

Need of State-led Strategy for Economic Development in Nepal¹

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Abstract

The purpose of this study is to explore the way and importance of state-led strategical development in the context of Nepal. Basically, there are three different methods of development strategies that are commonly practiced in the countries of the world. They are state-led strategy, individual-led strategy, and NGO-led strategy of the economic development. Among them, the basic way of development is the investment through the government fund. To find which of these strategies is appropriate in context of Nepal, this review study was conducted. It has also used the simple statistical method of analysis with the help of the secondary data. The findings are presented in table and bar graph. The result of this analysis shows that the most appropriate development strategy is the investment through government organization especially in the initial phase of development of a country. So, it can be suggested that the state-led- strategy of development can be adopted for economic development of Nepal.

Keywords: developing countries, economic development, state-led strategy

Introduction

There are different development strategies practiced in different countries of the world at different periods of time and various stages of economic development. Before Adam Smith (1776), there was Laissez faire economy in practice in which most of the countries of the world practiced individual-led strategy of investment and development. At that time, governments used to collect tax; and with that money the government used to protect the country from external attack and maintain peace and order inside the country. As a result, no development work was carried out by the government. But the scene is different in

the modern-day economy and state management. Goodland and Ladec (2023) argued that good manpower (educated, trained, skillful, experienced, specialized) is required for the development of the country, and it is the responsibility of the state to plan, develop and manage these necessities for the economic development of the nation. In the absence of such manpower the development of the country is impossible.

After Alfred Marshall, a neo-classical economist, with the development of concept of welfare state, the government of different countries started to feel the responsibility and the government started

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to make investment in those areas where the government can provide service to the people to gain popularity. It is known as state-led strategy of economic development. Boumol (2023) argued that the unemployment in the country can be reduced through state led strategy in the development of the country. It can provide employment to the people of all economic levels and all types of people on the basis of equality. The state can also bring the strategies that can promote such situations for employment and development.

Likewise, after the Second World War, which ended in 1945, and with the emergence of developed and developing countries, the developed world started to make investment in the developing countries through different NGOs and INGOs. It is known as NGO-led strategy of economic development. Including this one, generally there are three different types of development strategies in practice: state-led strategy in the economic development, individual-led strategy in the economic development, and NGO-led strategy in the economic development. These types developmental strategies are appropriate in different countries based on their level of development, type of geography and condition of the gross national production.

Nepal is a mixed economy, where private and public sector go side by side in both the investment and management of the economic sectors. It is widely believed that the development of Nepal is not complete and possible unless both the sectors are developed simultaneously. But, at the same time, Nepal is far behind in the infrastructural development as compared to other developing countries of the world. Therefore, for the initial speedy

development of all the sectors, the government must take the initiative and state-led strategy is essential today for its development (Acharya, 2006). In the same line of argument, Thomson (2023) pointed out that the deficit in the balance of payment can be reduced by following the state-led development strategy. It increases export and reduces import of the foreign goods which leads to speedy development of the country.

In this context, this article has tried to find whether the state-led strategy is really appropriate approach to overcome the difficulties of developing countries like Nepal or not. Thus, the objective of the study is to find the most appropriate development strategy in the poor and underdeveloped countries like Nepal.

Method

This article follows qualitative research methodology. It has included the reviews of some theoretical perspectives in the development of a nation. Some subjective, objective and statistical data have also been collected and used. Secondary data have been taken under consideration to find the level of unemployment from 2018 to 2022. Similarly, the data from 2015/16 to 2020/21 have been used to show the import and export of Nepal along with deficit in the balance of payment. Statistical tools such as bar diagrams and pie-chart based on the objective data have been used to present the different relationships among the data. The relationship is both internal and external. The set of relationship which is considered important in the study has been examined with the help of tables, schedules, figures and diagrams. The data

related with foreign employment, domestic unemployment, export and import have been used to establish the importance of government led strategy in the development of Nepal.

Results and Discussion

There are various areas of development and improvement in an economy for the economic development of the country. For the development of these areas in Nepal, the possible roles of a state-led development strategy are discussed in the following paragraphs. At first, the reasons to use the state-led strategy in Nepal have been surveyed before the analysis of the data in consideration.

