

# Structural transformation and trade policy: A case of Nepal

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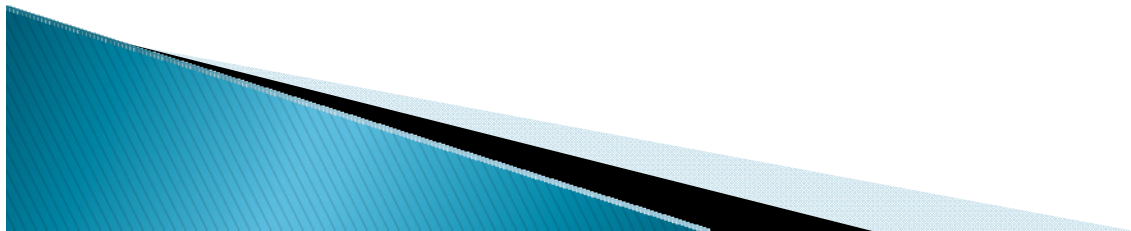
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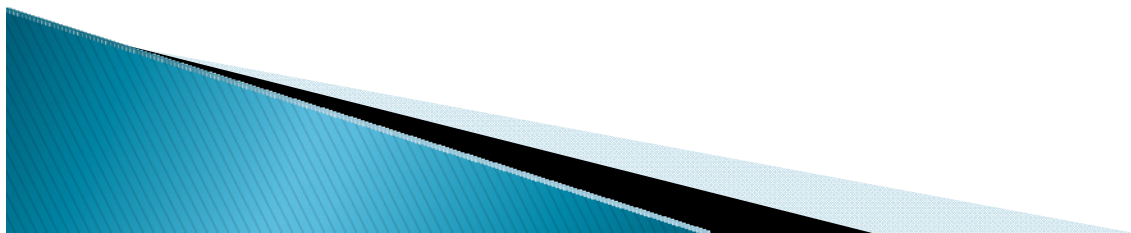
# Motivation

- ▶ High and sustained economic growth entails structural transformation
- ▶ Specialization and development are path-dependent
- ▶ Recent advances in the literature have produced powerful methods of analysis for providing evidence that products vary in their potential for effecting structural transformation and what a country exports determines the type of goods it will export in future and its future economic growth rate
- ▶ Nepal's GDP growth and export performance has been weak, especially in the new millennium
- ▶ The Government of Nepal has taken trade as an engine of growth in its Plan document
- ▶ It is imperative that the structural transformation dimension inform trade policy making and implementation




# Objectives of the paper

- ▶ Examine the trend, pattern and composition of productivity growth in the Nepali economy;
- ▶ Analyse the nature and extent of structural change in the Nepali economy;
- ▶ Assess Nepal's export performance, including in terms of export sophistication and diversification;
- ▶ Evaluate how conducive the products accorded priority by Nepal's Trade Policy 2009 and Nepal Trade Integration Strategy (NTIS) 2010 are to structural transformation and future growth of the Nepali economy;
- ▶ Draw policy conclusions

