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**AN IN-DEPTH STUDY OF INDUSTRIES THAT WOULD HELP NEPAL IN  
ACHIEVING MAXIMUM BENEFIT BOTH TANGIBLE AND  
INTANGIBLE FOR ITS CITIZENS**

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**ABSTRACT**

The paper essentially focuses on the untapped resources both in terms of raw materials as well as labour. The essential aim of the paper is that the Nepalese economy should move rapidly on the path of progress. This requires the efficient use of tourist facilities, remittances, hydropower and labour resources, along with the traditional utilisation of raw materials. As the economy is in an important geopolitical space, it should take advantage in the form of increased investment from its neighbours India and China, and in recent years the US. It is important that all the investment coming in is used in a prudent manner to increase its growth and welfare of its citizens.

**Research Question:** This study would deal with the type of industries that would make use of Nepal's abundant resources, to pull it out of abysmal poverty. The aim of the paper would intrinsically be to understand the benefits of specific industries both in real terms as well as with respect to an increase in the quality of life of its citizens. The basic premise of the paper besides the above, would also entail touching upon the political scenario and its impact on the economics of the country.

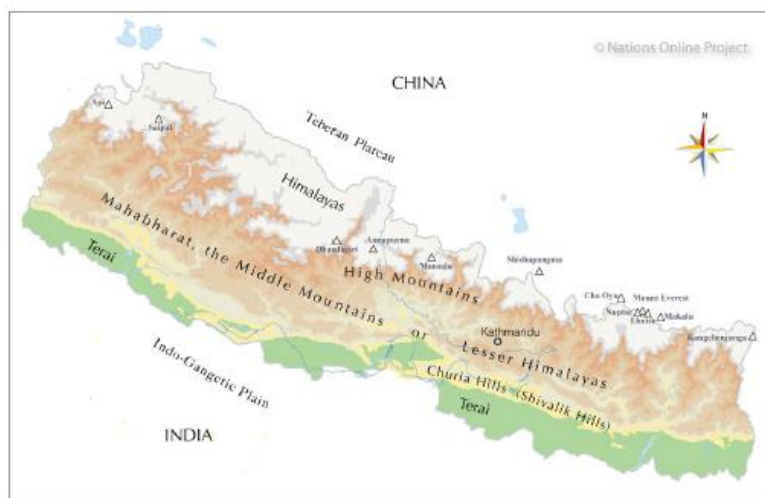
**1. Introduction**

Nepal geographically is a landlock country with the Himalayas in the North, the Mahabharata range and Churia hills in the middle and Terai range to the South (mid hill region). The physical features include mountains, wetlands, hills, caves and plains. The country experiences a wide range of temperatures. It is a sovereign independent kingdom with China in the north and India in the southeast and west. Nepal has abundant rivers which are fed from the Himalayan snow or the low land rains. It has the Mount Everest which is the world's highest peak in its domain. In fact, eight of the ten highest world peaks are in Nepal. Nepal is considered an underdeveloped economy but it has a lot of potential with respect to tourism as well as mining of minerals to

improve its gross domestic product (GDP). The emphasis on universal education and health is important in increasing the pool of skilled labour, which is extremely important for the growth of manufacturing and the tertiary sector. As the economy develops, the secondary and the services sector would increase its contribution to the GDP.

Politically, after the assassination of its king, the country has been in turmoil. There has been recent attempts to rewrite the constitution. The presence of both India and China as dominant neighbours has also influenced the political mindset in the economy. Growth of the economy requires the development of its own resources rather than being dependent on other countries.

**Figure 1: Physical features of Nepal**



Source: google images

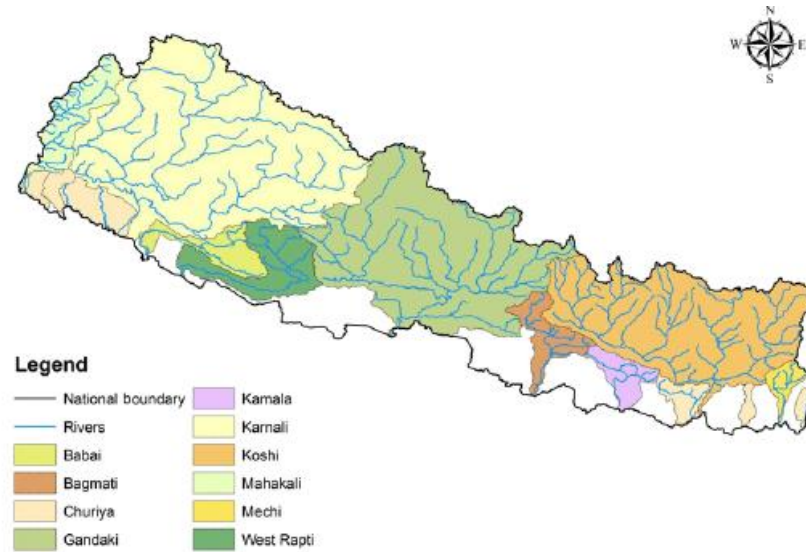
## **2. Abundant Resources That Are Available In Nepal**

