

NEPAL'S EXPORT POTENTIAL IN SERVICES

(Health, Education and High-end Retail Services)

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Executive Summary

1. Trade contributes to economic growth via increase in income and allocation efficiency. Nepal, a landlocked least-developed country in South Asia, has been pursuing integration with the world economy to harness this engine of growth for poverty reduction. This stance is reflected in many planning documents of the Government of Nepal (GON), such as the current Three-Year Interim Plan. A salient reflection of the country's movement towards integrating with the global economy is Nepal's membership of the World Trade Organization (WTO) in 2004.
2. This study focuses on Nepal's export potential in three services exports, namely health, education and high-end retail services (HERS). The goal of this report is to present the findings of a preliminary diagnostic study of these services sectors which attempted to identify the areas of competitive and comparative advantage and future directions that Nepal can take to utilize their full potential.
3. The study report is divided into two parts. The first part comprises a review of services trade agreements, a profile of global services trade in relation to the above-mentioned sectors, and Nepal's services trade commitments. The first chapter reviews major trade agreements Nepal has entered into: Nepal-India Preferential Trading Agreement; the South Asian Free Trade Agreement (SAFTA), the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation Free Trade Area (BIMSTEC FTA) Framework Agreement, and the General Agreement on Trade in Services (GATS) under the WTO. The report utilizes the GATS concepts and terminologies to analyse Nepal's services trade. Specifically, the measures to provide service supply are represented by four modes, namely: Mode 1 or "cross-border supply"; Mode 2 or "consumption abroad"; Mode 3 or "commercial presence"; and finally Mode 4 or "movement of natural persons".
4. The second chapter examines global trade in services in general but with a focus on education, health and HERS trade. The review suggests that, overall, services trade is growing, with trade in education and health services mainly taking the form of consumption abroad. Also, trade through commercial presence, generally taken to be that of Foreign Direct Investment (FDI), is considered to be important since it provides positive externalities beyond capital infusion.
5. The fourth chapter examines the schedule of Nepal's service sector commitments made during the WTO accession process. The service sector commitments in terms of Mode 1 and Mode 2 are quite liberal. However, in Mode 3, there is a cap, generally of 51 percent, while there is no commitment to liberalization in Mode 4. Commitments specific to trade in education, health and HERS generally follow this pattern. By virtue of having binding WTO service commitments, this suggests that Nepal has a stable framework in place for trade in the three above-mentioned services.
6. The second part consists of three chapters providing diagnostic assessments of health services, education services and HERS, respectively. The working definition of trade in all three services used in the study focuses on Mode 2 trade. The studies employ a variety of methods to analyse the services potential in the three sectors selected, including review of literature, utilization of an export potential framework, field survey, in-depth interview and focus group discussions. The disincentives to exports and the channels for realizing the export potential are also identified. Questionnaire surveys were conducted among 53 randomly selected students at seven educational institutions in Kathmandu, 54 foreign patients from five medical institutions at

the central region and five medical institutions at the eastern region, and 50 international tourists (half of them Indians and half non-Indians) in Kathmandu. In-depth interviews were held with educationists, health service providers, entrepreneurs involved in high-end retailing, policy makers and experts. Focus group discussions were held with experts and stakeholders in the respective sectors.

7. The diagnostic study on educational services finds that Nepal has a comparative advantage for educational services exports. The study identifies lack of quality control; price discrimination; language barriers; poor infrastructure; insecurity; and insufficient marketing as competitive disadvantages to the nation. In other words, despite having a comparative advantage for trade in educational services, there is a lack of competitive advantage which prevents Nepal from maximizing the benefits presented by the trade potential. The study recommends to: enhance marketing and economic diplomacy; improve domestic educational quality; provide Nepali language training to foreign students; upgrade infrastructure and facilitate accreditation; strengthen security; and implement liberalization commitments.

8. The diagnostic study on health services finds that Nepal has a comparative advantage for health service export. The disincentives to exports identified by the study include underdeveloped IT-related infrastructure, lack of appropriate information channels, lack of coordination between public and private institutions, the limited choice of services offered by service providers, high government intervention relative to other consumption goods-producing industries and continued domestic political instability. The study recommends to: encourage greater involvement of the private sector; have facility differentiation along with cost differentiation; promote specialty services; build information channels; promote unique treatment system; assure service quality; attract FDI for human resource development; integrate health services with tourism industry; have management tie-ups and network expansions; enhance effective implementation of policy and regulatory provisions, and enter into mutual recognition agreements with major trade partners.

9. The diagnostic study on HERS finds that Nepal has a comparative advantage for HERS trade. The study identifies the following disincentives to HERS trade: poor image of TIA; lack of adequate information on shopping destinations; overcharging; insufficient amount of indigenous products in department stores and malls; inadequacy of qualified and trained sales persons in stores; and fake products. These constitute a competitive disadvantage to the nation. To address these disadvantages, the study recommends to: enhance the image of TIA; more effectively disseminate shopping information to tourists; set-up duty-free shopping complexes; develop an effective mechanism for VAT refund; promote travel packages; develop outlets to foster shopping culture; build specialized outlets for jewellery, ornaments and gems, and ensure quality control; produce high-value products in the handicraft sector; and adopt a coordinated approach towards promotion of shopping tourism.

10. Looking at each of the three service sectors from three separate perspectives suggests that the country has comparative advantages for the export of those services. Despite the comparative advantages, the study results point to the nation's export potential not being fully harnessed due to sector-specific constraints and disincentives.

11. The disincentives in the three service sectors share many common strands. Because of their commonalities and therefore overlap, the disincentives can be put into three broad groupings:

- **Lack of coordinated effort:** Lack of coordinated effort largely occurs in the public sector due to confusion regarding the definition and scope of services. For example, is Mode 2 trade in health services under the purview of GON's Ministry of Health and Population or that of Ministry of Culture, Tourism and Civil Aviation? A similar situation occurs in the case of trade in education and HERS. Clarity in determining which body is responsible for regulation, monitoring and supervision of services export is essential to facilitate effective coordination. It is also important to point out that there is lack of coordination also between the public and private sector.
- **Poor infrastructure for trade in services:** Presently, there is poor infrastructure for trade in services. For example, the existing infrastructure is inadequate for fully utilizing the potential for Mode 1 supply of services, while the absence of adequate physical facilities, such as at TIA, hampers trade through Mode 2. The poor quality of infrastructure is an impediment to the flow of services trade.
- **Unfriendly business environment:** This disincentive touches on trade facilitation issues, which is exacerbated by the present political instability. There is also security concern, which is a big deterrent to doing business in the nation.

