

## Export And Growth: The Nepalese Case

Udaya Raj Regmi\*

### INTRODUCTION

Export plays a tremendous role of expediting the pace of economic development in general and to create a robust industrial sector in particular. The group of industrial countries at large that have invariably achieved utmost prosperity in view of economic growth and an overall increase in the standard of living is due to the spectacular success made on the export sector. It is evident from the history of these countries that they were once leading exporters of the world and even now they are in a dominating position in the world export scenario. Moreover, some newly industrialised countries, comprising Hongkong, Singapore, South Korea and Malaysia, have made enormous strides in manufactured exports within span of a few decades, there by having the highest standard of living among developing countries through an upsurge in the growth rate in their economy. It is, therefore, not a moot question whether the developing countries like Nepal should adhere to the same sort of policy and follow the same path to progress.

Nepal, like other developing countries, has not been able to produce such goods that are necessary to develop and diversify her economy, owing, *inter alia*, to the existing inadequacy of efficient labour force, backdated technology and the dearth of capital. She has to import a lot of capital goods and rawmaterials to expedite the pace of industrialisation, improved seeds, insecticides and other inputs to increase agricultural productivity; and even food grains, occasionally, to meet daily necessity, which, in turn, warrants huge amount of forign exchange, which can be earned from foreign aid, tourism, and exports.

Compared to the frustrated mobilisation of internal resources, foreign aid plays a crucial role, at least, in the initial years of development. However, as the form of foreign aid has been reversed in the span of 39 years between 1956 and 1995, the proportion of foreign loan instead of grant, is on the increase. It has created an additional responsibility of repayment of the principal and interest, thereby leading to a heavy burden

---

\* Mr. Regmi is Lecturer, Faculty of Management, M.M.A.M. Campus, T.U., Biratnagar.

on the nation's saving and income, while on the other the dominant share of aid goes back to donor countries themselves in the form of cost, technology, and remuneration of experts leaving a meagre sum for actual productive investment. Obviously, foreign aid is not a substitute of export trade as was thought by Nepalese development planners in the past.

Despite the substantial contribution and huge potentiality of the tourism sector, it has till remained much vulnerable in terms of rampant leakage, economically and socially unjustifiable investment and a bonanza sector for the elite at the cost of the masses. As 26 percent of the gross earnings from this sector in the course of time leaks directly out of the country and the indirect leakages range between 36 to 60 percent, earnings of this sector can hardly be diverted towards payment for import (NRB 1989). A major chunk of the industrial credit was invested in this sector, but the benefits accrued to the country has remained rather doubtful. The NIDC's lending priority to this sector is notably higher that deserves only a secondary importance from the viewpoint of national benefit, which can not be regarded as a sound trend of industrialisation.

Apart from earning the foreign currency, export trade possesses the advantage of giving rise to the multiplier effects on the rest of the economy and helps to increase, expand and diversify the production. The development and expansion of the export sector affects the saving, investment, employment, production and income favourably in one way or the other. The export sector paves the way for growth through increasing production of manufactured goods, diversifying the production of primary goods, developing new products, industrialising the economy, accelerating the pace of agriculture development in the main.

Sluggish export and ever increasing import have resulted in a huge trade deficit which is further supposed to be increased with the expansion of development activities. In view of the existing and probable adverse consequences of increasing trade deficit, robust export sector is a must for Nepal like any other developing country. In sum, exports give rise to optimal allocation of resources and enhance productivity.

## METHODOLOGY

This study has used analytical research method. The sources of data are secondary in nature which are obtained from the publications of Nepal Rastra Bank and Central Bureau of Statistics. Basically, the tools of

analysis are Spearman's rank correlation and simple linear regression model.

To establish the relationship between annual change of exports to GNP and annual change in GNP, Spearman's rank correlation method has been used which is stated as:

$$r_k = 1 - \frac{6 \cdot D^2}{N^3 - N}$$

Where,

$r_k$  = Spearman's rank correlation

$D$  = Difference of ranks.