Nepal is regarded as one of the richest countries in mineral resources like iron, copper, lead, zinc, cobalt, nickel, quartzite, dolomite and limestone. They also have an abundance of minerals used in construction like:

- Limestone
- Coal
- Clay red
- Granite and Marble

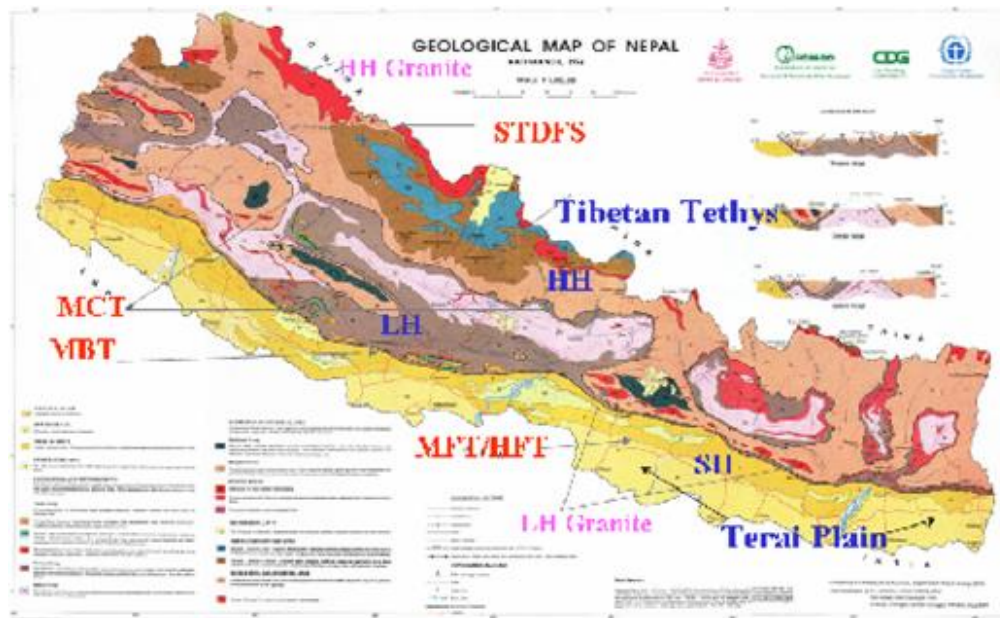
The country has a number of rivers which could be effectively harnessed for hydropower.

Figure 2: Rivers in Nepal



Source: Google Images

Figure 3: Locations of important Minerals



Source: Google Images

The above figures indicate the importance of rivers as well as minerals in Nepal. A large number of them are not adequately mined or harnessed due to the paucity of capital and effective, efficient technology. It is these resources which will lead to an increase in GDP.

### **3. Efficient And Economic Use Of The Above Resources**

Along with minerals the other potential investment should be in water resources, land, biodiversity and forestry, all of the above have to be efficiently utilised for the economy to achieve high levels of growth. The Nepalese society is predominantly rural and is considered one of the poorest countries in Asia. The problem that it faces in achieving maximum growth is its landlock location, rugged terrain, poor infrastructure and the political uncertainty. It can be divided into eight regional boundaries not by administrative lines but due to the formation of natural barriers. The concentration should be in finding a solution for each of these districts separately based on the problems and defects that these districts face. The aim of most countries is to achieve “balanced growth”, which essentially requires that rural and urban areas should grow simultaneously.

Nepal has a natural comparative advantage in agricultural products and non-timber forest products like medicinal herbs, large cardamom, jute products, ginger and teas.

