Export Management Approach for Nepal

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Abstract

The objective of this paper is to show the export management approach for Nepal as envisaged in the development plans, policies, and programs. Some useful lessons of Asian experiences on economic development are also pointed out in the context of Nepal's endeavors towards economic development. Export growth model sketch has been used to show export trade scenario. It also highlights major issues of export management in Nepal drawing the conclusion from the periodic plans, trade policy and Nepal Trade Integration Strategy (NTIS).

Introduction

It is time to sketch the export management approach for Nepal as traced in the development plans, policies, and programs. Some useful experiences of Asian experience on economic development can also be generated in the context of Nepal's efforts towards economic development. Export growth scenario has been tried to show export trade direction. Major issues needs to be touched in the context of periodic plans, trade policy, NTIS areas. In the mean time, new products are likely to be developed as leading export items. Iron and steel products, textiles, zinc products, lentils, betel nuts, tea, coffee, large cardamom, vegetable seeds, bamboo goods, ceramics, and small turbines have shown potential to be important export items for future. Sixteen products for production and export as mentioned in NTIS 2010 and Trade Policy 2009 will be considered in the years to come.

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Asian experience in trade and economic growth

The Japanese people have had borne the burden of their economic growth themselves as the Europeans or Americans did. Japan was going ahead with an effort to the level of the developed countries when per capita GNP was more than $2700 in 1972, while within about two decades (in 1988) per capita GNP reached US$ 21,020 which was the highest amongst the Asian countries as published in the World Development Report 1990 (World Bank, 1990). But recently, it has US$ 45,774 per capita GDP (IMF, n.d.).

Other South-east Asian countries followed almost the same way as Japan followed. During early 1970s, most of the Asian nations were poor countries in every sense of the term. They had unemployed and under-employed population. Their productivity was low. Low subsistence living prevailed. The economy was primarily agricultural (Regmi, 1998).

In 1972, South Korea had per capita GNP of US$ 304. By the late seventies and eighties, Korea emerged as perhaps one of the most successful amongst other Asian countries in transforming and modernizing its economy specially after 1979 in which year the per capita GNP of this country was estimated at $1550 and in 1985, it was US$ 2,180 (World Bank, 1987). But per capita GDP of South Korea is US$ 24,803 in 2008 (www.wikipedia.org). South Korea had already become industrialized Asian country. By the late 1980s, it had already become a modest exporter and a middle sized economic power. During 1990's, South Korea entered in the ranks of the Asian developed countries. If the expansion of the Korean economy continues, Korea will be further one of the top countries to achieve broad, accelerated and self-sustained economic modernization.

However, the pivotal problems may be to raise productivity. But Asian economy should introduce innovations. The introduction of an already developed technology is always hard. There should not be gap between other developed and Asian countries. In fact, however, the gap is caused because of serious Asian problems.

Economy base: Comparison of Nepal with other Asia economies

When someone tries to compare the Asian and Nepalese economy just about four decades ago, somebody may feel that Asian countries were not very much in better position than Nepal except some countries. Asian countries were largely affected by external and internal environment being colony of other countries. Though Nepal never became a colony of any another country in its history, Nepal was largely affected and seriously economically damaged by the autocratic rules of Rana family and the 30 years' Panchayat regime (1960-1990). In-between these periods, there was political instability in the country. After 1990 till 2006, Nepal could not develop because of the government's instability. So, after 2006, Nepal became a federal republic country. But after 6 years from 2006, there has not been so much development in Nepal.

After 1990, Nepal entered into international open environment and internationally popularly legislative system. Nepal could never be on attraction of outside investors though it had opened door for foreign investors after 1980 through the introduction of Foreign Investment Act. Following this period, the country adopted numerous policies. As a result, the government structure has started to change. The 8th plan had been implemented since 1992/93 in the changed international environment. Even after implementing the five year 9th and 10th five year plans and 11th and 12th 3-year periodic pans, Nepal's economy has not been well. Economic growth nearly 10 percent in 1995 has been come down about 3 percent in 2011.

The colonial status of some Asian countries ended by 1970s. Asian countries made substantial progress after 1970s. After this period, most of the Asian countries took new approach in the economic planning for rapid development. Compared to earlier four decades, the Asian situation has improved, although some economic and administrative problems remained intact.

The increment in per capita GNP in Asian countries and Nepal can be clearly seen from the past history. It is said that GNP and other national income aggregates are imperfect measures of welfare, however, the broad picture of overall development which they go ahead remains after corrections of their most obvious deficiencies. It is the measurement of goods and services that the money can purchase which shows the standard of living and welfare in a country. But still improvement in the per capita income in Nepal is very disappointing.