12. These three groupings of disincentives point to a major shortcoming with the present understanding of trade: compartmentalization of service components. On the contrary, trade has to be understood as a comprehensive process, from start to conclusion, which involves a number of distinct actors. The acknowledgement that trade is a process would address the issue of coordination among relevant stakeholders, development of essential infrastructure and enhancement of the business environment. This would entail development of a comprehensive trade policy whose starting point can be taken from the existing Trade Policy 1992. Such activities will ensure the full participation of all sectors of the economy leading to high rates of economic growth.

13. It is also important to highlight the beneficial effect of Mode 3, i.e., FDI inflow. The impact of FDI inflow has many externalities which can also increase service exports through other modes of supply. While GON has recognized the importance of attracting FDI, there are many stumbling blocks, such as effectively implementing the Foreign Investment and One Window Policy. It is also important that any activity in this regard should be harmonized with WTO's Agreement on Trade-Related Investment Measures.

14. We would also put forward three concluding observations:

- First, GON has an important role to minimize the unequal effects of trade—e.g., between the traded and non-traded sectors. These unequal effects magnify inequality, which exacerbate and magnify social tension. In this regard, the role of GON is important to minimize these effects. This may be through regulation or development of a compensatory mechanism, with transfers from the beneficiaries of trade to the non-beneficiaries, etc. While the presence of GON during this period is necessary, the specific and time varying role of GON is an area of future study.
- Second, the report is biased towards the existing trade relations. For example, the study is influenced by the existing southward focus of trade. However, history shows that Nepal largely functioned as an entrepot of trade between the southern region (what is presently South Asia) and the northern region (what is presently People's

Republic of China (PRC)). In this regard we feel that future trade perspective should also have a northward focus. Such perspective will harness the nation's ideal location between the growing economic giants, India and PRC.

- Lastly, the study focuses on international trade on services; however, it misses out on the potential for internal trade in services. This is an important component given the trend for reorganizing the state along the lines of a federal structure. Thus an important agenda for future research is to examine the modalities to facilitate internal trade. Also, though the study focuses on formal education, the FGD indicated that Nepal has potential to export technical and vocational education also. This is an area for further research.

Despite all these recommendations, the end result largely depends on political factors. The absence of political stability carries over to policy instability, which limits the possibility to capture and harness the nation's export potential. Thus a prerequisite for realizing the country's inherent potential in these services' exports is attaining stability. In this way the nation's potential will be harnessed for spurting economic growth in the new Federal Democratic Republic of Nepal.

Abbreviation

ASEAN	Association of Southeast Asian Nations
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BOP	Balance of Payments
BPKIHS	BP Koirala Institute of Health Sciences
CPC	Central Product Classification
EDPs	External Development Partners
EU	European Union
FDI	Foreign Direct Investment
FGD	Focus Group Discussion
FHAN	Federation of Handicraft Associations of Nepal
FITT	Foreign Investment and Technology Transfer
FY	Fiscal Year
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GON	Government of Nepal
GON	Government of Nepal
HCP	Himalayan Cataract Project
HEPs	High-End Products
HERS	High-End Retail Services
ICT	Information and Communications Technology
INGO	International Non-Governmental Organization
IRs.	Indian Rupees
IT	Information Technology
LDC	Least-developed country
MFN	Most-Favoured-Nation
MICE	Meeting Incentives Convention Exhibition
MOCTCA	Ministry of Culture, Tourism and Civil Aviation
MOF	Ministry of Finance
MOH	Ministry of Health
MOHP	Ministry of Health and Population
NEA	Nepal Education Act
NGO	Non-Governmental Organization
NHSP-IP	Nepal Health Sector Program– Implementation Plan
NIA	Nepal Immigration Act
NPC	National Planning Commission
NRB	Nepal Rastra Bank
NRN	Non-Resident Nepalese

NRs.	Nepalese Rupees
NTB	Nepal Tourism Board
OECD	Organisation for Economic Co-operation and Development
OMECs	Outreach Microsurgical Eye Clinics
PRC	People's Republic of China
PTA	Preferential Trading Agreement
R&D	Research and Development
RCA	Revealed Comparative Advantage
RDA	Revealed Demand Analysis
RGEH	Ramlal Golchha Eye Hospital
RTA	Regional Trading Agreement
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
SAPTA	SAARC Preferential Trading Agreement
SARS	Severe Acute Respiratory Syndrome
SHP	Sub-Health Post
TEC	Tilganga Eye Centre
TIA	Tribhuvan International Airport
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
TU	Tribhuvan University
TYIP	Three-Year Interim Plan
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNESCO	United Nations Educational, Scientific and Cultural Organization
US	United States
VAT	Value Added Tax
WHO	World Health Organization
WTO	World Trade Organization

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1

Introduction

Trade contributes to economic growth via increase in income and allocation efficiency. In order to harness this engine of growth, Nepal has stepped up its integration with the world economy. The country is a member of the World Trade Organization (WTO), and has also entered into regional trade agreements.

In the past, the focus of trade was on tangible goods. The focus on tangible goods was due to their physical visibility and ease of manipulation; on the other hand, services trade is harder to conceptualize because of its intangible nature. Nonetheless, the trend of economic development is towards transforming the structure of the national economy, from dependence on agriculture to manufacturing and to services. Services trade reduces an economy's dependence on physical infrastructure such as roads and utilizes the medium of technology such as the Internet. Presently, services account for over 60 percent of global income, although they represent 20 percent of total trade on balance of payments (BOP) basis¹. This suggests that despite the transformation of the global economy, this has not been reflected in the composition of trade flows.

