



DRAFT FOR COMMENTS & DISCUSSION – NOT FOR QUOTATION

Prepared for

ARTNeT Conference on Empirical and Policy Issues of Integration

in Asia and the Pacific,

1-2 November 2012, Colombo, Sri Lanka

**Nature of structural change and role of trade policy in structural
transformation in Nepal**

Drafted Report

Paras Kharel

South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu

Contents

1. Introduction.....	3
2. Nepal’s economic and export performance: A preliminary analysis.....	3
3. Review of literature on structural transformation.....	19
4. Structural change and productivity growth in Nepal’s economy.....	26
5. Nepal’s trade and industrial policies in the context of structural transformation.....	30
6. Methodology for assessing structural transformation through the “export” lens.....	35
7. Analysis of export baskets and identified products.....	39
8. Conclusion.....	70
References.....	73
Appendix.....	78

1. Introduction

High and sustained economic growth entails structural transformation—the shift of productive factors from low-productivity and low-wage activities to high-productivity and high-wage activities such that the output structure shifts from activities of low-productivity into high-productivity activities, and the production of increasing numbers of more complex and sophisticated products. Recent advances in the literature have produced powerful methods of analysis for appreciating the role of structural transformation in inducing growth and development, and 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.

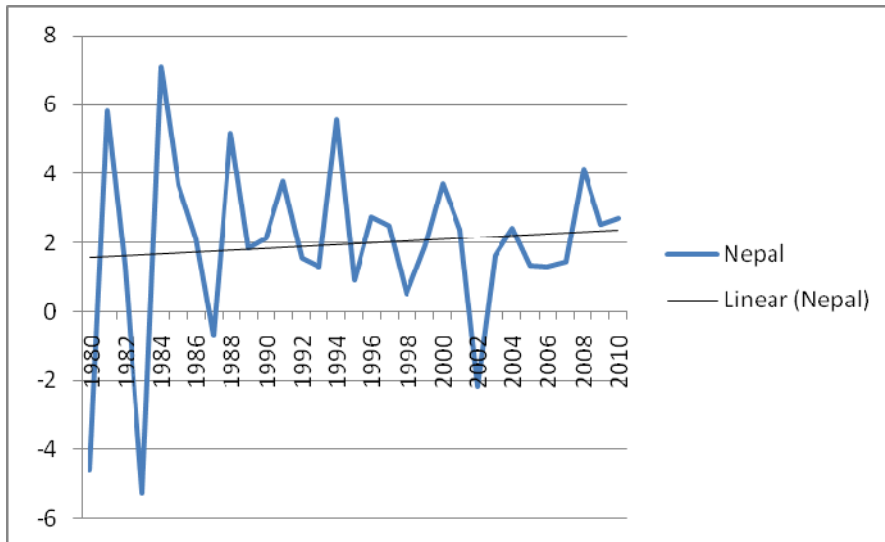
Using these methods, this paper examines the trend, pattern and composition of productivity growth in the Nepali economy; analyses the nature and extent of structural change in the Nepali economy; assesses Nepal's export performance, including in terms of export sophistication and diversification; evaluates 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; and draws policy conclusions.

The rest of the paper is organized as follows. Section 2 discusses Nepal's economic and export performance. Section 3 reviews the literature on structural transformation, including recent methodological advances. Section 4 discusses sectoral productivity growth and whether structural change has been growth-enhancing or growth-reducing in Nepal in a recent decadal period. Section 5 reviews Nepal's trade policy, plans and strategies, focussing on products identified for export promotion. Section 6 discusses the methods and data used for analysing the nature, pattern and prospects of structural transformation from the export dimension. Section 7 analyses the evolution of Nepal's export basket in terms of export sophistication and diversification, and then assesses the prospects for structural transformation offered by products identified/targeted by Trade Policy 2009 and NTIS 2010. Section 8 concludes.