About four decades ago (i.e. early 1970s), Korean per capita income was equivalent to around four times of Nepal's per capita income while in 1988 Korea's per capita income could be comparable with Japan, UAE, Hongkong, and Singapore whose GNP per capita income was more than US$9 thousand in 1988 (Regmi, 1998). However, per capita GDP of UAE, Hongkong SAR, and Singapore in 2010 stabled remained at $ 47,439, $45,944 and $56,694 respectively (The Kathmandu Post, 27 February 2012).

No other Asian countries (except a very few like Israel, Saudi Arabia, Malaysia, Thailand whose GNP per capita was more than US$ 1 thousand in 1988) developed as fast as Japan did. UAE, Hongkong and Singapore also developed as fast as possible as it shows in the increment in per capita GDP (Regmi, 1998)

For 1973-85 period, the real growth rate in percentage of GNP per capita in Japan, UAE, Hongkong, Singapore, Israel, Saudi-Arabia, Malaysia and Korea was 3.4, -1.0, 6.3, 6.5, 0.4, 1.7, 4.3 and 5.5 respectively. Thus, for 1973-85 period, the average rate of increase in per capita income in Japan, Hongkong, Singapore, Malaysia, and Korea was remarkable in comparison to other Asian countries. Singapore's rate of per capita growth of 6.5 percent was the highest. Growth in Saudi Arabia and UAE, of course, seemed less from development as commonly understood than from their strategic positions as petroleum exporters. But looking at per capita GDP of these countries, the economic growth of these countries between 1986 to 2011 has remained the same during the period of 1973-1985. The per capita GDP of Israel, Saudi Arabia, and Malaysia have reached at at US$ 27,147, $22,852 and $13,385 respectively (www.wikipedia.org).

Thus, it is perhaps an important fact that Japan, UAE, Hongkong, Singapore, Israel, Saudi -Arabia, Malaysia, Korea and Thailand whose GNP per capita was more than US$ 1 thousand very earlier, have had led the entire Asian countries based on broadly rates of economic growth. The per capita GDP recently has remained at US$ 5,281 (IMF, n.d).

The average annual increment in Nepal's GDP between 2000-2010 has remained to 3.8 percent (WB, 2012). According to IMF (2012), Nepal's per capita income in 2000 was $ 235 which increased to $557 in 2010. The average increment during this period was 9 percent. If this increment rate will be achieved in coming 10 years, Nepal's per capita income will be $ 1320 in 2020. If respective increment rate is continued in respective countries, the per capita income in 2020 will be $ 5,467 in Bhutan, $4,042 in India, $15,461 in Maldives, $1,968 in Pakistan, $6,443 in Sri Lanka . The per capita income in 2000 was $ 946 in China, $303 in Laos, $288 in Cambodia, and $402 in Vietnam. But in 2010, the per capita income reached to $4,382 in PR China, $1,004 in Laos, $814 in in Cambodia, and $1,174 in Vietnam (Basyal, 2012).

If the GDP increment rate in the 2010 decade's as in 2000 decade's is the same, the per capita GDP in 2020 will be $ 20,298 in PR china, $3,327 in Laos, $2,301 in Cambodia, and $3,429 in Vietnam. The per capita GDP in China (assuming as earlier highest increment rate) will be $ 46,860 in 2026 or 15 years after 2010 which was attained by USA in 2010 (Basyal, 2012).

In order to attain as much as per capita GDP in 2010 by other countries, Nepal has to wait 1.6 year to attain Bangladesh's GDP amount, 15.2 years to attain Bhutan's, 28 years to attain Maldives', 10.5 years to attain India's, 7.1 years to attain Pakistan's, 17.1 years to attain Sri Lanka's, 23.9 years to attain China's, 6.8 years to attain Laos's, 4.4 years to attain Cambodia's, and 8.7 years to attain Vietnams.

The per capita GDP in 2010 was $ 88,222 in Qatar, $81,466 in Luxembourg, $56,694 in Singapore, $51,959 in Norway, $48,333 in Brunei, $47,439 in UAE, $46,860 in USA, $45,944 in Hong Kong SAR, $41,950 in Switzerland, $40,973 in The Netherlands, $39,764 in Australia, $39,761 in Austria, $39,492 in Ireland, $39,171 in Canada, and $38,775 in Kuwait (Forbes, n.d.).

Besides these countries, other countries' economy started out from complete absence of order. Therefore, their foundations have many weaknesses. So, the economy has not based on a well balanced stable level. It may seem to have many failings, not only of economic potential, scientific level and the level of the peoples' adaptation to modern industry but also of overall balance. However, it would be a mistake to overestimate these weaknesses.