Nepal is a landlocked least-developed country (LDC) in South Asia. The policies and programmes of the Government of Nepal (GON) have acknowledged the benefit of integrating with the global economy for attaining the goal of poverty alleviation. In this regard, in 2004 the country became the first LDC to join the WTO through the process of accession. In the same year, it also entered into regional trading agreements such as the South Asian Free Trade Agreement (SAFTA) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). This external orientation has been emphasized in the recent policy documents of GON, such as the Three-Year Interim Plan (NPC 2007).

This study focuses on identifying the areas of competitive as well as comparative advantage in three services sectors, namely, health, education and high-end retail services. The goal of this study is to undertake a preliminary assessment of the three services sectors and to provide direction for policy formulation.

The scope of this study is as follows:

- Review and analyse provisions/agreements on services trade under the WTO, BIMSTEC and SAFTA;
- Prepare a profile of trade (global and Nepal-specific) in health, education and high-end retail services;
- Assess Nepal's export potential in health, education and high-end retail services;
- Identify existing disincentives in services trade, particularly trade in health, education and high-end retail services;

1 www.wto.org.

- Study/identify channels of potential benefits the country may receive by attracting foreign investment in tertiary education or subsidiaries of well-known foreign institutions, hospitals, retirement homes, and old-age care centres in attractive Himalayan locations;
- Suggest measures to exploit opportunities that stem from protectionist trends in neighbouring countries (which protect their domestic producers with high tariffs) to offer accessible choices in shopping experiences for regional tourists, e.g., in clothing and electronic items; and
- Suggest new measures that will enable Nepal to benefit from health, education and high-end retail services trade;

The study comprises literature review, a diagnostic study and a set of recommendations for each of the three services sectors.

- *Literature review:* This involves desk study and analysis of services trade in major international markets. Information is gathered to study the demand- and supply-side aspects of these sectors.
- *Diagnostic study:* Building upon the analysis from literature review, the studies employ a variety of methods to analyse the services potential in the three sectors: i) review of related domestic documents; ii) utilization of an export potential framework; and iii) field survey, in-depth interview and focus group discussion (FGD). The disincentives to exports and the channels for realizing the identified potential are also discussed.
- *Recommendations:* The above three diagnostic studies provide a basis for recommendations.

The report is divided into three parts. The first part consists of literature review on services trade agreements, profile of global services trade and Nepal's services trade commitments. The second part consists of three separate chapters providing diagnostic assessments of health services, education services and high-end retail services, respectively. The third part consists of overall summary and conclusion.

The study has the following limitations:

1. The study identifies Nepal's export potential in terms of health, education and high-end retail services only, so it does not directly analyse other overlapping services sectors such as tourism and communications, despite their potential contribution to economic growth.
2. Although the study has tried to ensure structural consistency in all the three services sectors, there could be some inconsistencies arising from a wide discrepancy in the information available in these sectors. For example, the flow of foreign direct investment (FDI) into health is available from government sources, while that is not the case with FDI flow into education.
3. Due to time constraint, the field survey is limited to about 50 service consumers. These respondents have been selected using multistage sampling technique. While this sample is small compared to the total inflow of tourists, students and health consumers, it is considered to be representative. However, the results will have to be carefully interpreted in this regard.

PART I
SERVICES TRADE

Review of services trade agreements

Services trade has emerged as an important sector in the global economy due to significant technological innovations and a change in consumption patterns. It is reported that trade in services represents the fastest growing sector of the global economy and accounts for over two thirds of global output, one third of global employment and nearly one fifth of global trade.² Owing to the growing importance of services trade, there have been significant efforts to make it more systematic and institutionalized through bilateral, regional and multilateral trade agreements. This process has been bolstered by the General Agreement on Trade in Services (GATS) under the WTO.

Nepal has also endeavoured to enhance its services trade and increase its contribution to domestic economic growth. The country is party to various bilateral and regional preferential trading agreements (PTA). These include: Nepal-India PTA³; the South Asian Free Trade Agreement⁴ (SAFTA), and the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation Free Trade Area (BIMSTEC FTA) Framework Agreement⁵ (Karmacharya and Maskay 2006). For trade in services, the country is bound by its GATS commitments made during the WTO accession process. This chapter thus focuses on the review of the GATS.

2.1 GATS as an integral component of the WTO

The GATS is the first and only set of multilateral rules which governs the international trade in services. It aims to create a credible and reliable system of international services trade rules by ensuring fair and equitable treatment of all participants in order to stimulate economic activity through trade promotion and progressive liberalization. The GATS is governed by the basic principles of: i) Most-Favoured-Nation (MFN) Treatment (except the one-off temporary exemptions), ii) National Treatment (all the areas where commitments are made), iii) Transparent Regulations and Inquiry Points, iv) Objective and Reasonable Regulations, v) Unrestricted International Payments, vi) Negotiable Individual Countries' Commitments, and vii) Further Negotiable Progressive Liberalization.

The GATS came into being on 1 January 1995 as an integral component of the WTO (Box 2.1). When the idea of bringing rules on services trade into the multilateral trading system was

2 www.wto.org.

3 The India-Nepal PTA was signed in 1996 and renewed in 2002 and 2007. It allows for i) exemption of primary products from import duties and quantitative restrictions on a reciprocal basis; ii) duty-free access for Nepalese manufactures to India, largely without quantitative restrictions, except for sensitive items; and iii) preferential access for Indian manufacture exports without quantitative restrictions. This PTA does not include the services sector.

4 South Asian nations (namely Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka) signed the SAARC Preferential Trading Arrangement (SAPTA) in 1993, which is the region's first regional trading agreement (RTA). SAPTA was superseded by SAFTA in 2004. The SAARC members are committed to a ten-year phase-out of tariffs beginning 2006, with LDCs such as Nepal (along with Bangladesh, Bhutan and the Maldives) having a more back-loaded reduction schedule. Both RTAs have concentrated on merchandise trade and have thus marginalized the service sector. However, SAFTA is in the process of implementing a services trade agreement.