2. Nepal's economic and export performance: A preliminary analysis

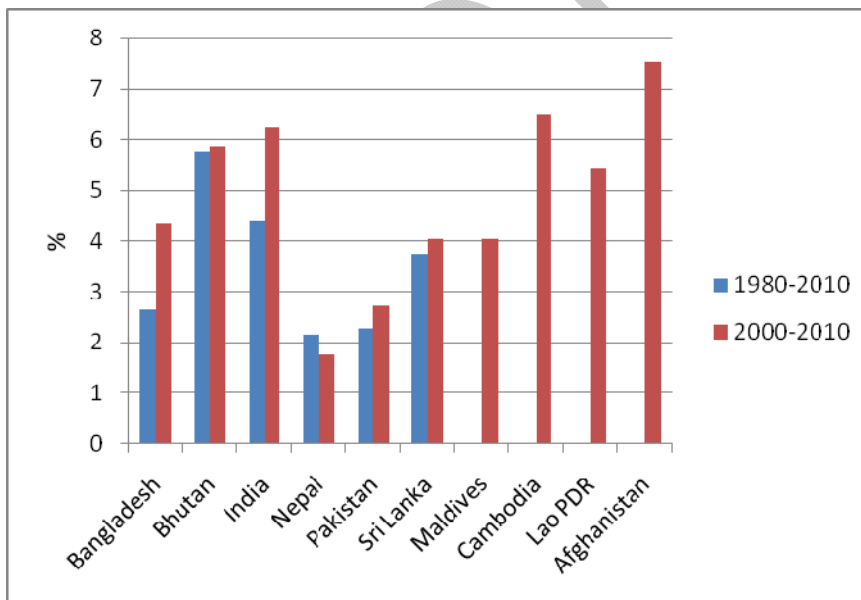
Nepal's GDP per capita growth has been poor and erratic in the 20-year period 1980-2010 (Figure 1). Annual compound growth of GDP per capita in the two decades was a meagre 2.16 percent, the lowest in South Asia (Figure 2), home to three other LDCs besides Nepal—Afghanistan, Bangladesh and Bhutan. While the annual growth rate of GDP per capita for other countries in the region has been higher during the second half of the two decades (2000-2010) than during the entire two decades, Nepal's growth rate has declined (to 1.8 percent per annum). The contrast is even starker when comparison is made with the GDP per capita growth rates of two LDCs of Southeast Asia, Cambodia and Lao PDR, at 6.5 percent and 5.4 percent respectively.