Firstly, national identity is an important aspect for a country to be economically developed. For the protection of its identity, the government can make the nationalistic plan and policy to produce goods that can be sold in the national and international markets. For example, the production of the curio goods with the emblem of Nepal can both promote and protect Nepali national identity (Shrestha, Adhikari, & Khadka, 2079). Similarly, Dhaka caps of Palpa, 'Bhojpure khukuri' from Bhojpur, 'metal pots' of Bhadgaun, and curio goods for the tourists are the good examples of Nepalese identity (Bista, 1996). Such type of industries can be established by the nation through state-led strategy. Other strategies of development may not have interest in producing the goods of national identity because they have their own interest; and they need more profit for their satisfaction.

Similarly, proper allocation of the economic resources is another important aspect where government-led strategy is

needful. For every developing nation, resources are scarce, and so they have to be utilized in a proper way. The resources available are to be allocated in such a way that they provide maximum benefit to the people (Graper, Mauro, Patt & Raphael, 2020). In the context of Nepal, too, resources are limited. So, they have to be allocated in such a way that the nation gets maximum benefit. So, there must be either direct or indirect control from the government over its resources. Government investment and control can help utilize the natural resources in a planned way. It also helps to meet the need of the people correctly.

Thirdly, government mechanism is very essential to co-ordinate the private and non-government sectors. The government alone may not be able to develop economy in a planned way (Warner, 2014). Therefore, private and non-governmental sectors can also be made useful for its development. The government should decide how and where the private and non-governmental organizations should be useful and utilized. If the private and non-governmental sectors are left uncontrolled, they become selfish and neglect the government to create the environment for their investment and make them irresponsible. Other sectors cannot keep the government sector under them; but it is only the government that can keep the individual and NGO under it (Hemming et al, 2006). So, the government led strategy is important as well as essential to keep other strategies under it.

Fourthly, Nepalese society consists of various groups of people. There are so-called high caste and low caste people, and rich and poor people. There are

people of sexual differences, lingual differences, religious differences, and other ethnic differences as well. The gap between the rich and the poor is increasing day by day. So, to bring about the social justice and equality the government led-strategy is essential (Acharya, 2006). The government can invest in those areas from which the people can get benefit. In the state-led strategy, all the productive units like production, consumption and distribution are all controlled by the government. On the other hand, social justice cannot be expected through private investment. The rich and the well to do people can make the investment, but the poor people cannot. As a result, low class people are exploited by the rich people. Therefore, to protect the poor and exploited the government-led strategical planning is necessary.

Fifth, people in Nepal have very little access to social service sectors such as health, education, training, drinking water, and sanitation. These sectors give return only in the long run because they need huge investment in the beginning, and they have long gestation period as well. So, the private sector, which is profit oriented, is not interested in making investment in these sectors. Even if they make investment in such sectors, their goods are very expensive which the poor people cannot afford (Hemming et al, 2006). Similarly, for the development of the basic economic infrastructures like road, rails, ropeways, electricity, and bridges, the government has to take the responsibility because without their development other sectors cannot get developed. Rapid development of the economy is possible only after the development of social service and economic infrastructure.

Sixth, the economic position of Nepal is far behind other countries where the per capita income of more than 50 percent people is less than 1 US dollar. According to Shrestha, Adhikari and Khadka (2079BS), 42% of people in Nepal lived below the poverty line. But today 80.40% people earn less than 5.50 dollar a day after Rwanda (93.40%) and Gambia (86.30%) (Acharya, 2006). For these reasons, to alleviate poverty, the government must make proper economic planning for its development. The other two strategies of development cannot be useful to alleviate poverty for they have their own interest rather than that of the common people. The government's role and responsibility are definitely more than that of individual and NGO-led strategy to alleviate poverty. The government, while making investment, will keep in mind the wellbeing and welfare of the individuals to alleviate poverty in the country (Hemming et al, 2006) which is simply out of mind in other strategies.

The seventh reason in favour of the state-led strategy for economic development is the need of the decrease in unemployment in the nation. Unemployment is the situation where people are willing and able to work but they are not able to find a job in the market. However, if a person leaves his job for certain reasons, they cannot be called as unemployed. If a person is voluntarily unemployed, then the person is not unemployed because he is not seeking jobs. Thus, by unemployment we mean involuntary unemployment (Shrestha, 2021).