The hill and the mountain region specialise in tourism and religious features. A huge amount of money is generated due to various tourist activities for the country. As long as the economy is politically stable the in-flow of foreign currency has been enough to meet its imports requirements. During the period of political instability, this source of foreign exchange was adversely effective. The hill and the mountain regions have poor infrastructure, and the urban and rural areas are not well connected. The terrain region has a huge agricultural potential and is easily accessible to the Indian railway system.

Nepal being a country which is labour surplus compared to capital, labour intensive manufactured products like leather, hand-knit and woven carpets, jewellery, textiles, pashmina mufflers and shawls are extremely competitive in the international market.

The second most important area which needs to be harnessed is the rivers for generating hydroelectricity. This development will help reduce the dependence of petroleum in the generation of electricity and save precious foreign exchange.

As the world is increasingly concerned about the detrimental impact of climatic conditions, the use of hydropower as a viable alternative will go a long way in achieving sustainable goals. This particular resource has been completely neglected because of the expense involved in harnessing it. Green growth would help immensely in addressing the existing shortages of viable resources.

Despite being a water rich country, water management is a challenge both in respect to agriculture and electricity generation. An important way out of this is to strengthen institutions and policies which are related to river basin management, enforcement of standard efficient procedures with respect to environment, community based water management and compulsory enforcing of water harvesting.

To conserve and manage natural resources, and to avoid any man-made disasters like landslide etc it is important that the administration takes care of the manner in which road construction is developed specially on hilly slopes. Adequate urban management and in-depth study in ecology and development are important to preserve and conserve the natural heritage of the country.

### 3.1 Harnessing Hydropower potential in Nepal

Figure 4: Current and Future Hydropower projects in Nepal



Source: A review of hydropower projects in Nepal, 1<sup>st</sup> international Conference on Energy and Power, RMIT University, Melbourne, Australia

Source: Hydro Review: the way forward for Nepal's hydropower Development, 2019

The above two figures indicate the importance of Nepal's rivers and the Nepalese government should take advantage of its geographical placement and work for its betterment with help from India and China. A number of these rivers start in the Himalayas and flow to both the countries. It becomes a win-win situation for Nepal and all neighbouring countries to use these water resources effectively and efficiently. Most of the rivers are freshwater and are well-endowed rivers which will help immensely in the irrigation of low land parts of Nepal as well as the fertile Indo-Gangetic plain. Besides, irrigation there is ample scope in the hydropower sector. There have been a number of joint projects which have been initiated in this respect. In spite of being a small country, Nepal's topography makes up 2% of the

world's water resources, but the electric hydropower generation is only 650 megawatts per annum, which amounts to less than 1% of its potential.

30% of Nepal's population do not have access to electricity and 70% of the population experience power cuts. Increasing population growth has led to increasing energy demand leading to increased burden on the electricity distribution companies.

Progress has been scanty due to:

- Regulatory challenges
- Marginalization of local communities
- Unstable politics
- Absence of substantial framework and appropriate location
- Dependence on foreign aid

In recent years, Nepal has shifted collaboration of hydropower projects worth billions of dollars to China. With different political parties coming into power their equation with China has undergone a change. Earlier the dependence was only with India but increasingly China has started investing in Nepal. The Upper Tamakoshi hydropower project of 456 megawatts project also known as the Three Gorges Dam project of Nepal a joint project between China and Nepal, was completed and went into full operation recently. This is expected to tackle power shortage in Nepal, improve energy mix and promote industrialisation and agricultural modernisation.

China has invested in Nepal as it has agreed to be a part of the Chinese ambitious Belt And Road Initiative (BRI). It is developing huge economic projects to empower Nepal and is ready to co-exist with the fact that Nepal follows a non-aligned policy and is close to its other neighbours.

Given Nepal's geographical location in Asia, countries like China, India and United States are keen to help Nepal achieve high rates of growth not only for the citizens of Nepal but to also consolidate their own geo-political position in the region.

