

# A Brief Review of Nepalese Economy : Opportunities and Challenges

Presentation By

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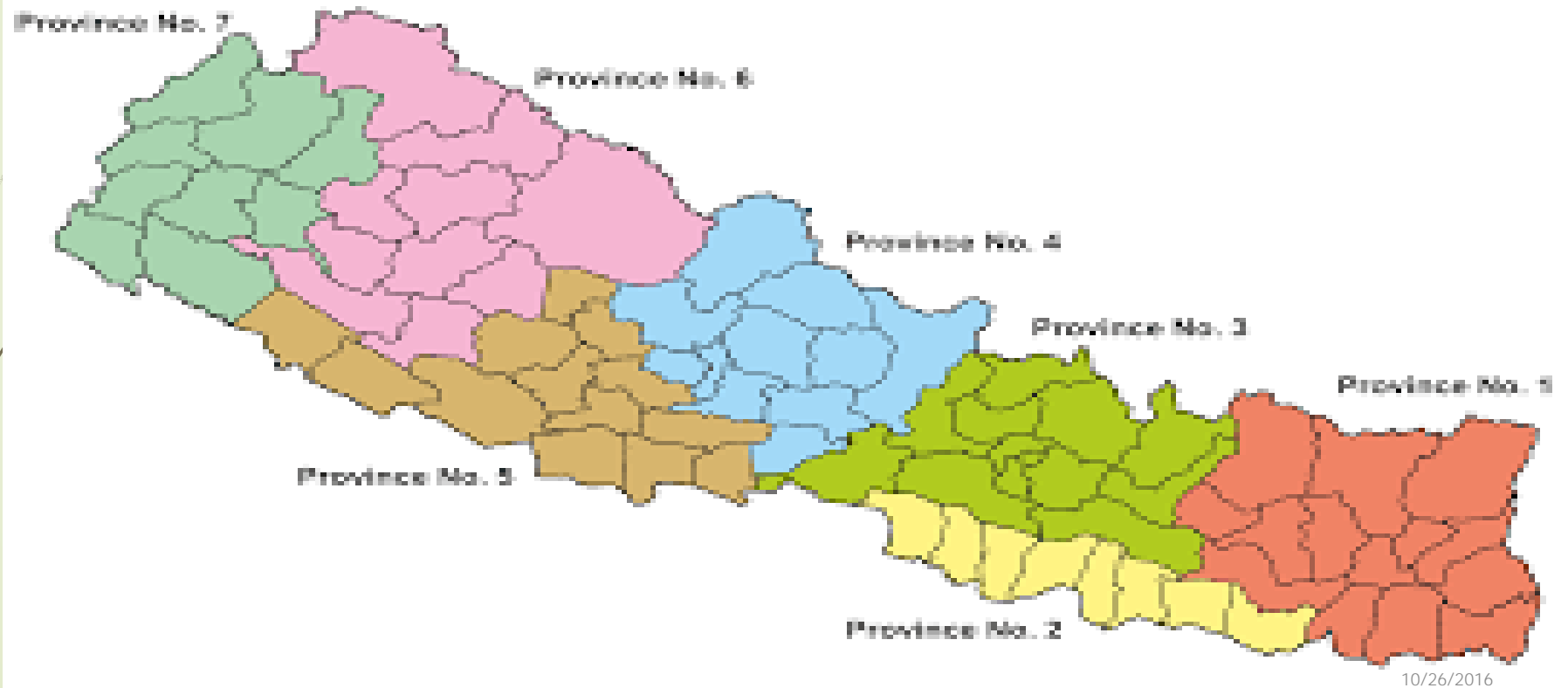
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# Contains

- Nepalese Economy in brief
  - a. Geographical Framework
  - b. Natural Resources
  - c. Social Status
  - d. Current Situation
  - e. Major Challenges
  - f. Opportunities
- CEDA as a Think Tank

# Nepal



# Geological Framework

- Hilly region (15 %), Mountainous region (68%) and Terai (17%).
- The hilly and mountainous terrain of Nepal has made the construction of infrastructure difficult and expensive.
- There are also the problems relating to the lack of essential materials and the inability to mobilize people.

# Natural Resources

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- Water is the country's most important natural resource with about 6,000 rivers and rivulets totaling 45,000 KMs in length.
- Total average run-off is estimated at about 170 billion cubic meters with an estimated hydroelectric power potential of 83,000 MW.
- This is one of the largest potential capacities in the world, of which about 50% could be economically harnessed.

# Social Status

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- ▶ Nepal is a pluralistic society with diverse ethnic, caste, linguistic, and religious communities. There are 126 caste and ethnic groups, around 100 spoken languages.
- ▶ The social structure, which is largely fixed or constrained by birth, influences occupational distribution and traditionally limited in moves between occupations. This has resulted in labor market imbalances that are filled by Indian laborers.