Nepal is a country where there are very few industries. The industrial

development is very slow or we can say that it is almost nil. Due to the lack of proper industrialization different types of unemployment is found in Nepal: seasonal unemployment, frictional unemployment, under employment, open unemployment, cyclical unemployment, disguised unemployment, real wage unemployment, technological unemployment, and structural unemployment. Demand side unemployment is caused due to high rate of interest in the market, global recession and geographical unemployment. Since there is lot of unemployment proper planning has to be made by the government. The

formula to find unemployment rate is:
 Unemployment rate = number of unemployed people/labour force x 100

Where,

$$\text{Labor Force} = \text{unemployed} + \text{employed persons}$$

The problem of unemployment is serious in Nepal. The reason for increasing poverty is also unemployment. Therefore, the problem of unemployment cannot be solved without state intervention into the economy. The following data show the major unemployment situation of youth in Nepal.

Table 1

Unemployment Rate in Nepal

Year	Percentage	Age Group
2018	19.83	15 to 60
2019	19.91	15 to 60
2020	24.08	15 to 60
2021	22.32	15 to 60

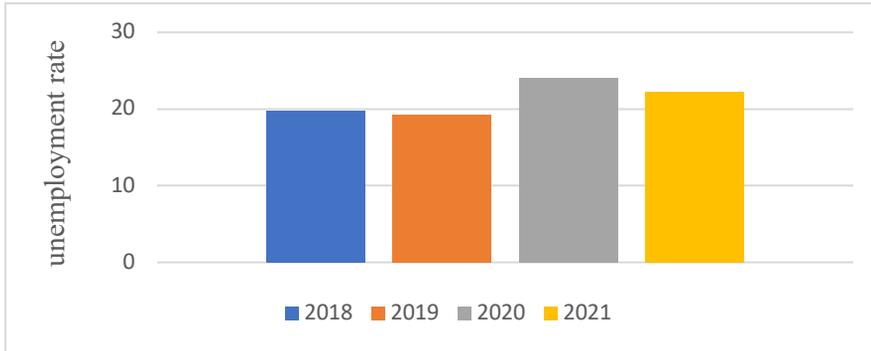
Note. Economic Survey 2020/21 MOF, Nepal

Table 1 shows the rate of unemployment in Nepal from 2018 to 2021. In 2018 the rate of unemployment of the people aged 15 to 60 was 19.83. Similarly, the rate of unemployment in 2019, 2020, and 2021 was 19.9 %, 24.08%

and 22.32 respectively. It shows the rate of unemployment is increasing every year. Therefore, it can be argued that the rate of unemployment can be reduced by following the state-led strategy in Nepal.

Figure 1

Unemployment Rate in Nepal from 2018 to 2021



The above data reveal the extent of unemployment in Nepal. In the context of Nepal more than three lakhs people enter the labour market every year. But the government of Nepal is not in a position to provide employment to the increasing labour force. For this reason, also, state-led strategy is necessary in Nepal. State-led strategy can consume more labors and many more people can get better employment opportunity.

The eighth reason that demands state-led economic strategy for the development of Nepal is that the government-led strategy is important to reduce the deficit in the balance of trade and balance of payment of the country. Every year Nepal imports huge amount of raw materials, semi-finished, finished goods, machinery items, and expensive

goods from other countries. The deficit in the balance of payment is increasing every year with India, the major trading partner of Nepal, as well as with other countries of the world. The easy entry of the products of multinational companies has made the competition difficult for the national companies (Shrestha, 2021). If the government cannot protect the domestic industries by patronizing them, the Nepalese industries have to face a great problem for our products will be more expensive than imported goods. To bring balance between the balance of trade and balance of payments, the government should establish industries and produce those goods that promote export and substitute import. The table below shows the situation of import and export from 2015/16 to 2020/21.