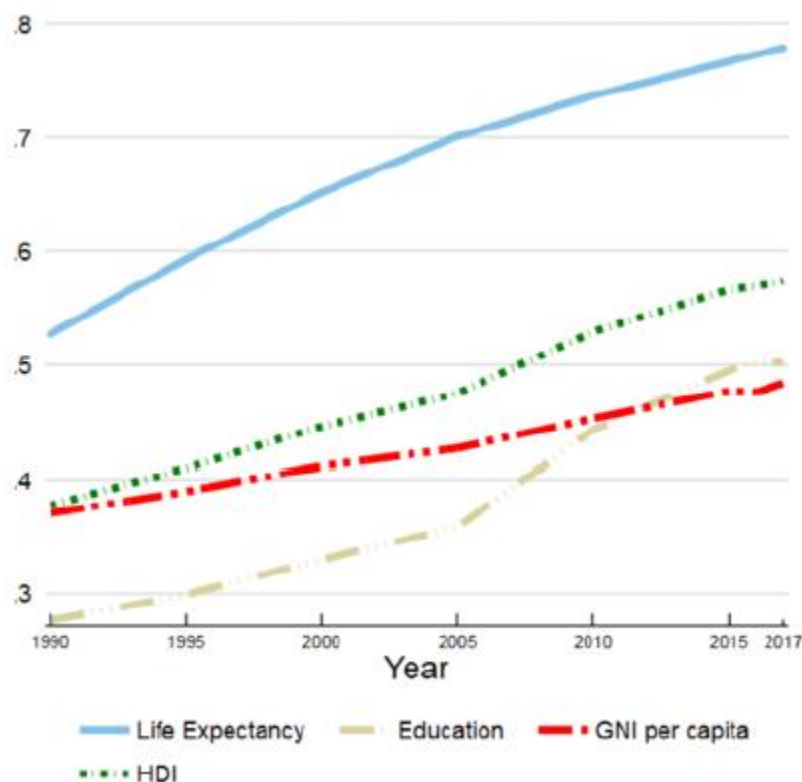
#### **4. Policies Towards The Improvement Of Social Indicators In The Economy**

This can be assessed by calculating the HDI (human development index) of the economy. The HDI is the summary for assessing long term progress in three areas:

- Long and healthy life
- Access to knowledge
- A decent standard of living

Nepal's HDI for 2017 was 0.574, it was positioned 149 out of 189 countries. Since 1990 the life expectancy at birth has been improving and so has the expected years in school as well as the gross national income per capita.

**Figure 5: Trends in Nepal's HDI component indices 1990-2017**



Source: Google Images

The figure above indicates that there has been great progress of HDI. Besides, another measure of development is the GDI (gender development index). This measure involves three basic dimensions:

- Health (measured by female and male life expectancy at birth)

- Education (measured by female and male expected years in school)
- Command over economic resources (measured by female and male gross national income per capita (GNI) )

**Figure 6: Summary of Nepal’s performance on the Quality of human development indicators relative to selected countries in the year 2018**

	Quality of health (3 indicators)			Quality of education (6 indicators)			Quality of standard of living (4 indicators)			Overall (13 indicators)			Missing indicators
	Top third	Middle third	Bottom third	Top third	Middle third	Bottom third	Top third	Middle third	Bottom third	Top third	Middle third	Bottom third	
	<b>Number of indicators</b>												
<b>Nepal</b>	1	1	1	1	1	1	0	2	2	2	4	4	3
<b>Afghanistan</b>	0	0	3	0	0	1	0	1	3	0	1	7	5
<b>Sri Lanka</b>	2	1	0	0	1	2	0	4	0	2	6	2	3

Source: Google Images

Since 1990 till 2018, the human development index of Nepal has moved up by 52.6% and life expectancy at birth has increased to 70.5 years. This is not universal as disparities persist between gender and region. The government of Nepal has set up a long term plan to increase sustainable development goals. Between the mountain regions, hill, terrain, eastern development region and central development region the range of GDI (Gender development Index) in 2011 ranged from 0.487 to 0.551 respectively. Female adult literacy is still low in the mountain as compared to hill. As far as human poverty index is concerned high levels of human poverty exists in mid- western and far western indicating inadequate health education and sanitation facilities. Nepal needs a big break through and push in the development process for accelerating human development.

### 5. Political Set Up

Nepal’s political scenario has been very tumultuous. Specially, since the king was assassinated in 2001 since then there has been a Nepalese democracy movement which started advocating multi party political system. The beginning of the national movement started out with the ousting of the Ranas (Nepalese Royal Family). King Gyanendra took control and ruled till 2001- 2006, and enforced wide spread oppression of media and civil society. Coalition of seven Nepalese parties and the Maoists led to the resignation of the king and reinstatement of the parliament as well as the abolishment of monarchy. The politics of Nepal now functions under a multi-party type system. Nepal had its first general election in 2017, it functions



under a hybrid regime. There is a system depending on which party attains majority, heads the government. The constitution came into effect in 2015. The more the economy becomes politically stable the greater the chances of it achieving higher levels of growth. It is important that a politically stable government is at the helm so that the rich resources that have been untouched are efficiently and effectively utilised for higher growth rates.

