

Harnessing the Potential of Regional Value Chains for Employment Generation : Nepalese Perspective

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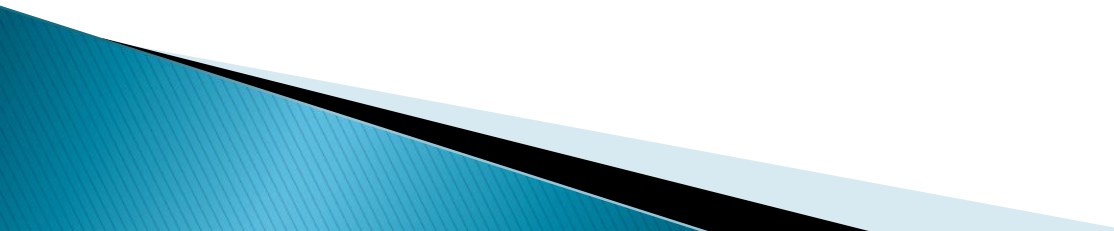
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Outline

- ▶ The context
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 - ▶ Manufacturing sector in Nepal and participation in GVC
 - ▶ Prospects of harnessing the regional value chain for employment generation in Nepal
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The Context

- ▶ Unemployment (more prominently underemployment) is a serious problem in Nepal amidst low growth.
 - Inter-census employment growth reveals that there is a sharp fall in employment growth in recent years, from 2.7 % during 1991–2001 to 0.6 % during 2001–2011. Due to
 - A negative elasticity of 4.85, 1.83 and 1.43 in manufacturing, electricity, gas & water and trade, restaurant and hotel.
 - A more detailed analysis of manufacturing sector which is supposed to be more employment enhancing shows that
 - Manufacturing employment declined by 20.5 % from 1991/92 to 2006/07.
 - Average employment per firm reduced to 48 % in 2011/12 from 57 % in 2001/02.
 - Manufacturing employment reduced to 5.5 % in 2011 from 8.8 % in 2001
 - Very low elasticity In real estate and finance at 0.05.
 - Low elasticity in agriculture (0.25) and construction (0.47).
 - Moderate elasticity in community services (0.63) and transport (0.74).
 - More than 30 percent workforce is underemployed with such a ratio among 20 to 24 age group standing at 46 %.
 - Problem is compounding along with almost half million working population entering into the labor market each year.

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- ▶ Despite rapid structural changes in the economy, features are unique
 - Services sector share in GDP reached 56 % in 2016/17 with share of primary sector share reducing to 30% and secondary to 14%.
 - Reduction in manufacturing sector share has been most striking, from 8.5 % in 2001/02 to 5.7% in 2016/17.
- ▶ In parallel, there is an unprecedented rise in trade deficit in recent years as a result of dwindling of export share in the total trade
 - Share of commodity export in total trade reduced to 6.9 percent in 2016/17. As a share of GDP, commodity export went down to as low as 2.8 % in 2016/17 from 12.6 percent in 2001/02.
 - With continuous steep rise in imports, deficit of goods and services trade reached almost 34.4 % of GDP in 2016/17 from 10.8 percent in 2001/02.
 - Most annoying phenomenon is that both degree of product specialization and existing export capabilities are dwindling or evaporating.
- ▶ Under such circumstances, exploring the possibilities of harnessing regional value chain for employment could be highly useful in the Nepali context.

Value chain and employment

- ▶ Value chains consisting of number of activities such as design, input supply, production, collection, processing, marketing, retailing, distribution, support services etc up to the final consumers including exports are regarded to be more labor intensive and employment generating.
- ▶ It is shown by the ILO and other studies that involvement of labor intensive operations in the early stage of participation in GVC leads to higher level of employment generation.
- ▶ Value chains are found to be improving access to markets, finance and other business services in low income countries with positive implication on employment generation. As studies indicate, often value chains strengthen bargaining power and raise knowledge in managing finances noticeably.
- ▶ Literatures suggest that countries engaged in global value chains (GVC) through enhanced access to regional and global economies succeed to improve production techniques and enhance more capacity to generate employment (Banga, 2013, ESCAP , 2015 and UNCTAD, 2017).
- ▶ East Asian experience clearly shows that creation of job in the process of higher level of sophistication in value chain helps to pull a substantial number of people out of poverty and reduce income gaps with favorable gender implications as well.

Level of participation by Nepal and other SA countries in GVC

- ▶ As studies indicate, level of participation of South Asia including Nepal in global and regional value chain is low compared to East Asia.
 - GVC backward participation index (share of foreign value added in gross exports) of South Asia is reported to be 17.1 as against East Asia at 25.1.
 - Likewise GVC forward participation index (share of domestic value added in third country export) of SA is reported to be 9.4 compared to East Asia at 9.9.
- ▶ GVC participation of South Asian countries
 - Backward participation index is reported to be 15.5 for Nepal, 17.4 for India, 11.8 for Bangladesh, 36.2 for Bhutan and 13.8 for Sri Lanka.
 - Forward participation index reported to be 8.8 for Nepal, 9.8 for India, 9.9 for Bangladesh, 6.7 for Bhutan and 10.2 for Sri Lanka.
- ▶ GVC participation index thus shows that with backward index at 15.5 compared to forward index of 8.8, Nepal has been unable to tap potentials and reap benefits.