$N$  = Number of pair of observations

The simple linear regression model has been set up to study the relationship between increase in export as a proportion of total exports in the initial period as an explanatory variable and economic growth as dependent variable. The estimated model is stated as:

$$Y_i = b_0 + b_1 X_1 + C_i$$

Where,

$Y_i$  = GNP Growth

$X_1$  = Rate of Export Growth

$b_0, b_1$  = Constants

$C_i$  = Error Term

## EMERGING TRENDS

### Market Shift

Given the inevitability of convertible currency for the development of the economy, expansion of exports to overseas countries has become all important. In the contexts of large market available in India, the exploitation of which can make the export sector prosper, exports to India is as important to the economy as to overseas countries. In the background of this reality, a balance between the exports to India and overseas countries is timely demand. However, Nepal presents a very bleak picture in this regard and has not been even realised this very fact yet. In 1956/57,

the share of export to India in total exports stood at 97.87 percent and then increased to the highest ever figure of 99.73 percent in 1960/61, but it declined staggeringly to 18.82 percent in 1994/95 and this too, is an increase over 9.39 percent of 1992/93. This can be confirmed from the fact that the average annual growth rate of exports to India during 1956/57 to 1974/75 was 10.08 percent which declined considerably to 2.3 percent during 1974/75 to 1994/95. On the other hand, the shares of overseas countries in total exports have increased drastically from a mere 2.13 percent in 1956/57 to a very high level of 81.18 percent in 1994/95, though it declined by 9.43 percent in 1992/93. However, the average annual growth rate of exports to overseas countries during 1956/57 to 1974/75 was 36.13 percent and it recorded decrease by 26.3 percent during 1974/75 to 1994/95 (MOF 1996)

Two general trends have emerged from the foregoing analysis. First, Nepal had heavily depended on export to India in the initial years of developmental planning and then its share has declined dramatically to a very low level, while her share in the overseas countries being negligible in the early years, now it has reached the highest level, dominating over the role of India. Thus, the overdependency of the Nepalese exports to the Indian market has dwindled away to almost nothing. Secondly, overseas countries have emerged as the largest partner for Nepal's export business. This is a result of the fact that Nepal adhered to the policy of trade diversification in the 1960s with the theory that the overdependency on a single country can have serious or even negative implications in the economy.

Of the overseas markets, USA and Germany occupy the leading position. The shares of the two countries in the overseas export of Nepal have increased from a mere 25.24 percent in 1973/74 to 71.42 percent in 1993/94. Their shares in the total exports of Nepal too have increased from 6.34 percent in 1973/74 to 70.79 percent in 1993/94. (NRB 1995) These two countries comprise a sizeable portion not only in the overseas export but in the total exports as well which, indicate dependent on certain countries with inappropriate export strategy.

### **Structural Change**

The nature of the exportable commodity determines the level of development in general and the level of industrialisation in particular, as it

has far reaching implications on the rationale of commercial, agricultural and economic policies. Nepal, like other developing countries, has been facing the problem of commodity composition in her export endeavour, since she is primarily an exporter of the primary commodities and so, the bulk of her export earning is accounted for by these sort of commodities.

The share of primary goods in the export composition of Nepal was 97.54 percent in 1960/61 and the export of primary goods occupied the substantial share till 1984/85. (NRB 1995). However, the nature of our primary commodity exports could not effectively lead the way to economic development because of its inherent limitations to the growth potential. Sluggish demand, declining terms of trade, instability in export earning, uncertainty of export prices, rising domestic demand, higher domestic prices, growing competition in world markets, emerging substitutes, quantitative and other restrictions imposed by developed countries, ineffective linkages are all factors that have obstructed the endeavour of economic development through the expansion of primary commodity export. So, for Nepal which is resource poor and has small domestic market, the export of primary commodities provides scant hope for sustainable development. To get rid of the problem of export composition, diversification of exports from primary goods to manufactured goods is one of the most difficult task for Nepal. As the demand for manufactured goods is more responsive to changes in price and positively correlated with increase in income, market for manufactured goods tend to expand faster which come up with greater opportunities for exports and better prospects for development. Interestingly, manufactured goods registered a significant growth during 1956/57 to 1994/95 spanning the period of 38 years. The share of manufactured exports in the export composition of Nepal took an upturn from 5.18 percent in 1956/57 to a very high level of 87.82 percent in 1994/95. The striking feature of the composition of Nepal's export was that the export of primary goods gone down to 12.15 percent in 1994/95 from 94.82 percent in 1956/57. Primary goods has been playing a minor role in the export composition of Nepal, especially after 1984/85 (NRB 1995). Instead, the exports of manufactured goods not only dominated the export composition since 1985/86 but also demonstrated phenomenal increase. Therefore, Nepal has come to a long way for shifting the resources and efforts to that of manufactured goods exports which are essential for achieving the economies of scale, to