Figure 1: Nepal per capita GDP growth performance



Source: Author's calculation based on World Development Indicators

Figure 2: Comparative per capita GDP growth

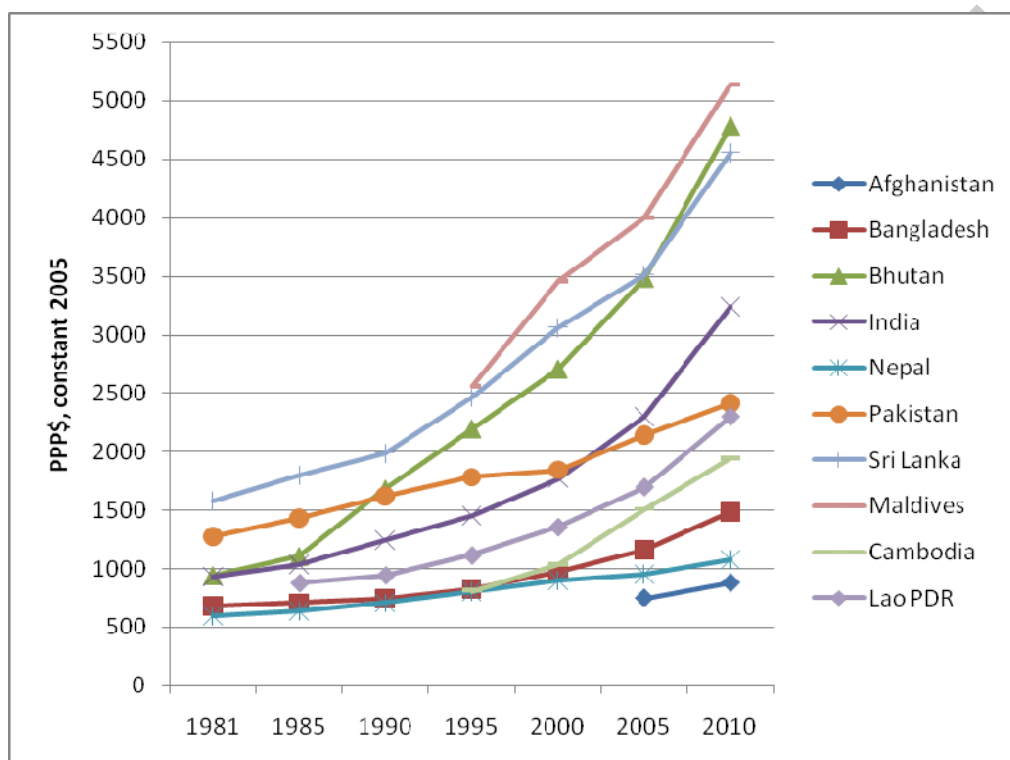


Source: Author's calculation based on World Development Indicators

Note: Afghanistan's growth for 2000-2010 is actually for 2002-2008. Growth rates for the Maldives, Cambodia, Lao PDR and Afghanistan are available only for the period since 2000.

Nepal's dismal GDP per capita growth has led to its per capita GDP (PPP dollars, constant 2005) being the lowest, after Afghanistan, among South Asian countries and the two Southeast Asian LDCs, Cambodia and Lao PDR (Figure 3). The gap with all these countries has widened since 1981. It is notable that Bangladesh and Cambodia, with about the same per capita GDP as Nepal's in 1981 and 1995, respectively, had by 2010 per capita GDP levels higher than Nepal's by 38 percent and 80 percent, respectively.

Figure 3: GDP per capita: A comparison



Source: Author's calculation based on World Development Indicators

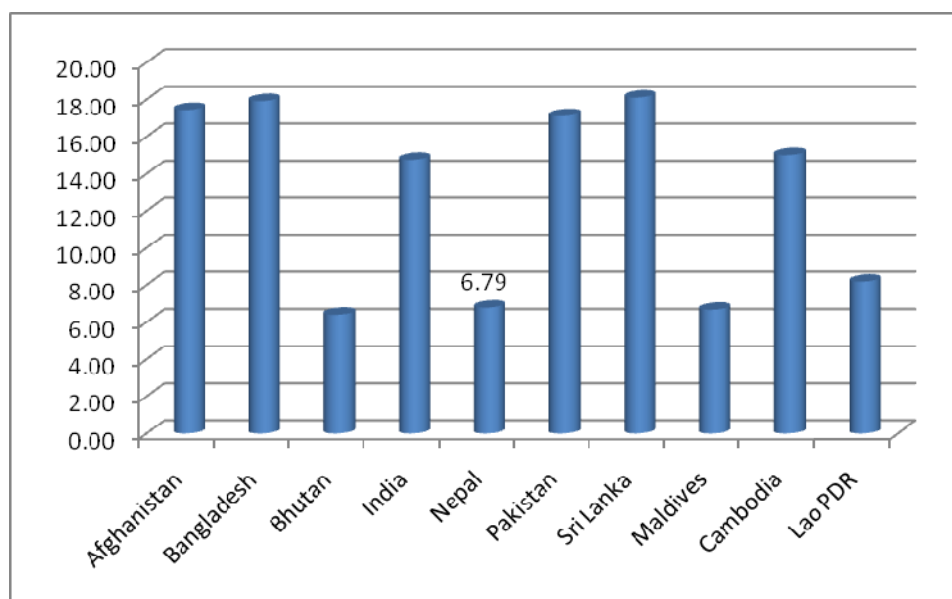
Note: 2008 figure for Afghanistan's GDP for 2010