5 BIMSTEC was formed in 1997 by Bangladesh, India, Myanmar, Sri Lanka and Thailand. Nepal and Bhutan were admitted as members in February 2004. The BIMSTEC FTA Framework Agreement aims for broad economic integration in the areas of goods, services and investment. The accord on trade in goods was scheduled to be launched in July 2006 but was delayed due to many unresolved issues. Services negotiations are to be initiated after the accord on goods trade is implemented.

suggested in the early 1980s, a number of countries were sceptical and even opposed to it.⁶ Nevertheless, it came into existence after seven and a half years of the Uruguay Round negotiations which got delayed by almost twice the original schedule. All the present 152 WTO Members are also parties to GATS with varying degrees of country-specific commitments in individual services sectors.

Box 2.1: World Trade Organization

The WTO is a multilateral organization that provides the framework for the conduct of international trade in goods and services and for the protection of intellectual property rights. It provides a forum for the governments of member countries to negotiate on trade agreements and settle trade disputes under a rules-based system. Though the WTO began life on 1 January 1995, the trading system under it is a half a century older. Since 1948, the General Agreement on Tariffs and Trade (GATT) had provided the rules for the system, but it only governed trade in goods. A total of eight rounds of multilateral trade negotiations took place in the GATT before the WTO came into being. The eighth round, i.e. Uruguay Round (1986–1994), led to the GATT being changed into the WTO, with a much wider coverage. The WTO administers the implementation of a set of agreements that provide the legal ground-rules for international commerce. The basic WTO agreements are: the GATT, which governs trade in goods; the General Agreement on Trade in Services (GATS), which governs trade in services; and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which governs intellectual property trade. Besides, the WTO has a framework for the enforcement of rights and obligations in these areas.

Source: Das (1999) and WTO (2007a)

2.2 Scope and coverage of services under GATS

The GATS applies to all trade in services by WTO members. The exception is the services supplied in the exercise of governmental authority such as central banking services, which are neither supplied on a commercial basis nor in competition with other services suppliers. The GATS schedule largely follows a classification based on the United Nations Central Product Classification system, which identifies 11 basic services sectors plus a twelfth category for miscellaneous services which are subdivided into some 160 sub-sectors or separate services activities (Appendix 2.1).

2.3 Obligations under GATS

The most important general obligations under the GATS are MFN treatment and transparency with respect to all measures affecting trade in services. There are no general obligations to offer national treatment and market access to foreign suppliers; these obligations are confined to the sectors and sub-sectors specifically included in the individual schedule of commitments of each member, subject to any limitations with respect to each mode of supply. The schedules of commitments are the result of bilateral negotiations on market access and national treatment, based on a process of offer and request, which facilitates the achievement of a balanced package of trade liberalization. Once commitments are made, they are binding and cannot be

⁶ Bhagwati (1997) reports that the inclusion of the services sector was one of the principal issues of disagreement in the Uruguay Round between the Group10 developing countries led by Brazil and India (the others being Argentina, Cuba, The Arabic Republic of Egypt, Nigeria, Peru, Tanzania, Vietnam and Yugoslavia), and the developed countries led by the United States (US) and the European Community. The major discord between the two groups were on i) need for a separate agreement for services, ii) supply mode of services trade and iii) national security issues after including the services sector in the multilateral agreement.

modified or withdrawn without compensating trading partners and, thus, even where commitments have not gone beyond guaranteeing the status quo, they have long-term implications. This provides exporters of services, as well as foreign investors, with a high degree of security and predictability. With regard to the national treatment obligation, GATS states that in the sectors covered by its schedule and subject to any conditions and qualifications set out in the schedule, each member shall give treatment to foreign services and service suppliers, in measures affecting supply of services, no less favourable than it gives to its own services and suppliers. The basic obligation is limited to service sectors for which commitments have been made in the schedule of the member concerned.

2.4 Method of service delivery under GATS

The GATS has provisioned four modes of service supply: Mode 1 (cross-border trade); Mode 2 (consumption abroad), Mode 3 (commercial presence), and Mode 4 (presence of natural persons).

2.4.1 Cross-border supply (Mode 1): Cross-border supply covers the services flows from the territory of one member into the territory of another member. The advancement in information technology (IT) has significantly raised the importance of this mode, which includes e-banking, e-study, e-shopping and e-commerce.

2.4.2 Consumption abroad (Mode 2): Consumption abroad refers to the situation where a service consumer moves into another member's territory to obtain a service. A student going abroad for higher study is, from the perspective of his/her country of origin, importing education services through this mode. Tourism has been the most-used services sector under this mode in the last two decades.

2.4.3 Commercial presence (Mode 3): Commercial presence implies that a service supplier of one member establishes a business presence, including through ownership or lease of premises, in another member's territory to provide a service. FDI is the most common channel under this mode.

2.4.4 Movement of natural persons (Mode 4): Movement of natural persons implies that the person of one member enters the territory of another member to supply a service. For instance, an American surgeon coming to Nepal for surgery is exporting health services through this mode.

The GATS-provisioned four modes of supply have a distinct nature in all the 12 service sectors classified in Annex 7 of the agreement. However, as this study is specific to health, education and high-end retail services, the four modes of supply under these sectors are provided in Appendix 2.2.

2.5 Market access in services trade

The GATS aims to open up markets in services trade among its member countries. However, Mattoo *et al.* (2006) and Srinivasan (2004) argue that the member countries are seeking to negotiate market access in services without adequately addressing their regulatory frameworks as per GATS commitments. Mattoo *et al.* (2006) is of the view that the regulatory institutions in many member countries are too weak to cope with liberalized markets. Furthermore, there is no provision for regulatory cooperation that is necessary for a successful liberalization of temporary labour mobility. Srinivasan (2002) believes that GATS does not emphasize agreements on the movement of natural persons for the purpose of supplying services. In this regard, Mattoo *et al.* (2006) and Srinivasan (2002 and 2004) suggest three types of action to further institutionalize the market access in services trade:

1. At the current stage of its development, the GATS must focus primarily on disciplines for measures that discriminate against foreign services and providers.
2. A credible assistance mechanism must be established to help developing countries make the regulatory improvements needed for successful liberalization.
3. Where necessary, members should make access commitments on labour mobility conditional on the fulfilment of specific conditions by source countries—to screen services providers, accept and facilitate their return, and combat illegal migration.