diversify the economy, to stimulate industrialisation, and to have favourable impact on balance of payments.

The important feature of Nepal's export sector is that a few commodities have dominated the overall exports. which vary from timber, rice, raw jute and jute goods, ghee, pulses to carpets and readymade garments which all accounted for 59.81 percent in 1974/75 which further increased to 76.32 percent in 1994/95. Taking the only two commodities carpet and readymade garments into consideration, the share increased from 44.94 percent to 71.77 percent during the same period. Agricultural commodities till 1984/85 and then carpets and garments have dominated the export structure of Nepal. Considering the overseas market also, nothing more than two commodities, varying among raw jute and jute goods, rice, hides and skins carpets and garments have prepredominated the overseas export of Nepal, which accounted 90.9 percent in 1971/72 and declined marginally to reach 88.41 percent in 1994/95 (NRB 1996). Obvioulsy, Nepal's exportable items have been narrowing in spite of the adoption of trade diversification policy to promote exports through country and commodity diversification, which indicates the need for re-formulation of such an export strategy which puts the country's development at stake.

### **Data Substantiation**

Exoports contribute much to the economic growth of a nation. That is, as the level of exports expand, the growth rate of the economy becomes higher. An increase in exports not only stimulates investimet, technological change and industries with significant economies of scale, but enable resource exploitation according to comparative advantage and fuller capacity utilisation and substantial growth share of manufacturing sector in the growth of output. Thus a rapid growth of export causes the terms of trade to improve and gain from trade and productivity to increase, ensuring a strong balance of payments. Exports, thus generate higher national income in the country, that is why every country of the world accords top priority to the export sector in their development planning.

As evident from Table 1 no significant change seems to have ocured in the export / GNP ratio, which accounted 5.28 percent in 1974/75 and increaded to 6.71 percent in 1975/76 then stagnated at 6.02 percent percent in 1990/91, during 1974/75 to 1990/91 spaining over the period

of 17 years. In between these periods, the contribution of export to GNP remained even low. However, in after years, the export/GNP ratio has increased to more than 9 percent and again has declined to 7.98 percent in 1994/95 (MOF 1996)

**Table 1**  
**Export / GNP Ratio Of Nepal**

Year	Export/GNP Ratio	Year	Export-GNP Ratio	Year	Export/GNP Ratio
1974/75	5.28	1981/82	4.72	1988/89	4.62
75/76	6.71	82/83	3.29	89/90	4.89
76/77	6.62	83/84	4.26	90/91	6.02
77/78	5.22	84/85	5.80	91/92	9.01
78/79	5.74	85/86	5.45	92/93	9.89
79/80	4.82	86/87	4.60	93/94	9.50
80/81	5.77	87/88	5.24	94/95	7.98

**Source :** Compiled by the Author Based on Economic Survey 1996.

The low export / GNP ratio reflects the inward oriented economy, low level of economic development, and inadequate performance to meet our growing needs for technology and raw materials along with frustrating independence and self-sufficiency. In fact, a small country like Nepal should generally have a large share of export in GNP which manifests growing independence, self-sufficiency, foreign exchange earning and outward looking strategy monitoring impulse to growth.