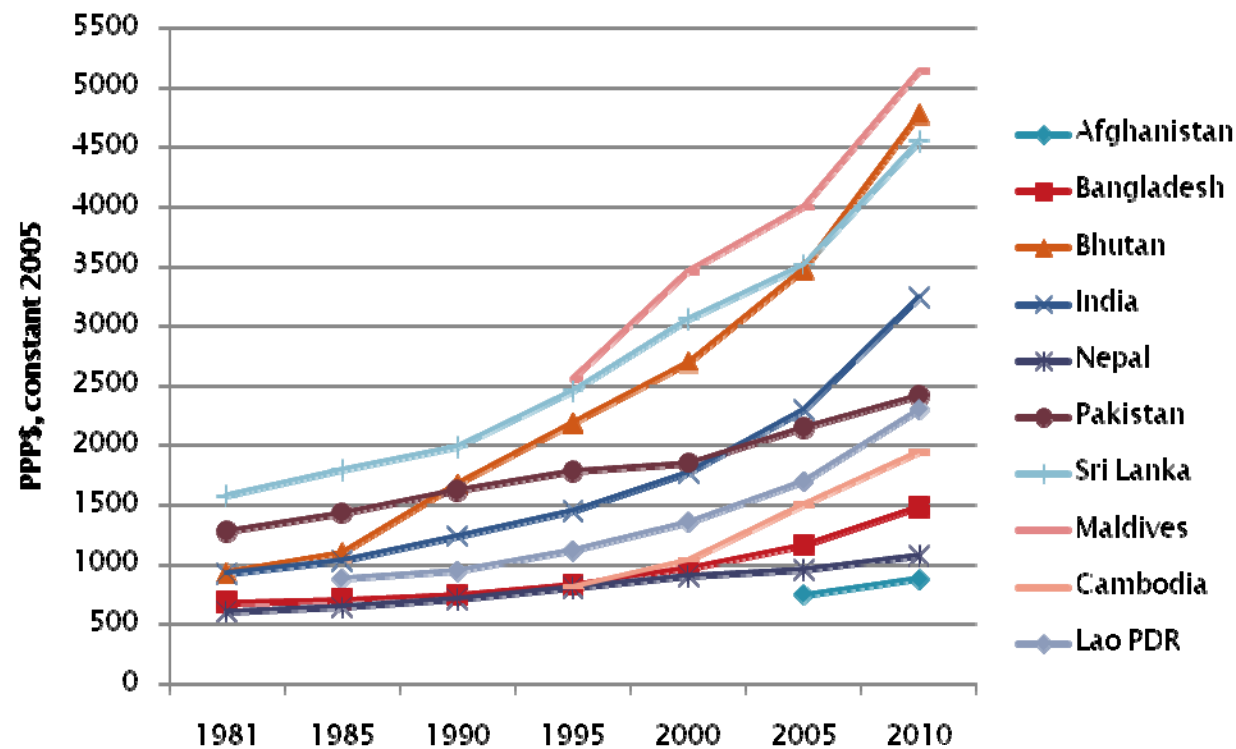


# Key methods

- ▶ Decomposition of productivity growth (McMillan and Rodrik 2011)
  - ▶ Analysis of export structure and composition using several measures/classifications, including:
    - Leamer (1984)
    - Lall (2000)
    - SITC 1 digit level
    - Sophistication of product and export basket: PRODY and EXPY (Hausmann et al. 2006)
  - ▶ Product space analysis (Hausman and Klinger 2006, 2007; Hidalgo et al. 2007; and related literature):
    - Proximity between products
    - Density of a product (relative distance of a product from current industrial and export capabilities)
    - Path (interconnectedness of a product with other products)
    - Open forest (unexploited opportunities)
    - Strategic value of a product (spillovers from exporting a product)
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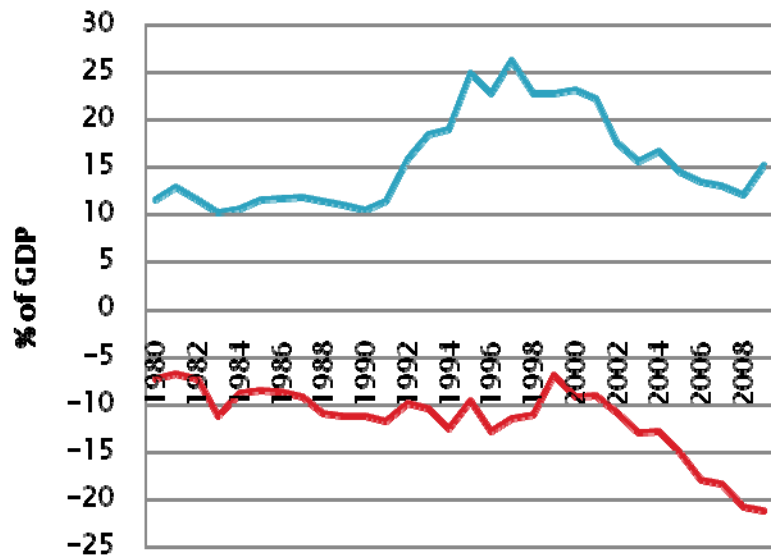
# Weak economic and export performance