3

Profile of global services trade

Services trade, traditionally termed consumption abroad (Mode 2 in GATS parlance) has been further enhanced and institutionalized through the multilateral commitments under the other three modes of supply. This chapter analyses the profile of global services trade, which has sharply increased in recent years. It is to be noted that the WTO does not report trade flows under all four modes of supply separately, but provides the figure of trade flows in aggregate. On account of such data limitation, the chapter analyses aggregate trade flows rather than mode-specific trade flows.

3.1 Aggregate profile of global services trade

The global trade in services has significantly grown during the period 1981–2004, with the growth rate shooting up after 2000. The annual growth of global services trade ranged from 10.7 to 12.5 percent over the period 1981–2000, with growth accelerating beyond 15 percent after 2000⁷ (Table 3.1). During the period 1981–2004, the annual growth of imports, which ranged from 11.5 to 17.6 percent, was a little higher than the growth of exports, which ranged from 10 to 15.7 percent. In terms of monetary value, global service exports stood at US\$810 billion in 1990 and rose to US\$1,184 billion and US\$2,755 billion in 1994 and 2006, respectively (Table 3.2).

Table 3.1: Global services trade growth rate (%)

	1981–1990	1991–2000	1991–2004	2000–2004
Import of services	11.57	13.15	11.66	17.59
Export of services	9.99	12.02	10.70	15.73
Total services trade	10.74	12.56	11.17	16.62

Source: De (2006)

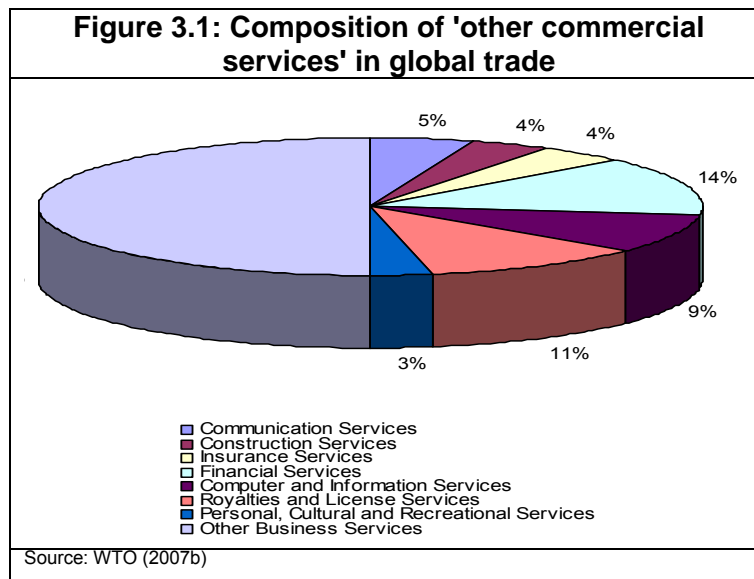
Table 3.2: Global services trade trend (amount in US\$ billion)

	1990		1995		2004		2006	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%
Total global services trade	810	100	1184	100	2125	100	2755	100
Transport	224	27.6	301	25.4	500	23.5	630	23.3
Travel	263	32.5	385	32.5	625	29.4	745	32.1
Other commercial	323	39.9	498	42.0	1000	47.1	1380	44.6

Note: Amt. means amount.

Source: De (2006) and WTO (2005 and 2007b)

⁷ During 1990–2004, world trade increased at the rate of 8.86 percent. In 2004, global export trade stood at US\$11,095 billion, of which i) merchandise accounted for 80 percent, amounting to US\$8,907 billion and ii) services accounted for 20 percent, amounting to US\$2,125 billion.



Transport and tourism are the two major services sectors in global trade (WTO 2005 and De 2006) and these two sectors accounted for, respectively, 23.5 to 25.4 percent and 29.4 to 32.5 percent of global services exports in 1995 and 2004 (Table 3.2). Nevertheless, in the last 16 years the shares of these sectors have been declining as trade in other commercial services has grown in importance. The growth in the export of 'other commercial services' in the post-2000 period is impressive, with the sector recording US\$1,380 billion in exports in 2006, which is double the value in 2000 (WTO 2007b). This growth has increased the sector's share in global services trade to almost half. The major components of other commercial services and their respective shares are shown in Figure 3.1. Among these major components, the fastest growing are computer and information services, and insurance services, which have grown at the rate of 17 percent and 14 percent in the post-2000 period, respectively (WTO 2007b).

The Organisation for Economic Co-operation and Development (OECD) countries dominate the global services trade, accounting for over 70 percent of the global services trade (Table 3.3). The US, the United Kingdom (UK), Germany, France and Japan are the major services trading countries, accounting for 39 percent of global services exports and 39.1 percent of global services imports. Transport is the leading services trade for the US while tourism and 'other commercial services' are the leading services trade for the European Union (EU) (WTO 2006). The two rising Asian economic giants—China and India—are among the top 20 services traders, accounting for 3.17 percent and 1.9 percent of global services trade, respectively. Computer software and IT have had a major role in boosting these two countries' services trade.⁸ De (2006) claims that services trade has undergone a dynamic evolution in developing countries, but the gap between developed and developing countries in services exports has

⁸ WTO (2005) states that India recorded computer services exports worth US\$15.8 billion in 2005, accounting for around 70 percent of Asia's exports of computer and information services. India is a leading country for IT services outsourcing. China's software industry is also expanding. By the end of 2005, there were 12,000 software development companies employing nearly one million people. China's computer and information services exports are at present still relatively low (US\$3 billion in 2006), but they are growing rapidly, at an average annual rate of 40 percent since 2003. Recently the Chinese government launched a project aimed at doubling its computer services exports by 2010. In 2006, China became Japan's biggest software outsourcing site.

been widening. This can be seen in Table 3.3, where the share of OECD countries in global services trade was 70.54 percent in 1981 but increased to 73.19 percent in 2004.

Table 3.3: Share of OECD and developing countries in global services trade (%)

	1981	1991	2001	2002	2003	2004
OECD countries	70.54	78.06	73.38	73.84	74.41	73.18
Developing countries	29.46	21.94	26.62	26.16	25.59	26.82

Source: De (2006)

3.2 Global trade profile of specific services sectors

This section analyses the global trade profile of the three services sectors—education, health and high-end retail services.