In 1970-71, the share of export in national income of India was 4.2 percent of GNP while it was 6.1 percent in 1982-83 and 5.2 percent in 1985-86. The reasons for fast growth in Japan, UAE, Hongkong, Singapore, Israel, Saudi Arabia and Malaysia should be found out. The export of these countries tells us a brief story of the export and import trend in these countries' economy. Given the dominant position of manufactured items for export in the economy, it is natural to expect even in the long term that international demand for these countries` export will be fundamental in determining the feasibility of continuing high growth. The continual decline in raw material export in proportion to the total export and the continuous increase in industrial product export in proportion of the total export shows the clear direction of modernization of these countries.

Asian approach for Nepal's export performance

Turning back to the export situation in Nepal during the around same period mentioned above, one can clearly find what was lacking. There is the smooth shift from primary export to manufactured export. In 1974/75, total export was Rs. 889.6 million which was about 5.4 percent of GNP while in 1987/88, it was Rs 4114.6 million which was about 6.2 percent of GNP. However, it is also true that by itself the share of export trade in national income does not indicate the degree of economic development of a particular country. But in 2010/11, the total export of Nepal has been remained at Rs. 65 billion. But it has not been the remarkable share of GNP of Nepal now.

In order to attain the economic growth and development for fulfilling the basic needs programme (BNP) till 2000, export target for regular periodic plan for future and structural reforms in Nepalese economy had already started but less achievement had been made till that duration. One of the basic features of the programme was to involve the private sector actively in trade and industry sectors.

The target of food-grain production of 8.651 million Metric Tons annually by 2000 from the present annual production is a part BNP of the then Government . The population projection of the country at 2000 is 24 million. Import of such basic items of food-grains from other countries is not a desirable solution. However, the capacity of the country to increase the food-grain production at the rate of 4.8 percent annually is also not an easy job under different constraints like imported fertilizers for which it has to set up Fertilizer Factory. Nepal depends upon monsoon rains for its successful cultivation of rice, maize and the major crops of the country (Shrestha, 1988).

The neglected part on the export -oriented crop diversification and quality maintenance has been taken as constraints .The national policy for the capital mobilization , MDGs and export oriented industries should be formulated. Our trade is import oriented. There are weaknesses in production and export aspects. Production should be expanded by fixing the quantitative production target for all exportable products mentioned in the NTIS, trade policy and planned development programme for future. In order to reduce trade deficit and fulfill internal demand, national production of these items must be increased. Import and trade deficit can be reduced if the numerous and sufficient products for internal demand, import-substitution and export promotion are produced within the country.

Amongst the lowest income Asian countries, Nepal is one. Thus, considering the GNP per capita income of these countries, the minimum export target for Nepal should be modeled for Nepal's export management approach. A long term and detailed export plan along with periodic plans quantifying the production volume for all export items is an urgent need for the country. Import substitution and production go side by side for the export promotion of the country.

By the end of this century, Nepal's population is/was estimated at 24 millions and generally 40 lakhs Metric Tons food grain production has been attaining and the required total food-grain production of 74 lakhs Metric Tons annually for 15 years after 1985 has to be considered the addition annual production of food-grain by 34 lakhs (Shrestha, 1985).

About 4.25 lakhs Metric Tons food-grains have to be imported annually considering the current production trends. If there is no balance between production and population increment within 30 years, Nepal will have to import more food-grains from outside (Sharma, 1980). Items for export, basic needs, plan targets and MDGs should be targeted quantitatively. The export management model can be based on the export capacity and the import situation of the country. An integrated export management system covering all legal provisions, plan-wise target, special programs and policies should be developed in order to remove negative features of trade development of Nepal.

Biscuit, vegetable ghee, paper, processing food items, cement, leather shoes, soap, sugar, textiles, clothing and ready-made garments and others are some of the import substituted products. But their import in comparison to export is more.

Nepal's export trade scenario at 2012

If the trend of growth continues, export is expected to reach NRs 125 Billion in 2012/13 from Rs. 60-65 billion in 2010/11. Rapidly expansion of export from the level of NRs. 125 billion in 2012/13 has been expected thereafter. However, changes in policies and degree of development may affect the forecast. In case, export development measures cannot be adopted, the actual growth may be much less. On the basis of the export (based on actual rate of growth) and import projection (import forecast 15.6 percent growth), the deficit growth trend was expected to be Rs. 13413, Rs. 29413, Rs. 63008 million in the respective years 1990, 1995 and 2000 (Regmi, 1998). But in 2010/11 Nepal's trade deficit has remained at NRs.333 billion in 2010/11 (TEPC, 2011). It shows a very serious challenge to the national economy. Even if the trade deficit could be reduced to some extent, it is obvious that a substantial trade deficit will continue to exist. Past experiences have also revealed that increasing trade deficit sometimes culminates itself in unfavorable Balance of Payment (BoP).