# Current Situation

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- ▶ Nepal's inability to improve competitiveness arises from various factors related to geography, policy, and institutions: the country suffers from low productivity and a poor business climate due to government instability, inefficient government bureaucracy, corruption, and inadequate supply of infrastructure.
- ▶ Other critical constraints include delays in customs and transshipment, high costs of transport and power, a rigid and formal labor market, lack of labor-employer cooperation, terrorism, and poor work ethic of the labor force.

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- More than 60 % trade Nepal to India and around 4% to China.
- Around 1/3 of GDP obtain from agriculture sector where 2/3 population are engaged.
- Around 15 % of GDP comes from Industrial sector, and
- Around 1/2 of GDP comes from service sector.
- Size of Informal Sector is 96% including agriculture.



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- ▶ Around 1800 KM open border toward India (East, South and West).
- ▶ Around 1/3 share of GDP covered from foreign remittance where around 4.3 Million youth labor force immigrated to foreign countries excluding India, and
- ▶ More than 5 Million labor force to India but lacking in accountability about their number as well as amount of remittance.
- ▶ Global production Growth rate in 2015 is 3.1 %.
- ▶ Developing countries Growth rate in 2015 is 4.0 %.

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- Developed countries Growth rate in 2015 is 1.9 %.
- ▶ Indian economic Growth rate in 2015 is 7.3 %.
- ▶ China economic Growth rate in 2015 is 6.9 %.
- ▶ Nepal economic Growth rate in 2015 is 0.77 %. While in last decade the average growth rate is 3.8 %.
- ▶ GDP share of Agriculture is 31.6 % where around 2/3 population are engaged.
- ▶ The average growth rate in last decade in Agriculture, Non- agriculture, Industry, & service sectors are 2.9%, 4.3% 2.1%, 5.0% respectively.

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Expenditure on R &D is 0.3 % of GDP while Global Average is 2.1 %.

- ▶ 1975-2015 economic growth of Nepal was 2.3% while China and India in this period were 8.3 % and 4.0% respectively.
- ▶ Investment in Nepal is 22% of GDP, in India one third & China around Half. Lower investment rate in Nepal due to:
  - a. High incremental Capital Output Ratio (ICOR= 9:1 )
  - b. Lower return to investment.
  - c. Real state price is increasing is the prime killer of investment.
  - d. Low public investment.

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- Investment use on wealth transfer rather than wealth creation.
- Focus on Foreign Aid rather than FDI.
- 23% of population in Nepal are below poverty line (US \$1.25 per day earning in average) while 56% population lies below average earning than US \$ 2.00 per day.
- Around one third of GDP comes from remittance (officially 29%).
- Half of the youth of age group 20-39 are working in foreign land.
- Most of the remittance comes from least paid manual jobs.

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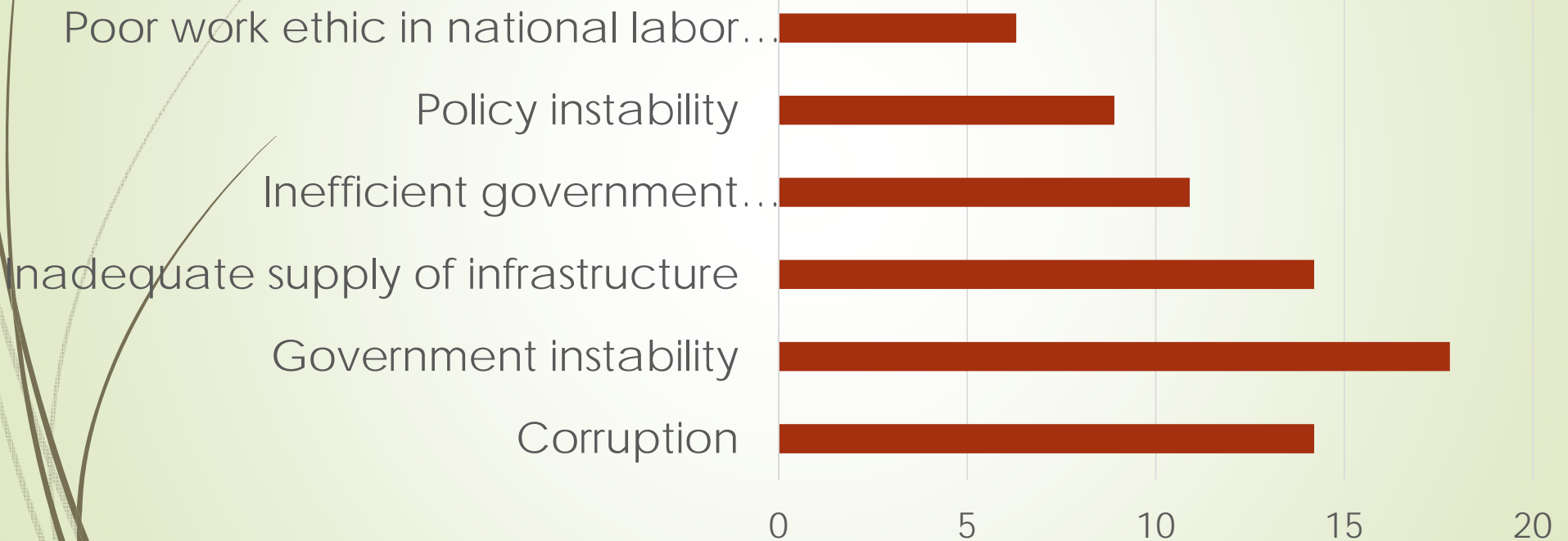
- a. Gap = Import- Export=positively increasing continuously
- b. Remittance increasing & trade deficit increasing.
- Liberalization policy introduce in Nepal early 1990s. (Positive effect in Nepalese economy by globalization, privatization, low tariff cost, Membership of WTO-2002)
- Technological transfer from FDI, liberal policy for FDI.
- Focus on Foreign Aid than FDI.