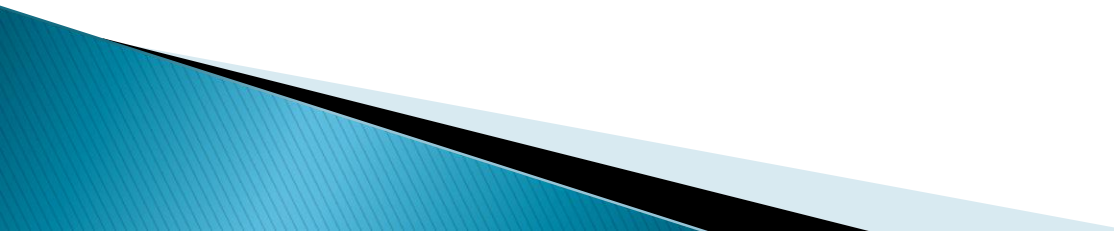
Manufacturing sector in Nepal and participation in GVC

- ▶ The Enterprise Survey of World Bank (2013) showed that apart from very limited firms with foreign investment (only 0.1 percent foreign owned), only 8.2 percent of firms were receiving internationally recognized quality certification, essential for participation in GVCs.
- ▶ The survey also depicts that out of total sales, 97.0 percent was domestic, 1.8 percent direct exports and 1.2 percent indirect exports.
- ▶ Although a sizeable proportion of firms were found to be using inputs of foreign origin (44.9 percent), as a proportion of total inputs, domestic input share was very high at 72.3 percent compared to foreign inputs at 27.6 percent. These corroborated that Nepal's participation in GVC is low.
- ▶ By undertaking case studies of tea (for agriculture) and transformers (for manufacturing), Basnett and Pandey (2014) show that Nepal has succeeded very little to move toward higher level of participation in GVC.

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- ▶ A recent study (Khanal and Pandey, 2017) examining the role of manufacturing in employment is instructive to a greater extent in deriving certain inferences with respect to low GVC with adverse employment implication. The study shows that
 - Number of manufacturing establishments in the post liberalization period never reached the level of 1991/92.
 - Despite various facilities, textile industry, paper, wearing apparel and leather industries were the worse sufferers in recent years.
 - Structure of manufacturing industries of the period 2006/07 to 2011/12 reveals that
 - During this period the highest increase in the share was of food and beverages industries, from 22.8 to 34.0 per cent.
 - Conversely, a drastic reduction in the value added share of textiles and wearing apparel took place during the same period, from 25.9 and 6.3 to 3.8 and 0.5 percent respectively.
 - Almost in all major industries like food and machinery, textile, leather, chemicals, rubber, electric, paper and basic metals export share in their total output reduced sharply during the period 2006/07 to 2011/12 with very adverse employment implications.

Harnessing regional value chain for employment generation in Nepal

- ▶ The rise of global value chains (GVCs) as major vehicles for trade offer new opportunities for the region if effectively exploited.
 - ▶ They offer opportunities for deeper integration within the region by connecting producers and intermediaries in the process.
 - ▶ As the experience of East Asia and practices in some specific areas in SA countries indicate, RVCs provide immense opportunities of generating employment simultaneously.
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To harness potentials and reap benefits, there is a need of more exclusive new initiative at the national, sub-regional and SAARC level with strategic priority which is lacking so far.

- ▶ At the country level, Nepal needs
 - Macroeconomic policy consistency with focus on employment.
 - Making value chain as an integral part of modernization and commercialization of agriculture.
 - Revival of manufacturing sector aimed at rapid industrialization with focus on exportable industries taking backward and forward regional value chains into special consideration.
 - Improving financing to allow greater participation of small and medium sized enterprises, and improving the local transaction costs of doing business.
 - Priority to remove structural and other supply side constraints through improved business and investment environment, logistical and other infrastructure facilities for reducing trade costs and raising trade competitiveness.
 - Improving trade facilitation through removing non-tariff and other numerous barriers to trade and strengthening capacity to meet technical barriers to exports.
 - Attracting regional FDI linking with connectivity, energy and tourism development and enhancing exports, and
 - Improving coordination with other SA countries to remove or minimize inefficiencies at the different level of value chains.

Con..

- ▶ At the sub-regional and regional level
 - Macro economic policy harmonization and coordination.
 - Introduction of preferential investment policy added by minimization of a negative list and induce intra-regional FDI.
 - Revival of manufacturing sector with focus on industrialization.
 - Expediting regional and sub-regional cooperation in the areas of transport, energy, connectivity and dispute resolution with priority.
 - Addressing supply-side constraints and bringing down the cost of doing business and reducing transaction costs with focus on promoting cross border trade and investment.
 - Ensure transit facilities as a part of overall trade facilitation.
 - Simplifying regulatory and other hurdles preventing intra-regional services trade.
 - Promote functional economic corridors.
 - Extension of border Haats to potential areas, agriculture products etc.
 - Widening and strengthening institution-specific connectivity across South Asia beyond trade matters and may need coverage of visa issues, compliance of standards, opening up of bank branches, harmonization of licensing and permits etc. by specialized institutions.

Thank you.