- ▶ Low GDP per capita growth: 2.16% in 1980-2010; 1.8% in 2000-2010
- ▶ Low GDP per capita

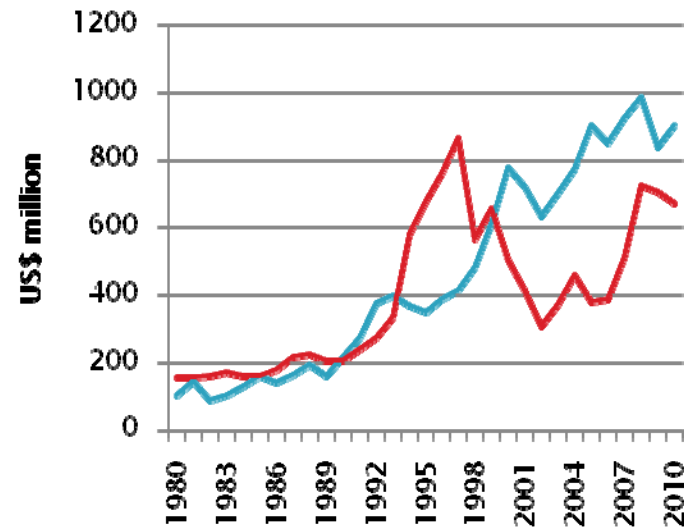


# Weak economic and export performance

- ▶ Declining share of manufacturing in GDP (6.8% in 2009); increasing share of non-tradable services
- ▶ Low export growth; widening trade deficit



— Exports of goods and services (% of GDP)  
— External balance on goods and services (% of GDP)



— Goods exports (BoP, current US\$)  
— Service exports (BoP, current US\$)

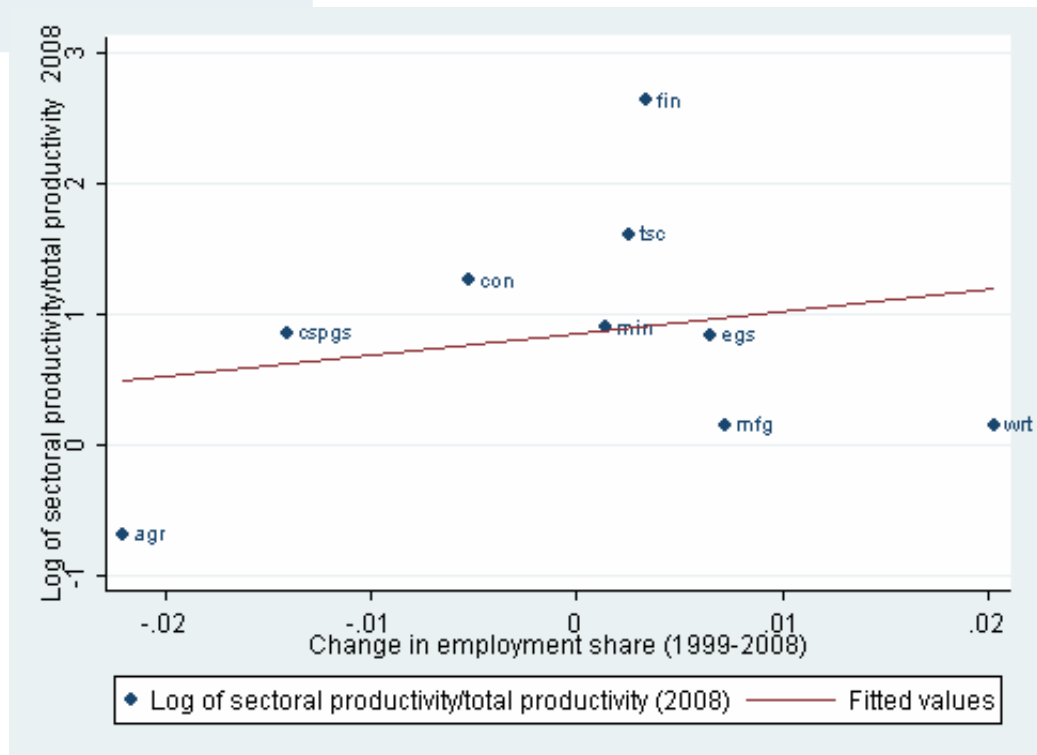
# Productivity growth and structural change

