

Importance of Exports to Economic Development of Nepal

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INTRODUCTION

The importance of exports to the economic development has been realized for a very long time, however, it got momentum since 1970. It has been thought that export sector acts as an engine to the pace of economic growth. A good example of the export led growth had been found in developing countries in the 19th century, which are presently either the industrial leaders or the developed countries. In brief, given the constraints and conditions of the particular country concerned, export can play a vital role in the economic development. Higher the growth rate of export sector, the greater is the direct effect of export sector on employment and personnel income; and the less distribution of export income favours those with the higher marginal propensity to import. The investment resulting from any saving of export income becomes more productive; the exports expand more through a change in production function, rather than by a simple widening process and more stable are retained export receipts (Meir 1963:181/82)

Through the time there have been different views expressed about the process by which export helps the economic development and growth. One of the important theoretical contributions has been the *staple theory* of trade and growth propounded by Harrod A. Innis. The theory states that some products contribute more to growth than others. Production techniques, transportation costs and other export related series are the important factors to make some products the staples. The theory had been developed with regard to the 19th century export-led growth of the then developing countries. Douglas V. North has applied the theory to the growth of United States of America suggesting that the major forces for the expansion in early 19th century were associated with various products.

Another theoretical contribution is the *linkage theory* of Albert O. Hirshman. According to his theory, there are two types of linkages,

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forwards linkage and *backward linkages*. Forward linkages are found when new production increases the supply of cheaper raw materials. New industries are established to take the advantages of the cheap materials. Backward linkages are found when establishment of an industry increases the demand for raw materials. Raw material producers are attracted to produce more. New industries are established to satisfy the increased demand (in Kindlebergere 1976:71/72).

However, the situation today differs to a great extent from that of the 19th century. Therefore, the export-led-growth experienced by the then developing countries may not be adjunct in the case of today's developing countries except the oil producing countries, because due to developmental pace the terms of trade has been in favour of the developed countries. The internal conditions of the underdeveloped countries are not favourable. Export sectors of such countries are bounded by many demand and supply side constraints. The capacities to take advantages of the opportunities by trade have been limited. Their capacities to transform resources from low productive to high productive areas have been limited. The industries in the countries are found to be dependent on the imported intermediate goods and raw materials, foreign technology and capital equipments. Today's less developed countries, except for oil producers, expect little growth from trade. This is partly because of the world trade environment in which the terms of trade are believed to turn systematically against the less developed countries and partly the result of the conditions in the countries themselves (Kindleberger, 1976).

However, the importance of exports to the economic development may not be underestimated. The benefits depend on the country's state of economic development. It may also depend on the capacity to specialize in production using the most abundant factor of production. However, it is obvious that, if a small country is developing efficiently in line with its comparative advantage, it will specialize and hence be compelled to turn to foreign markets for exports of goods that use its most abundant factor of production most intensively. (Lal and Sarath 1987:196)

Therefore, it may be mentioned that, export sector of the economy can contribute significantly to the economic development. The question is how efficiently the abundant materials be exploited and utilized, how available opportunities are reaped, how changeable are the production techniques and how productively export receipts are utilized.

THE NEPALESE CASE : EXPORTS AND THE ECONOMY

The importance of export sector could not be underestimated. However, its contributions to economic development depend of the state of the economy. The contributions of exports to development would be significant only under the situation where some minimum level of development is achieved. Minimum economic development is the prerequisite of export development. The following recent features of Nepalese export sector would reveal the contributions of exports to economic development to some extent.

Position of Exports

The position of exports in the national economy could be assessed with help of percentage of it in GDP. Along with exports/GDP ratio, imports, total trade, trade deficit/GDP ratio reveal the extend of trade dependency of the economy. The available statistics for the last five years reveal that of the share of exports in GDP has been very small. Although it shows the increasing trend, but has not exceeded more than 10 percent of the GDP. This would not has been so serious if the share of imports in GDP has also been of the same. However, for the 1989/90 and 1990/91 years, the share of imports on GDP remained more than two times than that of exports (Table 1)

Table 1
Exports, Imports, Total Trade and Trade Deficit as the Percentage of GDP

Fiscal Year	Exports as Percentage of GDP	Imports as Percentage of GDP	Total Trade as Percentage of GDP	Trade Deficit as Percentage of GDP
1989/90	5.2	18.4	23.6	13.2
90/91	6.4	20.0	26.4	13.6
91/92	9.5	22.0	31.5	12.5
92/93	10.6	23.4	34.0	12.8
93/94	10.1	27.4	37.5	17.3

Source: Calculated by the Author from Statistical Pocket Book, 1994, Central Bureau of Statistics NPC.