The share of manufacturing value added in Nepal's GDP was 6.8 percent in 2009, among the lowest in the set of comparator countries (Figure 4), and also lower than for LDCs as a group. In the period 1980-2009, Nepal's manufacturing value added never touched 10 percent of GDP (Figure 5), but while the ratio followed an increasing trend in the 1980s and the early 1990s before stabilizing at 9.5 percent in the rest of the decade, it started to fall continuously after 2000. The share of agriculture in GDP has declined even more sharply, from 61.7 percent in 1980 to 33 percent in 2011, but continues to employ as much as 74 percent of the currently employed labour force (CBS 2008). Services¹, mostly of non-tradable variety, grew faster than agriculture and manufacturing, at 4.5 percent per annum (compounded) during 2000/01-2010/11 and accounted

¹ Excluding construction, and electricity, gas and water. Adding construction takes the ratio to over 58 percent.

for 52 percent of GDP in 2010/11.² The largest services sectors (in 2010/11) are wholesale and retail trade (25 percent), transport, storage and communication (19 percent), real estate, renting and business (16 percent), education (13 percent), and financial intermediation (8.6 percent). The structure of the Nepali economy has thus shifted from an agriculture-dominated one to that of a non-tradable services-dominated one, with the manufacturing sector faltering.

Figure 4: Manufacturing, value added (% of GDP), 2009

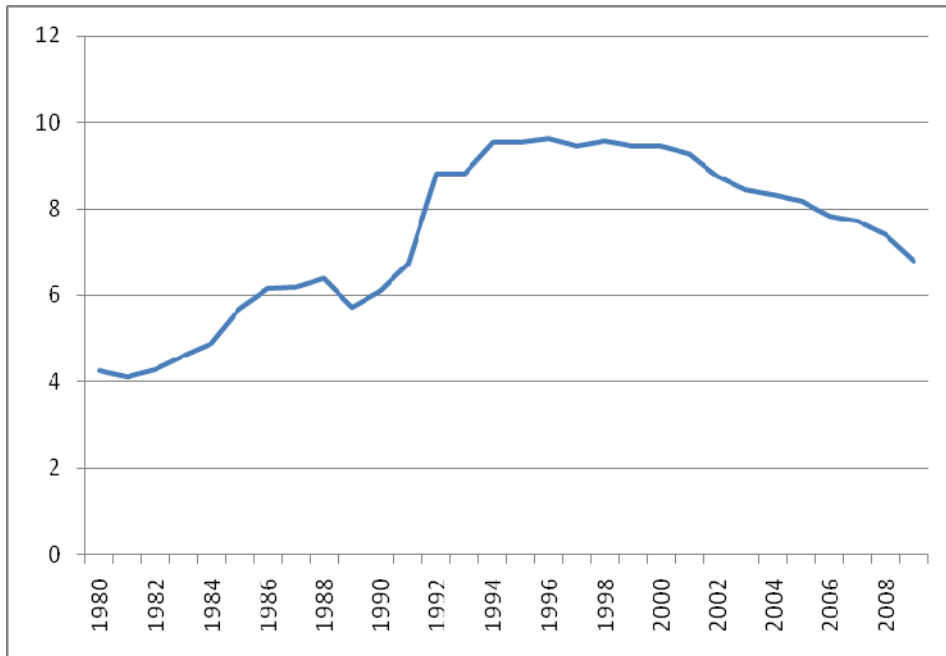


Source: Author's calculation based on World Development Indicators

Note: Afghanistan's figure is for 2008

² Data on share of agriculture in GDP in 2010/11 and data on services are from Nepal Rastra Bank, "Recent Macroeconomic Situation", various issues.

