

Deindustrialization in Nepal: Can it be reversed?

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Abstract

There are various ways to think about “Deindustrialization”: either in terms of long term decline of output (manufactured goods) or a sustained state of trade deficit that drags the economy among many other interpretations. The situation of Nepal’s economy does indicate such scenarios. Broadly, it is a consensus that the ‘technological innovation’ may reverse the trends of deindustrialization. However, it is easier said than done. The paper explores from the lens of ‘Innovation system (IS)’ concept that has emerged from industrially advanced nations to study the dynamics of innovation at various levels. IS provide the broad understanding to incorporate technical changes and economic growth at national level that are outcomes of innovative activities, and it’s getting popular to reflect upon Developing Countries (DCs) by focusing on interactive learning and institutions for economic growth and development. In Nepal’s case, it is particularly different and contrary. For instance, the share of manufacturing to national economy got reduced from its historic high in 1996 that was about 10% to just 6.5% in 2015. The manufacturing sector shows negative annual growth for at least three years.

The paper will undertake four Census of Manufacturing Establishment (CME) surveys collected by Central Bureau of Statistics (CBS) – 1996, 2001, 2006, and 2011. However, studying Nepal in isolation may not reflect upon what can be achieved until we draw simultaneous experiences and lessons from other nations – South Korea, Singapore and Thailand – having relatively similar situations when they were developing. This has been much talked in the political discourses at national level. The online databases of United Nations Industrial Development Organization (UNIDO) and World Development Indicator (World Bank), and other secondary sources were used to generate the empirical evidences to juxtapose the situation of Nepal vis-à-vis others nations.

The paper argues, on the contrary to the discourse in Nepal that, it hinders to make progress towards fostering manufacturing in the economy or ‘learning to industrialize’ is limited due to structural constraints. Thus, it is expected that the service sector such as tourism may help to escape the traditional disadvantage but that too remain limited in scope to boost the economy. The paper argues to search for conditions to industrialize that may necessarily facilitate technology transfer/change/adaptation that may lead to convergence by absorbing workforce, productivity and integrate the economy into global production/value chain.