3.2.1 Education services: Education is largely a national affair, but it is fast becoming a worldwide service industry too. Larsen and Vincent (2002) suggest that international student mobility can be referred to as international trade in education services. Higher and adult education in particular is a leading sector of global education trade. There is significant trade in higher education services: a rough estimate puts the value of this trade for OECD countries at about US\$30 billion in 1999, equivalent to 3 percent of those countries' total services export trade (Larsen *et al.* 2002). Further, both Knight (2002) and Raychaudhuri and De (2006) state that there is an increasing demand for higher and adult education since people are more interested in cross-cultural learning and enhanced technical skills. With the rising demand for higher education, the demand for trans-border education (e.g., private or for-profit foreign university campuses, IT academies, twinning arrangements with other universities, corporate universities, virtual universities, open universities, e-universities etc.) has also risen significantly. It is observed that the developed countries are the major exporters of education. Raychaudhuri and De (2006) quote an OECD study which states that OECD countries are the largest recipients of international students whereas Asian countries are the largest remitters.

Knight (2002) states that the advancement in IT has enhanced the potential for education export through cross-border trade in the form of e-degree, which can change the structure of the future global education market. Furthermore, Larsen *et al.* (2002) argue that the development of electronic commerce and a corresponding expansion of distance learning make use of new and enhanced information and communication technologies to enhance the potential of pure cross-border trade in education services through Mode 1. The authors also point out that the rates of cross-border e-learning activities are growing faster than the number of students studying abroad, although from a low-base level. Increasingly, educational institutions, publishers, and information and communications technology (ICT) companies are teaming up to design and deliver e-learning courses on a variety of subjects. Recent developments in IT have led to growth in online learning. The top ten and five universities in the US and the UK, respectively, have already launched online courses. For instance, the University of Liverpool is currently running 10 online courses ranging from management studies to technical education. Likewise, Sauve (2002) and Knight (2002) state that there is an increasing flow of FDI into the education sector from developed countries to developing countries to fulfil the resource and technical gap of developing nations. In the absence of technological advancement through FDI, the developing countries will probably lag in exporting education through this mode.

Consumption abroad is still the preferred mode of consumption of education services. The US is the largest recipient of international students, accounting for around 32 percent of international student flows during 1998–2002 (Table 3.4). After the US, the UK, France and Germany attract

the highest numbers of international students, but their market shares are declining. Moreover, France is registering negative growth in international student inflows, particularly because of language barrier. Most French universities do not have English as a teaching language, while Asian students, who are the leading importers in the global education trade, prefer to be taught in the English medium and hence prefer other universities to French ones. AusAid (2005) shows a similar negative impact of the language barrier in Russian universities. Australia comes out as the major gainer in international student flows. The international student inflow to Australia grew at a rate of 19.52 percent in the period from 1994 to 2002; the country's share in global international student inflows increased from 7.52 percent in 1998 to 9.55 percent in 2002. Furthermore, the share of education exports in Australia increased from 6.6 percent in 1989 to 11.8 percent in 2000 [Table 3.5]. Australian universities have substantial education imports through Mode 4 in the form of visiting professors so that these universities are technically competent (AusAid 2005). Likewise, the visa regime of Australia is simpler than that of other OECD countries. In addition, Australian universities use English as the teaching medium, so there is little language barrier. These factors have made Australia a rising education exporter in the global market.

In Asia, Singapore has made tremendous progress in attracting foreign students, numbering about 51,000 in 2004 and growing by 6 percent annually, and there are plans to double this figure by 2010 (Duhamel 2004). The tiny city state has succeeded in luring leading educational institutions with generous incentives and subsidies to set up campuses on its shores. Singapore's Ministry of Trade and Industry has identified four key segments of the education industry as having higher growth potential: tertiary education, private commercial and specialty schools, corporate training and executive education, and preparatory and boarding schools. In addition, e-learning and education support services (such as educational testing and assessment) have also been identified as industries with emerging potential.

As regards South Asia, the inflow of international students to India is quite low. Although there is no centralized data, according to the figures of the Association of Indian Universities, the number of foreign students in India went down from 13,707 in 1993–1994 to 7,791 in 2000–2001 (Chakravarty 2007). The major contributors to the flow are neighbouring countries like Bangladesh, Sri Lanka, Mauritius, Nepal and Bhutan, along with Kenya. As a result of promotional activities, the number is reported to have increase to 8,145 in 2001–2002 (Powar 2005).

Table 3.4: International student inflow to leading education exporters

Countries	1994	1998		2002		Growth (%)
		Number	Share (%)	Number	Share (%)	
United States	453,787 (1996)	430,786	32.33	582,992	32.58	4.26
United Kingdom	128,550	209,549	15.04	227,273	12.36	7.38
France	170,574	148,000	11.28	165,437	9.55	-0.38
Germany	146,126	171,150	12.78	211,997	11.79	4.76
Russia	73,172	N/A	N/A	N/A	N/A	
Australia	42,415 (1993)	109,437	7.52	176,664	9.55	19.52
Canada	35,451	32,890	2.26	N/A	N/A	
World	N/A	1.33 million	100	1.78 million	100	7.56

Note: N/A – Not available.

Source: UNESCO Data Set (<http://www.unesco.org>)

Table 3.5: Educational exports of leading education exporters (in \$US million) and their share in total service exports of respective countries (in %)

	1970		1989		1997		2000	
	Amount (in US\$ million)	Share in total service export (in%)	Amount (in US\$ million)	Share in total service export (in%)	Amount (in US\$ million)	Share in total service export (in%)	Amount (in US\$ million)	Share in total service export (in%)
Australia	6.0	0.6	584.0	6.6	2190.0	11.8	2155.0	11.8
Canada	68.0	2.7	530.0	3.0	595.0	1.9	796.0	21.0
United Kingdom	-	-	2214.0	4.5	4080.0	4.3	3758.0	3.2
United States	-	-	4575.0	4.4	8346.0	3.5	10280.0	3.5

Source: Larsen et al. (2002)

3.2.2 Health services: Given the rapidly growing global healthcare industry and the likely removal of some of the regulatory barriers to such trade at the national, regional and multilateral levels, trade in health services is likely to take on greater importance in the future (Chanda 2001). More efficient communications systems have helped to reduce distance-related barriers to trade; rising incomes and enhanced information have increased the mobility of patients; and internal cost pressures have led various governments to consider possibilities for increased private participation (Adlung and Carzaniga 2001). Consequently, the potential of trade in health services has increased at the global level. However, the net impact of the GATS on trade in health services varies across countries as it depends on a country's national healthcare system, regulatory environment, and government policies (Maskay 2004; WTO 2002).