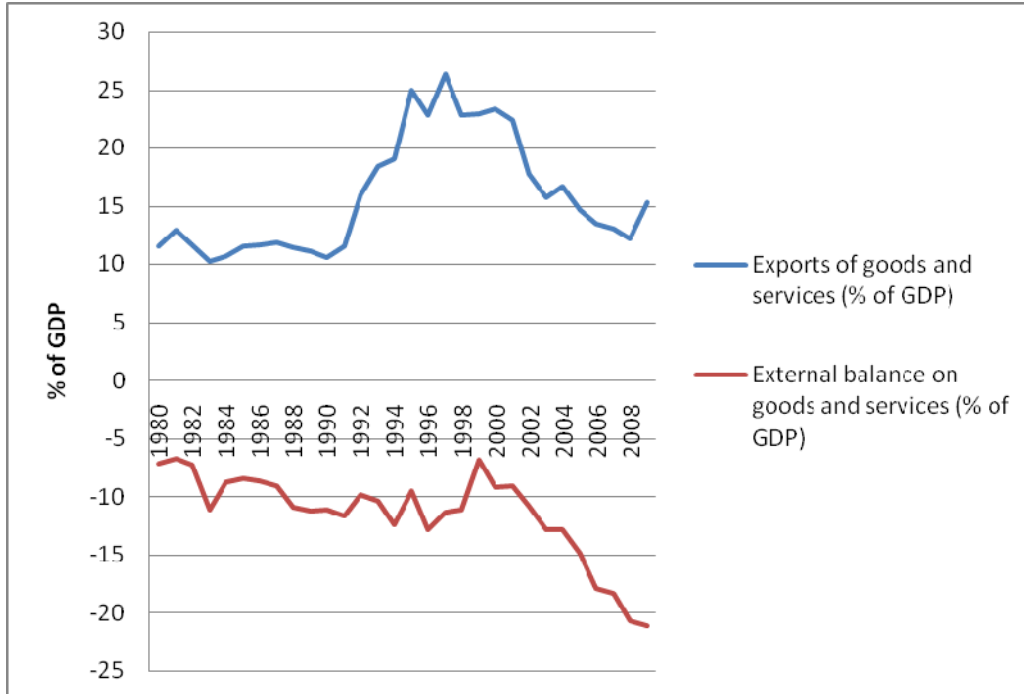
Figure 5: Share of manufacturing in GDP of Nepal over time



Source: Author's calculation based on World Development Indicators

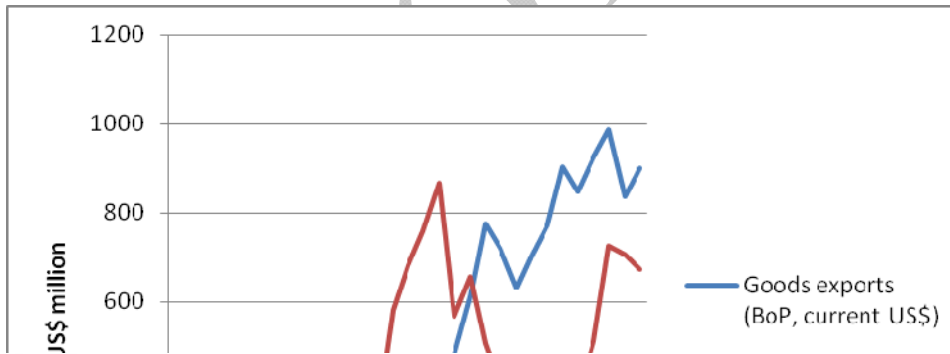
Nepal's export performance, while relatively quite encouraging in the mid- to the late 1990s, has been weak after 1999, with goods and services exports as a percentage of GDP falling from 22.8 percent in 1999 to 15.3 percent in 2009. With imports increasing rapidly, fuelled and financed by remittance earnings, the trade deficit (goods and services) has been burgeoning since the turn of the millennium, touching 21 percent of GDP in 2009 (Figure 6). Both merchandise exports and services exports have performed poorly, but services export performance has been worse (Figure 7).

Figure 6: Nepal's trade performance



Source: Author's calculation based on World Development Indicators

Figure 7: Nepal's exports of goods and services



预览已结束，完整报告链接和二维码如下：

https://www.yunbaogao.cn/report/index/report?reportId=5_7341