## Current Situation :

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## Most problematic factors for doing business in Nepal

Score (weighted in %) by Factors  
(blank)



Source : Global Competitiveness Report 2016/2017

10/26/2016

# Current Situation:

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## Business working trend in Nepal

Edition	rank	score	Rank & Score (Singapore)	
2012/13	125/144	3.6	2/144	5.7
2013/14	117/148	3.7	2/148	5.6
2014/15	102/144	3.8	2/144	5.6
2015/16	100/140	3.9	2/140	5.7
2016/17	98/138	3.9	2/138	5.7

Source : Global Competitiveness Report 2016/2017

10/26/2016



# Major Challenges

- ▶ 1. Obtaining higher economic growth rate through proper mobilization of domestic and foreign investments by putting reconstruction and new building works on top priority to avoid further negative impacts on the economy caused by destruction of physical infrastructure remains a challenging task.
- ▶ 2. Making arrangements of technology and equipment required for increasing agriculture production and productivity, skilled human resource, improved seeds and fertilizers, agriculture extension, marketing of production, and maintaining quality and modernizing and commercializing agriculture sector through adequate arrangements of means and resources for irrigation have been challenging tasks.



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- 3. The task of expediting the processes for productive industries, infrastructure building and industrialization through active involvement of the private sector by attracting domestic and foreign investments has been a challenge.
- 4. Constructing electricity projects in active participation of the private and government sectors to end increasing energy crisis in the county and addressing the problems seen in relation to power procurement agreement, land acquisition, local obstruction, labor relation, and infrastructure among others are other challenges.

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- 5. Tasks for creating employment through proper utilization of geological and cultural diversities in the tourism sector, enhancing physical and institutional structures for the sustainable development of foreign currency earnings and attracting tourists from neighboring countries have remained a challenge.
- 6. Enhancing capacity for productive and capital expenditure through prioritization of expenditures, maintaining financial discipline and transparency, and making public expenditure management result oriented through effective monitoring and evaluation processes have been challenging tasks.

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- ▶ 7. Making institutional structure, capacity enhancement, and policy and legal arrangements for effective management of public debts, limiting domestic borrowings within desired limit of GDP, investing such borrowings in capital building sectors thereby providing support to the national production through their uses in future are challenging tasks.
- ▶ 8. Increasing domestic employment through the arrangement of skill oriented trainings as per the requirement of domestic markets, sending skilled workers for foreign employment and using the remittance earned from such foreign employment in productive sectors by converting it into the capital, and creating employment opportunities to workers within the country who have earned skills abroad are also other challenges.

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- 9. Curbing informal economic activities like illegal imports and exports; illegal transactions of foreign currencies; illegal money transfers, and illegal financial transactions, and bring them into the formal economy is a daunting challenge.
- 10. Maintaining financial stability, increasing access to finance, and attaining higher economic growth through the development and expansion of financial sector have remained a challenge.
- 11. Nepal has planned to upgrading from LDC by 2022 but GNI per capita is very low growth rate compare to other indicators EVI (Economic Vulnerability Index) and HAI(Human Asset Index) be great challenge for Nepal in coming days too.