This situation reveals that export sector may not have received due attention and as a result, the prospect for attaining fast export growth seems to be severely limited (TPC, 1989). Accordingly, the structure of the exporting industries will undergo many changes. Products other than carpet and ready-made garments exports as listed in NTIS 2010 have been expected to lead in exporting industries.

The exports of these industries had been activated since 1980's and they were predicted to maintain more than 20 percent annual growth rate in the 1990's. By 2000, the export volume of these two industries was expected to reach about 3/4 of the total export. Carpets and ready-made garments were expected to top the list of exportable products with an annual growth rate of 20 percent till 2000 (Regmi, 1998). But after 2001, the export of these items have started to decline and the 65 percent share of total export has been diverted to India in 2010/11 (TEPC, 2011).

With an average annual export growth in export value of 55.5 for carpet and 183.6 percent for ready-made garments 1972/73 to 1991/92 (19 years) these two industries were expected the export sector till 2000. But they fall down after 2000 (Regmi, 1998).

After 2000, new products were developed as leading export items. Iron and steel products, textiles, zinc and zinc products, lentils, betel nuts, tea, coffee, large cardamom, vegetable seeds, bamboo goods, ceramics, and small turbines have shown potential to be important export items for future. Production and export of sixteen products mentioned in NTIS 2010 and Trade Policy 2009 will be increased in the years to come.

Future export growth model

Future export model should be based on national projections of export development and the strategy to involve achieving them. These objectives of the model can be: to determine a balance and accelerated growth of export earnings in order to become more self- reliant in meeting out increased import requirements; to progressively reduce our dependence on foreign aid for our development needs; to accelerate the pace of the diversification of the country's export base; to contribute to the strengthening and improvement of production and productivity and industry; to help in improving the technological and technical skills of the country's workforce and expand employment opportunities.

Major issues

These national export objectives highlight the critical significance of the major export development issues and the need for systematic efforts through well-defined policy instruments and action programs to resolve them. These major issues are: strengthening and diversifying the existing export base through expansion of exports and of the product range; augmenting export supplies through increased production for export in both the industries and agriculture; selecting new products for export development; strengthening the respective roles of the public and private sectors in export development; promoting and attracting investment into export oriented ventures; evolving appropriate incentive schemes for developing new exports and simplifying existing system of incentives; improving and strengthening marketing and promotional support; providing the infrastructure needs for export development; coordinating and integrating export effort with national development strategies.

Under the export growth strategy, TEPC (then TPC) is currently implementing an action plan programme relating to the following major areas of export activities which include international market study covering trade fair, export product development, foreign trade development including of SAARC, Tibet and trade information service activities, publication, planning and statistics.

During the 8th plan period, the average growth rate of export had been targeted to 19.1 percent whereas the average growth rate of import had been estimated to 11.7 percent. The target of raising the existing regular exported major products like woolen carpets, ready-made garments, pulses, skins and skins goods and handicrafts were estimated at NRs. 6427 million, NRs. 2241 million, NRs. 856 million, NRs. 244 million, NRs. 116 million respectively during 1st year of the plan whereas during the last year of the plan, the target was estimated at NRs. 18120 million, NRs. 3840 million, NRs. 901 million, NRs. 464 million and NRs. 284 million respectively. The annual export growth rate of the respective goods had been estimated at 23.0 percent, 5.4 percent, 1.0 percent, 13.7 percent and 19.5 percent (Regmi, 1998). Twelfth 3-year plan has also emphasized the export sector. Trade policy 2009 and NTIS 2010 brought during this plan will correct the export trade and economy.

During the 8th to 11th plan, the role of government in commercial sector had acted as the body for assisting, coordinating and providing facilities and all other activities including the implementation of the various programs except of providing basic structure had been formulated in private sector with a view to implement. The areas considered in these plans were product development and export market promotion, production and export improvement of the of the exporting major items, product development, export promotion, institutional development,

Way forward

If the country-wise and commodity-wise trade diversification and some trade barriers of Nepal are compared with other Asian countries, Nepal also can learn very well from the success of the above mentioned countries. A scholarly attention to the successful lessons in the Asian Developing Countries would be a commendable development in itself. If the steps of success were known and understood more precisely not only the Nepalese policy makers but also policy makers around the Asian countries can conduct their activities with conviction and effect in coming years.

Of course, there is no way to guarantee that every effort made by the countries which were successful in implementation and had worthy results may be or may not be suitable to any other country. Due to the variety of dissimilarities and their own nature of problems and constraints, the followers of leading Asian countries may not match ahead exactly as the same path of others. They have to build the way to development themselves in their own country but the knowledge of borrowing engineering and scholarly skill from more advanced Asian countries is always helpful for Nepal to correct the misguided path.

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