ITS THE ECONOMY

Lost priority, New!

Nepal can be more competitive by improving investment and upgrading infrastructure

CHANDAN SAPKOTA

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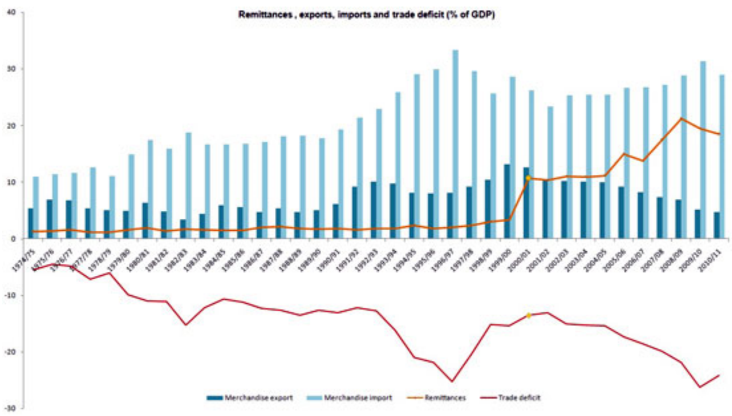

Each time a Nepali delegation attends bilateral trade talks, one issue never changes: plea for duty free access and concessions. They seem to forget the fundamental factor that will enable us to export more is the ability to competitively produce goods and services in the first place.

It is not that tariff and non-tariff barriers are unimportant to increase exports. The fact is that these largely help in trade facilitation, whose importance is high only when we are able to boost production competitively. Sadly, this is not the case right now. Rather than begging for more concessions during trade talks, the primary focus should be on effectively tackling constrains faced by the industrial sector, improving investment climate, and then seeking bilateral assistance to enhance production efficiency. Otherwise, even if we get greater market access and concessions, we won't be able to fully utilise them.

For instance, at the Nepal-China Consultative Meeting on Monday, Nepal requested China to help decrease rising bilateral trade deficit, which reached Rs 45.7 billion in 2010-11, by offering favourable market access, among others. China already provides zero tariff facility to 4,721 export items of Least Developed Countries, including Nepal. Though some of the export items of interest to us are not included in that list, Nepal is simply unable to take advantage of the zero tariff facility on other goods. The reason is that even with such concessions our exporters are unable to competitively produce goods to compete with Chinese counterparts.

The only way China could help us narrow down trade deficit is by investing in the prerequisites for competitive production: supply of electricity and technology transfer in the agriculture and manufacturing sectors. Other than this there is very little China can do to decrease bilateral trade deficit because Nepal is rapidly losing the market pie to more competitive producers and is also importing more Chinese goods each year.

Similarly, during a meeting between commerce secretaries of Nepal and Bangladesh in July, Nepal asked Bangladesh to provide concessional market access to 146 products, to which the latter agreed in principle. Nepal has requested such concessions with almost all trading partners, including India and the US. The irony is that despite knowing that our producers and exporters will be unable to utilise such concessions without improvement in industrial relations and investment climate, we still plead for them by wasting resources and energy.

For instance, Nepal gets duty free access for almost all manufactured goods exported to India. Still we are unable to take advantage of it due to domestic production constrains.

A case in point is the export of iron and steel, whose total import by India was $8.3 billion in 2010. Of this, Nepal's share was just 1.22 per cent. Note that Nepal gets duty free access to the Indian market like no other country. The minor non-tariff hiccups in trade with India don't fully account for our inability to increase exports there.

Nepal has an unsustainably high merchandise trade deficit (25 per cent of GDP). The rapidly increasing imports are primarily financed by remittances. Exports started declining rapidly after 2000-01, the same year the Maoist insurgency intensified, as a result of disruption in production and deteriorating investment climate. Driven by lack of employment opportunities, the same year also marked the beginning of the exodus of a large number of youths for overseas employment. It resulted in high remittance inflows (around 20 per cent of GDP). In 1997-98, income from exports constituted the largest share (37 per cent) of total foreign exchange earnings. Currently, while its share is less than nine per cent, remittances contribute a whopping 62 per cent to total forex reserve.

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The high dependence on remittance financed imports as a result of low domestic output and uncompetitive exports is widening the trade deficit. To decrease the gap, there is no other option but to increase production and exports. What is barring us from doing so? Inadequate supply of infrastructure and poor investment climate are the two key factors.
First, firms are operating below potential due to insufficient supply of electricity and lack of workforce. Second, cost of production is rising due to the compulsion to run diesel guzzling generators and multiple hurdles along the poorly maintained trade routes. Third, poor investment climate arising from labour militancy, extortion, frequent strikes, disruption of supply chain, and high cost imposed by syndicates along with rising cost of doing business in general are eroding industrial strength.

These are making production uncompetitive and exacerbating our ability to utilise readily available market potential abroad. Solving these should be the first priority of our leaders instead of begging for market concessions during each bilateral trade talk. It is the responsibility of not only the Ministry of Commerce and Supplies, but all line ministries, political parties and the private sector.

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