The Table 1 shows that deficit in the trade balance has been seriously adverse. The trend of imports' share in GDP has been increasing during the study period. The share of deficit trade balance in GDP remained around the same level except in the year 1993/94. In this year

it further jumped from 12.8 to 17.3 percent. For the country like Nepal, such a huge size of trade deficit is serious one. Our GNP has been substantially low than GDP and recent statistics do not show the sign of improvements.

Percentage Coverage of Imports by Exports

The percentage coverage of imports by exports shows the adverse trade gap that the economy has been facing. It remained as low as 28.1 to as high as 44.0 in our case during the 5 years periods of 1989/90-1993/94

Table 2
Percentage Share of Exports on Imports

Fiscal Year	Share of Exports on Imports in Percentage
1989/90	28.1
90/91	31.8
91/92	42.9
92/93	44.9
93/94	37.0

Source: Calculated by the Author from Statistical Pocket Book, 1994, Central Bureau of Statistics, NPC.

The Table 2 Shows that our exports are not playing enough role against our imports. The statistics show the volatile nature of exports and imports. Percentage shares of exports on imports show the improvements from 1989/90 to 1992/93. However, in 1993/94 it again decreased by about 7 percent over the pervious year.

Annual Average Growth Rate of Exports and Imports

The average annual growth rate of exports has not been regular. It has been volatile. It remained below 43 percent except in the year 1992/92. In that year it dramatically increased by 85.8 percent. This remarkable percentage increase has been attributable to the good shares of our major export items on the total export volume being carpets, garments and pulses.

The average annual growth rate of imports has been quite regular. It remained as high as 37.5 percent and as low as 12.7 percent. Except in the year 1993/94, the annual average growth rate of exports exceeded that of imports. However, it has not been sufficient to correct the huge adverse trade balance.

Table 3
Annual Average Growth Rate of Exports and Imports

Fiscal Year	Annual Average Growth Rate of Exports	Annual Average Growth Rate of Imports
1989/90	22.9	12.7
90/91	43.3	26.7
91/92	85.5	37.7
92/93	25.9	22.7
93/94	12.5	33.7

Source: Calculated by the Author from Statistical Pocket Book 1994, Central Bureau of Statistics, NPC.

Composition of Exports

Recently, the composition of exports has been changed. On the basis of Standard International Trade Classification (SITC), the place of SITC O, Food and Live Animals and SITC 2, Crude Materials, has been taken by SITC 6, Manufactured Goods Classified Chiefly by Materials and SITC 8, Miscellaneous Manufactured Articles.

Table 4
Major SITC Groups of Nepalese Exports

SITC Groups	Percentage Value of Exports				
	1989/90	90/91	91/92	92/93	93/94
0-Food and Live Animals	12.0	13.4	14.2	11.6	6.7
2- Crude materials inedibles Except Fuels	4.6	4.2	3.2	2.9	2.3
6- Manufactured Goods Classified Chiefly by Materials	52.2	58.4	55.2	59.2	53.3
8- Miscellaneous Manufactured Articles	30.5	20.9	26.1	25.1	33.3
Sub-total Percentage	99.3	96.9	98.6	98.8	97.6
Percentage of other groups	0.7	3.1	1.4	1.2	2.4
Grand Total Percentage	100.00	100.00	100.00	100.00	100.00

Source: Quarterly Economic Bulletin, Nepal Rastra Bank
 Mid-July/Mid-October, 1994, No. 4 and 1.

The share of SITC 6 alone covers 50-60 percent of the total exports. SITC 8 covers 20.9 percent to 33.3 percent of the total exports value and these two groups of commodities cover more than 80 percent of total

exports value except in the year 1990/91, when it remained 79.3 percent jointly. Statistically, this proves that Nepal's export performance has been improved recently, but in reality our export bases have not been diversified to the desired level as it covers a narrow range of commodities.

CONCLUSION

There are not sufficient linkages created by our major export industries, namely carpets and garments. There have been doubts about the sustainability of these export items. Raw materials and technical difficulties have been arisen. Their future demand entirely depends on foreign market situations. The domestic market has been almost nil. The supply side constraints must be carefully tackled in time in order to make the strong export base. Agricultural development with exportable product diversification is the need. Permanent foreign market research team is urgently needed for a sustainable export based development.

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