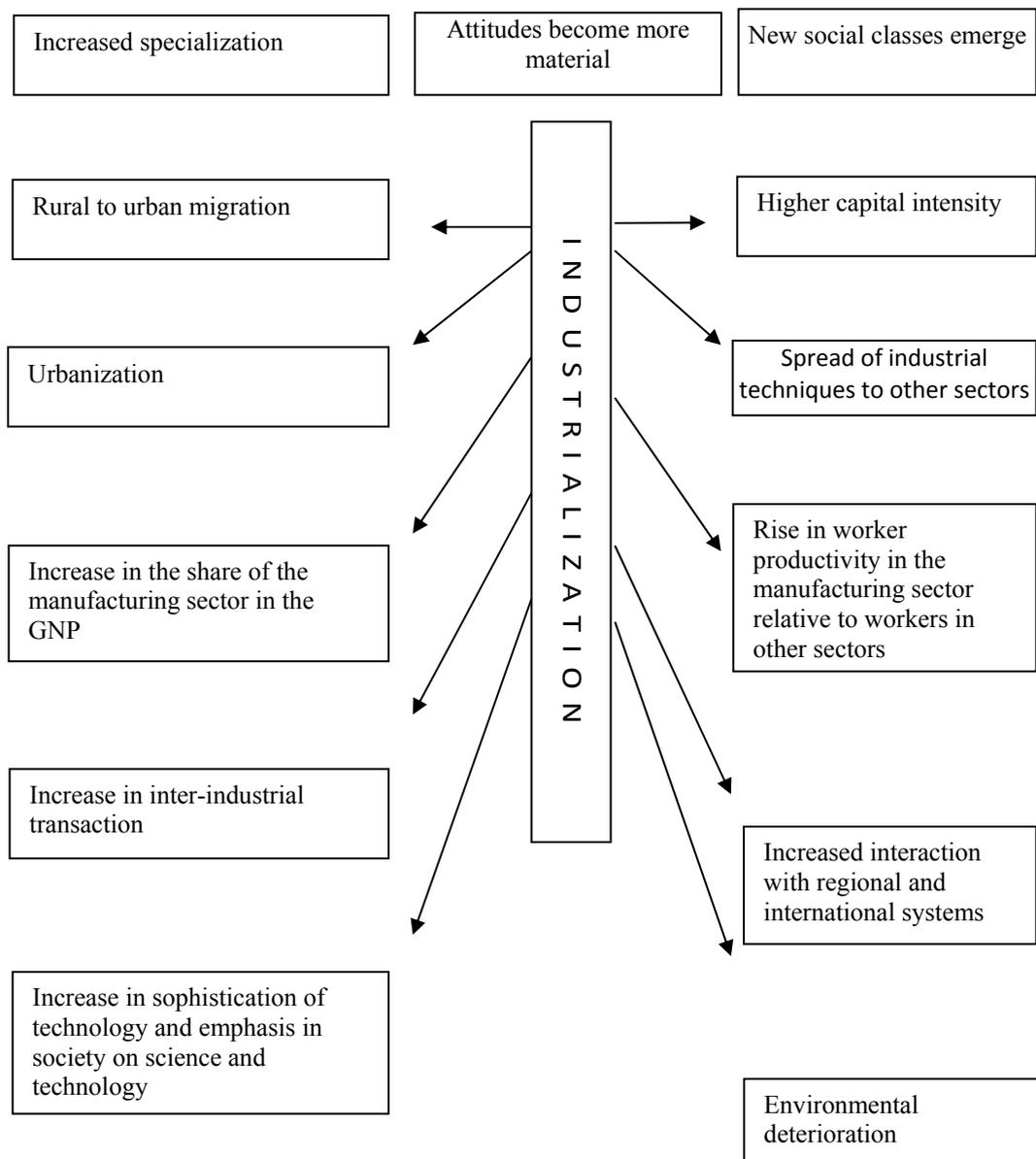
www.IDML

## Industrial Policies and Acts in Nepal

Various laws and policies are formulated to enhance the industrialization in Nepal like industrial policy 1960, 1975, 1984, and 1987. We can divide industrial policy after and fore 1990. Before 1990 Nepal had not entered into the point of liberalization, capitalization and market economy. Economic activities are fully controlled by the government (MOICS, 2018). After 1990 Nepal entered into the global economy and Nepal. Major policies area follows:

Industrial policies play significant role on industrialization of Nepal. After 1990, government creates a favourable environment for economic development by formulating new industrial policies and replaced older ones. After promulgating new constitution 2072 B.S., environment has been created for multinational joint venture business organization in Nepal. Such practice has been increasing in Nepal after completed the compact of millennium challenges cooperation (MCC) that has signed between Nepal and United states. It is hoped that the mega project will play significant role on road transportation and hydroelectricity which is one of the main foundations of industrialization. Dahal, (2009) notes, "Government of Nepal is working on the direction of making environment for industrialization; however, there are still challenges of industrialization in Nepal. Privatization Act 1994, Industrial Policy 1992, etc. had a grand impact" (p.5). Now more stress was put on export-promoting industries instead of import-substituting ones. The policy is liberal in that it has embodied the principle that only give and take can strengthen an economic relation between the nations. Thus, the post 1990's industrial policy is of outward-looking nature, attracting foreign investment by widening market for the Nepalese products. By helping to raise quality of the product via increased private sector handling, the privatization Act 1994 has functioned as a spirit to the liberal industrial policy (NRB, 2019).

Industrialization and development are inextricably linked. One must not discard the reality that industrialization earns foreign exchange, provides employment, spatially integrates the economy, and minimizes dependency syndrome apparent in poor and developing countries. Itself an issue of glory, industrialization is further signified by Bhusal (2010) as:



## Major Challenging of Industrialization in Nepal

In the context of Nepal due to various causes Nepal is facing various challenging in the process of industrialization. Some of the challenges are as follows;

1. **Insufficient Physical and Social Infrastructures:** Due to difficult geographical structure of the nation it is difficult to construct road and. Like that there is lack of social infrastructure like health, sanitation regular contribution of insurance etc.
2. **Lack of Corporate Culture and Institutions:** In Nepal there is lack of corporate culture and institution which are inevitable for the industrialization. Without cooperate culture it is impossible to enhance industrialization in nation.
3. **Lack of Political Stability and Will-Power:** In some instant political leaders have not sufficient will power to implement industrial policy in Nepal. political instability plays challenging role on the establishment of industrial area in Nepal.
4. **Vicious Circle of Poverty:** Poverty is one of the main challenges of Nepal for industrialization. Due to poverty people could not involve into the corporate culture.
5. **Socio Cultural Constraint:** In some cases, socioculture limitation like culture belief practice, involvement tradition on work also challenges in industrialization. For example, we could not establish industry in religious and cultural sites.
6. **Market Flaw:** Market flow also appears as main challenges of industrialization. In Nepal there, is a problem of market fairness and honesty on market.
7. **Low Competitive Power and Human Resource Development:** Situation of human resources management is major challenge of industrialization. Lack of competitive human resource development industry could not run properly.
8. **Difficult Geographical Location:** Geographical location also creates challenges in industrialization in Nepal. Most of the industrial zone is established in terai region. Industrialization process is very slow in hill and mountains
9. **Good Governance:** Good government is one of the basic for economic development and industrialization. In Nepal corruption and lack of good governance is main challenges of industrialization
10. **Lack of Research and Development:** Research and development also one of the major challenges of industrialization in Nepal. For industrialization there is necessary of research and development which is lack in Nepal.

Policy, weak implementation of laws and policies, tussle between local people and industrialist, lack of raw material, flood, landslide, disturbance of local government is also appearing as challenges of industrialization

## Conclusion

Industrialization process began in Nepal sixty years before; however, still the process is continued. Balanced regional growth has been a sound goal of Nepal's economic planning since history. However, it has never been realized in terms of industrialization. How could the heavier concentration of both small and large type industry in the Central Development Region help us materialize the goal? The reason behind all this is but the backwardness of other regions in terms of development infrastructure, in main. There is lack of environment encouraging setting up and operating industries causing fewer industries in remote areas. Since it is likely to affect internal as well as external migration thereby giving way to brain-drain plus capital-drain, economic development further slackens. Thus, imbalanced regional growth is a root of self-sustaining underdevelopment. Hence, it is strongly recommended to properly implement government planning and create an industry-friendly environment throughout the country, so as to flourish industries in the land all over. Then only, Nepalese economy can realize an upward trend in terms of every growth measure.

It is very urgent to create an industry-friendly environment in the country. For it, people, the government and every section of the community should be cautions and cooperative enough. About people, practical education and/or direct useful trainings should be managed; about government, stability should be maintained with resolution of conflict and restoration of peace; about community, each should be integrated to national grid of country's development via infrastructural connection. Otherwise, the downward trend of Nepalese industries at present will not be maintaining the backbone of the economy. Instead, the economy will be more vulnerable to external shocks.

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