<b>Labour productivity growth (%)</b>	<b>1.44</b>
Within component	0.88
Structural change component	0.57

Structural change has been growth enhancing

but

Transfer of labour from agriculture to more productive sectors at a higher speed is constrained by a weak manufacturing sector



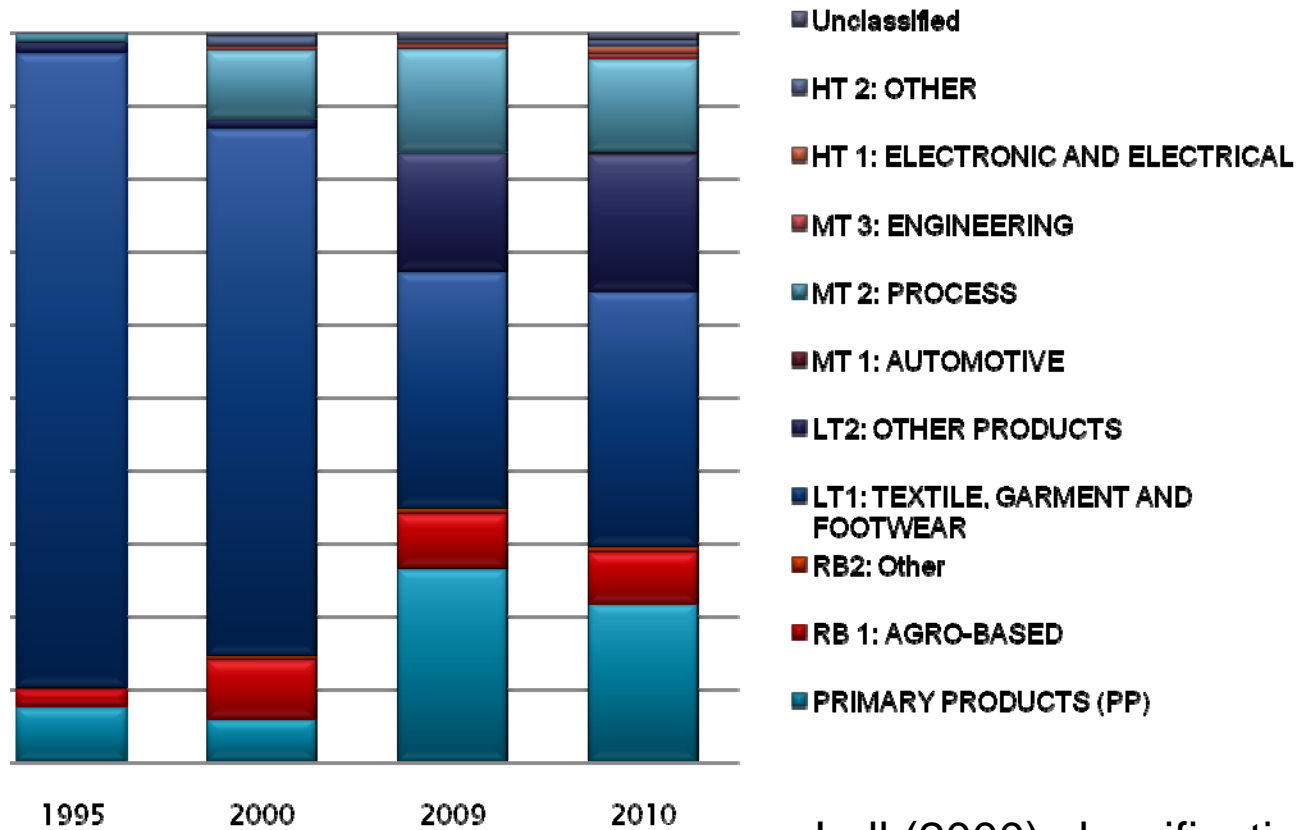
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# Structure/composition I

Export basket remains low in technological sophistication  
Diversified



Lall (2000) classification