# opportunities

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- ▶ Regional economic integration with effective production sharing to boost up value chain in EU (40%), UK (70%), USA (15 to 45 %) but in between BIMSTEC member countries/South Asian countries is very low.
- ▶ Some factors for low regional value chain in these region are: level of development, industrial structure, location, policy factors, FDI operation, intellectual property protection, logistic performance, quality of infrastructure, etc.
- ▶ Challenges on trade facilities in investment with global volatility.
- ▶ South Asian countries are not a key player in global economy.

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- ▶ Emphasis for service trade between south Asian countries be major driving force for enhancing the regional trade investment.
- ▶ Lacking in comparative advantages in South Asian countries due to different nature of bilateral trade agreement.
- ▶ We should develop the common issues of bilateral agreement in between the member countries to promote the comparative advantages to promote regional value chain.
- ▶ Decrease in oil price and sluggish economic activities resulted in low inflation rate in most of the Asian countries but it is still high in Nepal.
- ▶ Railway road, highway link-road between South Asian countries, easy visa.
- ▶ Easy linkage toward ocean for trade for land-link (landlocked) countries.



# CEDA as a Think Tank

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- **Establishment**-May 15, 1969 (Four research centres in TU -CEDA, CERID, RECAST, CNAS)
- CEDA has been serving as a policy-research centre contributing towards the national development policies and strategies. The centre's activities are basically confined to **research, consultancy, publication** {CEDA-News and Journal (Regular), reports and others when necessary} and **training programmes**.
- **Goal:** The goal of the centre is to contribute to the nation building through analytical and problem solving works in the areas of socioeconomic and administrative development.

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## ► Objectives:

- a. To assist the policy makers in formulating and implementing the development policies, plans and programmes.
- b. To provide the policy-makers with conceptual, empirical and value premise for shaping the development policies, plans and programmes.
- c. To recommend the policy makers /alternative policies, ideas and options
- d. To foster intelligent and informed discussions on the issues and problems in the Nepalese public affairs so as to promote and establish an enlightened, conscious and influential public opinion
- e. To help various agencies of the TU in their diverse programmes and to enhance their roles in national development, and
- f. To engage oneself with international collaboration in the study and pursuit of development changes.



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## ► Network of CEDA at International Institutions:

- a. Trade and Investment Relation in South Asia and South East Asia, Trade and Investment Division, ESCAP, Bangkok.
- b. Development Information Network for South Asia (DEVINSA), Colombo, Sri Lanka. The centre's library is also the focal point for the Development Information Network for South Asia (DEVINSA) Project for Nepal.
- c. Thematic Node for South and Central Asia, Networking of Environment Training Institutes at Tertiary Level in Asia and the Pacific (NETTLAP), and United Nations Environment Programme (UNEP).
- d. ADB-Asian Think Tank Development Forum, Manila, Philippines.
- e. The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), Dhaka, Bangladesh

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### ➤ **CEDA is also a member of the following institutions:**

- a. Eastern Regional Organization for Public Administration (EROPA), Manila, Philippines.
- b. Asia and Pacific Development Centre, APDC, Kuala Lumpur, Malaysia.
- c. Association of Development Research and Training Institutes of Asia and the Pacific (ADIPA), Kuala Lumpur, Malaysia.
- d. Association of Management Development Institutions in South Asia (AMDISA), Hyderabad, India.
- e. Centre for Regional Development, Chonnam National University, South Korea.

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- Up to now, more than 500 research reports (including proceeding papers) have been published from this centre in which around two dozen are directly related to Tribhuvan University and others remaining are related to national and international policy level. Among these few (examples) are as follows:
  - a. Global finance crisis and its impact in Nepal.
  - b. A study on social exclusion and democratic inclusion.
  - c. Foreign direct investment in financial services: impact on Nepalese economy.

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- d. Role of cooperatives in production processing and marketing in hubs.
- e. Role of international financial institution in SAARC regions.
- f. A study on human trafficking in the cross border areas.
- g. A study on import, export of agricultural commodities from major market centres of Nepal.
- h. Implication of WTO agreement in the environmental sector of Nepal and development of action plan.
- i. Impact assessment on fiscal measures and environmental and corrective measures.

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- j. A study on the effectiveness of government training programme and for industrial development in Nepal.
- k. Impact on sixth and seventh plan.
- l. Environmental problems due to urbanization.
- m. Formulation of national housing policy in Nepal.
- n. Planning for cooperatives development in Nepal.
- o. Implementing decentralization policy and programmes.
- p. The status of women in Nepal.
- q. School to work transition survey.

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- r. Cross border financial flow between Nepal and India.
- s. Monitoring and evaluation follow-up survey-poverty alleviation fund(WB)
- t. Baseline survey on peace building for reconciliation, co-existence and socio-economic reconstruction through television company.

# Thank You