## **6. Impact Of Migration On Gdp**

Migration plays a very important role in the development of Nepal's economy. Emigration affects the labour supply of an economy but at the same time there is a huge amount of repatriation of funds to their families. In 2015, approximately 3 million Nepalese went abroad and repatriated funds. In the same year, more than 10% of youth in the productive age group 20-40 years left the country to seek work abroad. This does not include the numbers that work in India as no exact figure is known due to the fact that Nepalese working in India do not require a visa. Besides India, a large number of them migrate to countries like Qatar, Malaysia, South Korea and Israel, reasons being :

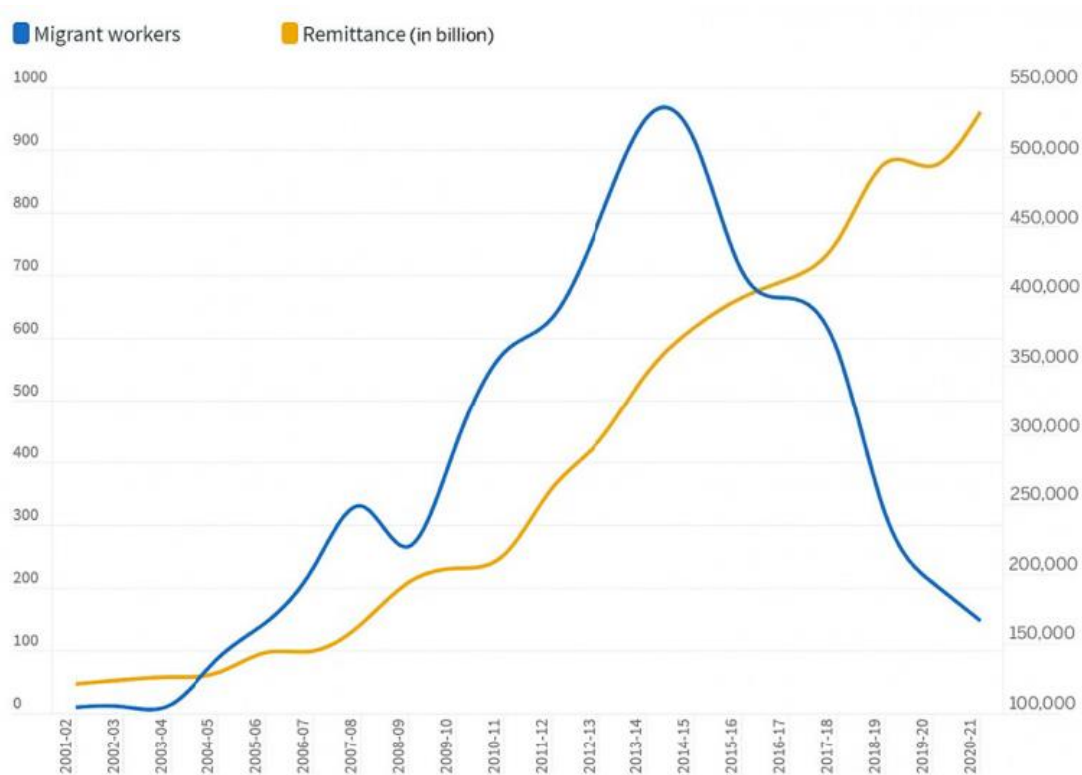
- Poverty
- Limited employment opportunities
- Decreasing agricultural productivity
- Political uncertainty after 1996

The aim of migrants is to find lucrative employment and safe living conditions. The main reason for migration is lack of employment opportunities as well as higher paying jobs in the destination country. The population that migrates are normally between the age group of 25- 35 years. The impact of this can be seen in many ways. Increase in flow of remittances, this in 1999/2000 was to 10% of GDP and has increased in 2019/2020. These have helped in improving living standard of the people. There is study by Nepal Economic Forum which states that poverty falls by 1.1% with every 10% increase in remittances. The investments towards productive areas like health, education, infrastructure, entrepreneurship, consumption as well as Nepal's foreign exchange reserve have increased due to inward remittances. Whichever household is a recipient of these remittances majorly spend it on education and health. The benefit of this is that incomes increase and so does consumption and savings.