In 2001, global demand for tele-health services is estimated at US\$1.25 trillion, which includes direct clinical services of US\$804.2 billion, professional back-up services of US\$22.5 billion, consumer health information-related services of US\$21.6 billion, continuing professional education services of US\$3.9 billion, and management of healthcare delivery services of US\$235.5 billion (CIBS 2000, cited in Chanda 2001).⁹ Along with technological advancements and increasing demand for services at the global level, the scope of health services trade through Mode 1 can be expected to expand faster than in the past. However, services delivery via Mode 1 usually occurs from relatively developed to less-developed countries since the latter are generally backward in technological know-how.

The important factors behind the growth of trade in health services via Mode 2 are mainly differences in cost structure, quality, and availability of diverse facilities, including alternative treatment techniques, natural endowments and differences in waiting time for treatment. Some countries in the Association of Southeast Asian Nations (ASEAN) have been successful in attracting foreign patients for service consumption. Table 3.6 presents export revenues, number of patients and origin of patients for three ASEAN countries.

⁹ No recent data are found in this regard, but the progressive changes caused by technological advancement and rising demand imply greater relevance of trade in services.

Table 3.6: Export revenue, number and origin of patients in three ASEAN countries

	Export revenues	No. of patients	Origin of patients
Malaysia (2003)	RM 150million (US\$40 million)	More than 100,000	60 percent from Indonesia, 10 percent from other ASEAN countries`
Singapore (2002)	US\$420	210,000	45 percent from Indonesia, 20 percent from Malaysia, 3 percent from other ASEAN countries
Thailand	Around 20 billion baht in 2003 (US\$482 million)	470,000 (2001), 630,000 (2002)	42 percent from the Far East (mostly Japan), 7 percent from ASEAN countries

Source: Singapore Tourism Board; Abidin et al. (2005); Arunanondchai (2005), cited in Arunanondchai and Fink (2007)

A number of health companies are attempting to penetrate foreign markets. For example, the Apollo group of hospitals in India and Parkway Group in Singapore have been progressively expanding their networks in many other Asian countries. Attempts have also been initiated to extend insurance service coverage beyond the domestic country.

Australia's export strategy is to focus on Modes 1 and 2. The country is aiming to become a centre of excellence in telemedicine¹⁰ by promoting and supporting research and development (R&D) in the application of multimedia processes to deliver healthcare, taking advantage of its highly developed infrastructure and low cost of telecommunications (UNCTAD Secretariat 2007). Similarly, the scheme of granting medical visa is a move to facilitate the inflow of foreign patients. In addition, Australian medical schools have created specialized international departments, set up joint ventures with foreign universities and opened medical schools in the target markets to meet the foreign demand for health services (AHIDF and DFAT 1996).

In Chile, Mode 2 has become the important mode for health services export. Tertiary care centres have been most successful in exporting services to Bolivia, which has been offering the greatest flow of patients to Chile¹¹ (Leon 2000). In China, the joint strategy of public and private sectors has been geared towards consumption abroad, commercial presence, and movement of health service providers. For Mode 2, the strategy aims at attracting foreign consumers for treatment, with particular focus on exploiting the unique features of Chinese traditional medicine and special treatment procedures (Chanda 2001).

India is one of the leading developing countries engaged in exporting health services, primarily through the movement of service providers to both developed and developing countries (Chanda 2001). Due to its ability to provide high-quality treatment services at a relatively low cost at specialty hospitals, India receives patients from developed as well as developing countries. India is also moving ahead to export services through Mode 3. For instance, the

10 Telemedicine, the practice of medical care using interactive audio, visual and data communications, includes medical care delivery, consultations, diagnosis and treatment, as well as the transfer of medical data.

11 The number of hospitalizations went up from 236 in 1996 to 314 in 1998, when the number in outpatient care was more than 600. Spending by these patients on hospitalization can be estimated at about US\$2.5 million and outpatient care can be estimated at over US\$1.2 million.

Apollo group of hospitals, India's first corporate hospital with over 7,000 beds in 44 hospitals at present, has become the largest healthcare group in Asia.¹² As an initiation to expand the network outside the country, Apollo Hospital has been established in Dhaka in association with STS Holdings Limited. The group has already invested in Sri Lanka. It plans to invest in Nepal (Chanda 2001). Moreover, India is also exploiting its niche in traditional medicines like Unani, Ayurveda and homeopathic forms of treatment and has developed holistic healthcare centres, such as the *ayurvedic* school in Kottakkal, Kerala, where it attracts patients from the eastern Mediterranean, Germany, Malaysia, the UK and the US (WHO 2002).

Export of health services via Mode 4 is a policy emphasis in Cuba, which also gives priority to Mode 2. Box 3.1 summarizes the export strategy adopted by Cuba in health services.

Box 3.1: Health service export strategy in Cuba

One of the objectives of the Cuban government is to convert the country into 'a world medical power'. In this perspective, a multifaceted export strategy in the health sector has been implemented since the end of the 1980s. One of the main elements of this strategy is to send medical personnel abroad, especially to countries which experience a serious shortage of health workers. Another is to attract foreign patients to specialized clinics which provide high-quality healthcare at competitive prices. Most of the specialized clinics also function as training centres of medical schools for national and foreign students. Another facet of the Cuban export strategy is to link healthcare with tourism. SERVIMED, a trading company created by the government, prepares health/tourism packages to be sold in target markets in cooperation with tour operators and travel agencies. Cuba also relies on service differentiation to make its health services competitive in the world market. Cuban doctors are able to treat with success some skin diseases which are regarded as incurable in the rest of the world. These treatments are associated with the development of new procedures and new drugs. The success of the Cuban strategy is proved by the increasing number of patients who go there every year for treatment. During the year 1995/96, more than 25,000 patients and 1,500 students went to Cuba for treatment and training, respectively. As a result, income earned from the sale of health services to foreigners amounted to more than US\$25 million.