Table 2

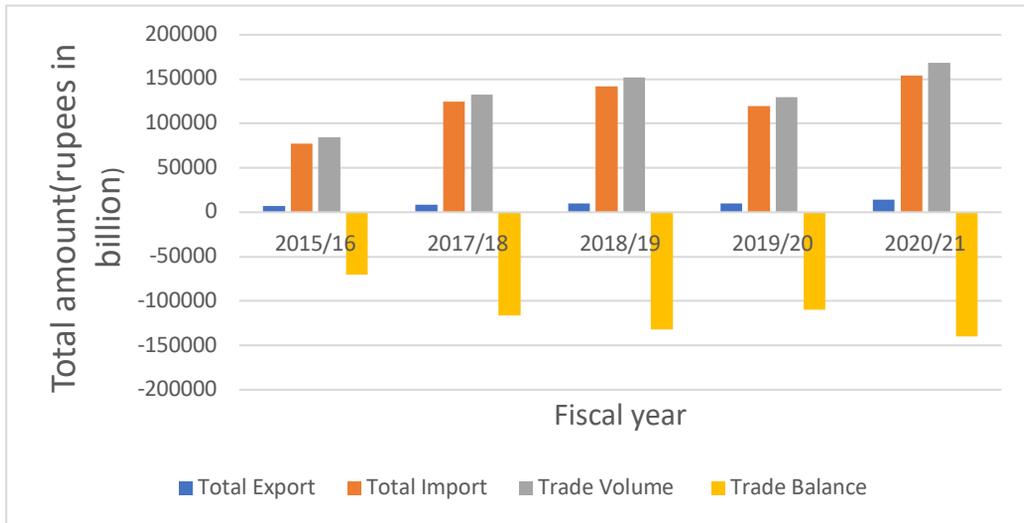
<i>Trade Balance</i>				Rs. in ten million
Fiscal Year	Total Export	Total Import	Trade Volume	Trade Balance
2015/16	7011.7	77359.9	84371.6	-70348.2
2017/18	8163.3	124282.7	132446.0	-116119.4
2018/19	9711.0	141853.5	151564.5	-132142.5

2019/20	9770.9	119679.9	129450.8	-109908.0
2020/21	14112.4	153983.7	168096.1	-139871.3

Note. Economic Survey 2020/21 MOF, Nepal

Figure 2

Trade Balance from 2015/16 to 2020/21



The figure above shows that the volume of trade in the fiscal year 2015/16 was 84371.6 crore which increased to Rs.151564.5 crore in fiscal year 2018/29. It is also clear from the figure that the trade deficit is increasing. The trade deficit was Rs.70348.2 crore in the fiscal year 2015/16 which increased to Rs. 139871.3 crore in the fiscal year 2020/2021. Although the volume of export is increasing, the volume of import is increasing more than the volume of export. As a result, the trade deficit is also increasing at the increasing rate.

But the recent (*Nepalnews 2023*) Nepal Rastra Bank report showed that the balance of payment has shown surplus by Rs. 45.87 billion by the end of mid-December 2022/23. According to the NRB's current microeconomic and financial situation of the report of mid-

December 2022/23, the BOP stayed at the surplus of 45.87 billion in the review period compared with the deficit of Rs. 195.01 billion in the same period of the previous fiscal year. In US dollar terms, the BOP has remained surplus of USD 1.64 billion in the same period of the previous fiscal year.

Similarly, the current account deficit has decreased by RS. 37.91billion from the deficit of Rs. 298.51 billion in the same period of the previous fiscal year. However, in the review period, capital transfer decreased from 25.3 percent to 3.47 percent and the net direct investment remained Rs. 604.9 million. The report showed that in the same period of the previous FY, capital transfer and net foreign direct investment (NFI) amounted to Rs. 4.64 billion and 7.07 billion respectively.

Conclusion

The above discussion shows that Nepal is one of the poorest countries in the world where there is poverty, illiteracy, unemployment, insecurity, under development, and social injustice. On the top of that there is economic inequality between the people of rural and urban areas, and the people of the high and low classes. There is increasing dis-balance between the balance of trade and balance of payment between Nepal and other overseas countries. In this connection, the opinion of classical and neo-classical economists that the country can develop smoothly only if

there is no interference from the government is not, at least, applicable in the context of Nepal today. In the initial phase of development, for the infrastructural development of the nation the governmental control and investment is very essential. So, for the poor and underdeveloped country the role of government is very important. So, it is important to make the correction of the mistakes in the past and also to make the necessary changes of the government mechanism and start development through the process of decentralization and governmental investment.

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