The problem arises that these remittances are rarely used for capital formation. What it in fact does is increase demand for consumer goods which is imported, resulting in trade deficit. Recruitment agencies that are involved in migration charge hefty fees as a result of which 1/4<sup>th</sup> of

the income sent home is spent on repaying these agencies. The first impact of remittances is to improve one’s standard of living essentially meaning higher consumption standards, this is natural that the level of poverty is so abysmal. It is only when basic consumption level have been achieved that the household thinks of saving. It is this saving which eventually leads to capital formation. For remittances to be a meaningful source of development a higher amount should be saved.

**Figure 7: Extent of migrant workers and remittances in Nepal from 2001-2021**



Source: Nepal Rastra Bank, Department of Foreign Employment

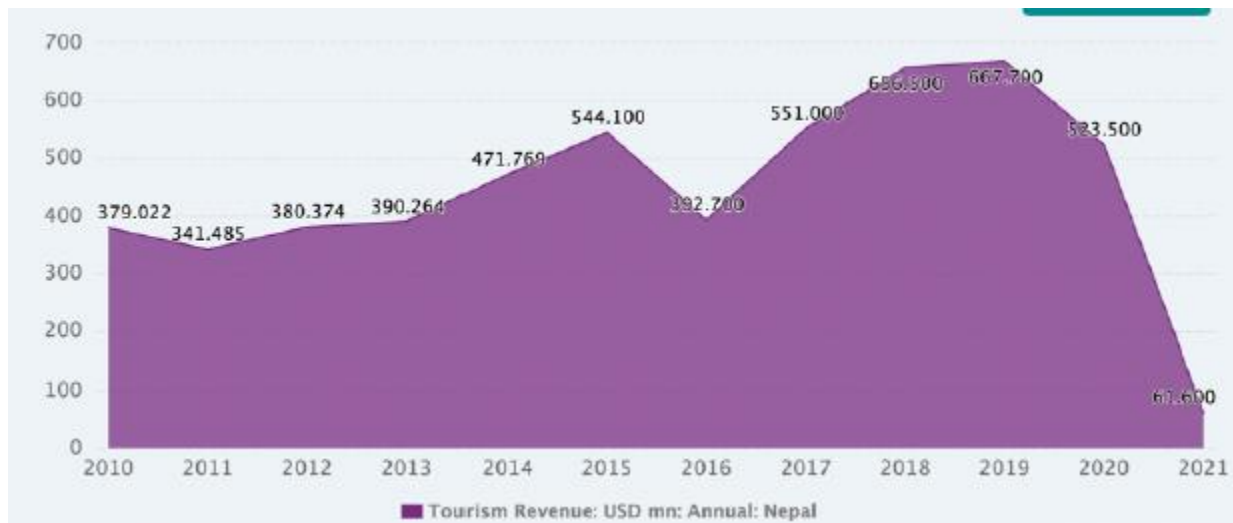
In spite of the large extent of remittances Nepal has not been able to resolve the structural challenges that exists in the society. Primary aim should be to build a flexible and conducive domestic market that supports domestic industries and job. Effort should be made for women to enter into the labour force. All the above would positively impact GDP growth rate.

**7. Role Of Tourism On The Gdp**

Nepal is fortunate to have the highest mountain peaks in the world within its boundaries. Tourism is a very important industry in Nepal. There are number of backward and forward

linkages connected with this industry and it is also an important source of employment of skilled and unskilled labour. Besides this, the earnings from this sector have been increasing exponentially. It is important that the country take cognisance of this and uses these precious resources to further increase the GDP of the economy.

**Figure 8: USD million: Annual Revenue from tourism in Nepal**



Source: CEIC DATA

The above graph indicates continuous increase in revenue from tourism except during the covid years, but the tourist inflow has increased since 2022. Given the large extent of revenue earnings from tourism it is important that the economy preserves the ecology and uses the earnings judiciously in improving the living standards of the people.

## 8. Conclusion

The efficient and the economic use of natural resources is an extremely important factor that would help in increasing the GDP of the Nepalese economy. As Nepal is an important country geographically it should be prudent enough to use the help of its neighbours in harnessing these areas. Nepalese should make a concerted effort in controlling corruption and using remittances and earning from tourism in increasing capital formation of the country.

Domestic industries and agriculture are areas that should be main targets of investment so that people's incomes increase and this results in reduction in poverty levels. Emphasis should be on imparting skill to labour as well as harnessing the untapped resources and trying to achieve universal health and education. All of the above, would go a long way in increasing the GDP potential of the economy.

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