### Statistical Test

To test the hypothesis that exports contribute much to the economic growth, Spearman's rank correlation of annual change of exports to GNP (X/GNP) and annual change in GNP has been worked out. These two variables should be positively correlated to explain the existence of relationship between them. The coefficient of rank correlation between the two variables is found to be +0.41 and it is not significant at 5 percent level of significance. It is, therefore, worthwhile to conclude that export has not significantly contributed to the growth of the economy in our case.

In order to test the contribution of exports to economic growth, the dependent variable Y has been defined as the GNP growth and the independent variable X has been defined as the increase in exports as a proportion of the exports in the initial period.

The following regression has been estimated:

$$Y = 0.103657 + 0.102825 X$$

$$(0.044384) (0.061188)$$

$$R^2 = 0.135610 \quad R^2 = 0.08758$$

$$t = 1.680476$$

$$D.W. = 1.55697$$

The value of  $R^2$  is very low. The regression coefficient is not significant at 5 percent level of significance and thus may accept the null hypothesis that exports have not significantly contributed to the national income. It is free from the problem of serial correlation.

### CONCLUSION

Though, export can expedite the pace of economic growth to the optimum level, Nepal has been lagging far behind with other countries of the world in this respect. Both correlation and regression analysis explain the fact that export has not significantly contributed to the Nepalese economy. Despite the trade diversification policy adopted in the 1960s, Nepal has still been suffering from the lack of market and limited exportable items. There is some lacuna in the export policy adopted by Nepal in her past periodic plans. So, export policy should be re-formulated in such a way that it could match to fit in with the environment of other countries, it could divert the investment towards export sector, and it could integrate the policy with other economic policies. Only then, will Nepalese people witness the success of the development endeavour of the country, which will be the real turning point in the Nepalese economy.

### SELECTED REFERENCES

- Banskota, N.P. (1991), "Trade in Nepal", *Nepal Udhyog Banijya Sangh Ko Pachhis Barsa*, Kathmandu Federation of Nepalese Chamber of Commerce and Industry,
- Dahal, Ramesh (1992), *Foreign Trade and Economic Developmint of Nepal*,
- Unpublished Ph. D. Dissertation, Tribhuvan University, Nepal.
- Gills, Malcom et al. (1987), *Economics of Development*, W.W. Norton and Company, Newyork.



Gupta, Sanjeev (1985), "Export Growth and Economic Growth Revisited," *The Indian Economic Journal* 32, No. 3: 52-59.

Lewis, W. Arthur (1971), *Principles of Economic Planning*, George Allen and Unwin (India) Private Limited, Bombay.

Michaely, Michael (1977), "Exports and Growth: An Empirical Investigation", *Journal of Development Economics* 4: 49-53.

Ministry of Finance (1996), *Economic Survey 1996*, Ministry of Finance/HMG, Kathmandu.

National Planning Commission (1992), *The Eight Five Year Plan (1992 - 1997)*, NPC/N, Kathmandu.

Nepali, D.P. (1968), "Export Promotion in the Developing Countries with Special Reference to Nepal", *Industrial Digest* 3, No. 1:83-89.

Nepal Rastra Bank (1973), *Quarterly Economic Bulletin*, October, NRB, Kathmandu.

Nepal Rastra Bank (1989), *Income and Employment Generation from Tourism in Nepal*, NRB, Kathmandu.

Nepal Rastra Bank (1995), *Quarterly Economic Bulletin*, April, NRB Kathmandu.

Pearson, Lester B. (1968), *Partners in Development*, Praeger Publishers Newyork.

Sarma, L.S. (1984), "Export Financing Mechanisms" *Financing of Exports from Developing Countries*, International Trade Centre UNCTAD/GATT, Geneva.

Sodersten, Bo (1981), *International Economics*, The Macmillan Press Ltd., London.

## BOOK REVIEW

Central Bureau of Statistics (1996, 1997), *Nepal Living Standards Survey Report 1996*, Volume One and Two National Planning Commission Kathmandu PP 88 + 83 plus Annexes, price not mentioned.

The book under review has been divided into two volumes. The volume one has altogether seven chapters e.g. Methodology, Demography, Housing, Access to Facilities, Literacy and Education, Health, Fertility and Family Planing. It has also two annexes along with 60 various tables. Similarly, volume two contains eight chapters e.g. Income, Employment Status, Agriculture, Wage Employment, Non-Farm Economic Activities, Loans, Remittances, Adequacy of Consumption. It also has one errata-corrige on Access to Facilities besides one annex and 53 different tables.

This is the only survey after the study on income, employment and consumption done under the sponsorship of NPC in 1986. NLSS is rich in information as it has wide coverage of all concerned items determining the living standard of Nepalese people.

Though the report has various commendable features, yet it has some shortcomings. The major one is in its methodology. As stated in the report, the selection of sample is based upon the population census 1991. But, the sample households taken on the basis of ecological zones do not comply with the ratio of houseseholds found in population census 1991. For example, the ratio of total households for mountains, hills and terai in aggregate households according to population census 1991 comes to be 8.25, 46.85 and 44.90 percent respectively. But, the ratio of sample households for these regions in NLSS has been found to be 12.51, 51.36 and 36.13 percent which vividly shows that the sampling is biased towards mountains and hills (Table 1).

**Tabel 1**  
**Household Distribution in Ecological Zones**

Ecological	Households in Population Census 1991		NLSS Sample Households	
	Number	Percent	Number	Percent
Nepal	3345052	100.00	3338	100.00
Mountain	276064	8.25	424	12.51
Hill	1567120	46.85	1740	51.36
Urban Hill	N.A.	-	604	34.71*
Rural Hill	N.A.	-	1136	65.29 *
Terai	1501868	44.90	1224	36.13

\* Percentage of hill sample households taken as 100.

Source : Adapted and calculated from CBS. *Statistical Pocket Book Nepal 1992*. NPC Secretaria, 1992, Kathmandu; Table 1.3, p. 14 and CBS. *NLSS Report 1996 : Main Findings*, Vol. One. NPC Secretariat, 1996, Kathmandu: 1996, p.2.

The selection of only of hill area has further made the sample biased because most of the urban centres are in terai and they are not similar to that of hill towns in many aspects. Besides this, the selection of households at the rate of 12 and 16 in Far Western Region only randomly from each ward is also not reasonable as the number of households in wards for other regions too is not uniform. Besides, the selection of households should have been on the basis of economic status of households because their economic prosperity is not the same.

The report also has the computational problem in the case of dependency ratio given on page 21 in Table 2.5 (Vol. One). All figures of dependency rate seem incorrect because none conform with the computed dependency rate by the information given in the Table 2.5 itself. The Table 2.5 shows that the dependency rate for whole Nepal is 114.68 though it should be less than 100 as the total dependent population is lower than that of productive population, the population aged 15-59 years.

Similarly, the report gives some confusing figures, For example, the percentage of people 60 years and older is mentioned as 6.83 in the Table 2.1 on page 17, whereas it is 8.70 percent in the Table 2.5 on page 21.

The report writes that out of total employed for wage earning, eight percent labourers are as agricultural wage labourers and 22 percent labourers are outside agriculture wage labourers on page 15 in Volume Two. But, it is different from the figures under the same headings given in the Table 2.6 on page 20 in that volume. The Table 2.6 mentions 12.20 percent agriculture and only 9.50 percent outside agriculture labourers wage labourers.

In spite of these fallacies the Foreword by the Vice-Chairmen of NPC with the preface of CBS Director General along with the list of NLSS field staff have enhanced the quality of the report. The use of fine paper, nice computer printing and stout binding have further added to the beauty of report.

In addition to this, the collection of information of the same household from its all members is plausible because it gives a vivid picture about all i.e. men, women, children, etc. Similarly, the data tapped through the community representatives as Village Development Committee Chairmen, Ward Chairmen and other knowledgeable people are also a good aspect of this report. The report is educative and worth to be studied by all interested, especially by economists, researchers and academicians alike.

Associate Professor  
Department of Economics  
P.N. Campus, Pokhara

Dr. Nagendra Lal Srivastava