Source: UNCTAD-WHO (1998)

The scenario of the international flow of people is changing in favour of developing countries, especially because of the increased services demand and relative shortage of medical personnel in developed countries. In the 1960s, doctors working abroad were mostly from developed countries (Mejía *et al.* 1979); they now come predominantly from developing countries and particularly from Asia. In fact, a number of developed countries have changed their legal provisions to facilitate the temporary entry of certain categories of medical personnel. In the US, for instance, an H1A visa is granted to foreign nurses who are not immigrants and who occupy permanent positions temporarily; this visa does not require certification from the US Department of Labour. Such liberal legislative modification for the entry of medical personnel in some advanced countries has worked as an incentive and raised the export potential of other countries with adequate skilled health personnel.

A 1998 study by the United Nations Conference on Trade and Development and the World Health Organization (UNCTAD-WHO 1998) estimated that 56 percent of all migrating physicians

¹² <http://www.apollohospdelhi.com>.

flew from developing countries to industrialized countries, while only 11 percent migrated in the opposite direction; the imbalance was even greater for nurses.

3.2.3 High-end retail services: In last two decades, tourism has been a major sector of services trade.¹³ The tourism business has flourished on the back of the rising travel habit of the middle- and high-class families of developed and developing countries. This has been further complemented by the progress in IT. The threat of terrorism, particularly after the 11 September 2001 attacks on the US, and the Severe Acute Respiratory Syndrome (SARS) epidemic, hurt the tourism business during 2001–2003. However, the tightening of security measures and neutralization initiatives have facilitated the recovery of tourism in the global arena.¹⁴ Tourism experts argue that every country has something to offer to tourists: it may be technical innovation found in developed economies or the cultural and natural heritage found in developing economies. The new concept of shopping tourism emerged in the late 1990s.

The World Tourism Organization reports a 42 percent share of the EU¹⁵ in world tourist flows, while the WTO puts the EU's share of world tourism exports at above 45 percent. The EU is the leading region in shopping tourism as it attracts the highest volume of tourists. The US comes second with 16 percent of global tourism exports. Furthermore, Arab countries, with a view to attracting tourists specifically for shopping, organize grand international shopping festivals yearly¹⁶. But as the flow of tourists to Arab countries is not substantial, these countries cannot be considered as leading shopping exporters.

Studies on shopping in Hong Kong show that there are cultural differences in spending patterns and that Asians spend the majority of their money on shopping, while visitors from North America and Europe spend more on accommodations (Timothy 2006). Shopping is such an important part of the tourism economy that many places have adopted it as the centre of their policy initiatives and as the basis of their promotional campaigns. This is particularly so in destinations like Dubai, Hong Kong, Thailand and Singapore (Timothy 2006). Bangkok, Buenos Aires, Copenhagen, Hong Kong, London, Los Angeles, Marrakesh, New York, Paris and St. Barthes are ranked as the top ten cities for shopping.¹⁷

As the WTO (2005) reports, the rise in IT has enhanced the opportunity of online shopping under Mode 1. As a result, postal shopping, which is a traditional form of Mode 1 retail shopping, is gradually giving way to e-shopping, which is likely to become one of the most-used means of global retail shopping. As there is an increasing trend of establishing chain shopping centres and fast food restaurants¹⁸, FDI is likely to increase in the global retail business.

In South Asia, India's high-end retail market is growing rapidly; it is expected to increase from US\$3.5 billion at present to US\$30 billion by 2015 (Malhotra 2008). India's 400 million-strong upper middle class group with rising disposable incomes is driving the luxury goods sector

13 The international tourist flow increased from 300 million in 1985 to 846 million in 2006 with an increase of 5 percent per year in the period.

14 For instance, Indonesia and Sri Lanka faced an intense terrorist threat after the Bali bombing in 2005 and the Jaffna Airport bombing in 2002, respectively, but their tourism has been able to recover with effective security and neutralization measures such as reduction in airport landing and parking rates and a massive media campaign.

15 Information on tourist inflows and tourism exports is not available at the individual country level for the EU in WTO and World Tourism Organization publications, so the analysis is at the aggregate EU level.

16 Dubai International Shopping Festival and Muscat International Shopping Festival are some of the famous retail shopping events organized annually in Arab countries.

17 http://www.shermanstravel.com/destinations/top_ten/Cities_for_Shopaholics.

18 Gemini and 7/ Eleven are some of the famous retail shopping chains. Likewise, McDonald, Wimpy and KFC are some of the famous global chain fast food restaurants.

(Malhotra 2008). Furthermore, Asia Pacific countries are trying to tap into the huge market of Indian tourists through comprehensive development strategies. Likewise, Spain, which gets 56 million international tourists, is also setting its eyes on the business segment of Indian tourists, especially in respect of Meeting Incentives Convention Exhibition (MICE) tourism. An estimate has it that by 2008, Indians will spend more than US\$4 billion on travel alone¹⁹. Indians are also very big spenders when they travel—the average Indian visitor in Singapore, for example, spends US\$1,500 over five to seven days²⁰.

3.3 Services trade flow in Nepal

Nepal's external services trade flow has considerable data limitations. First, Nepal commenced compiling the IMF BOP version 5 format from 2000 only. Hence, while earlier data are available, they do not fully capture services-related flows. Second, services trade flows are disaggregated only into the broad headings of transportation, travel, government services and other services (e.g. insurance). Third, Nepal does not have BOP data broken down by partners. Nepalese BOP statistics for 2001 to 2006 are provided in Table 3.7.

Table 3.7: Service trade flow in US\$ million from 2001 to 2006

Particulars	2001	2002	2003	2004	2005	2006
Current Account	272.90	236.23	149.31	197.83	160.21	191.86
Current Account Credit	2331.14	2028.43	2050.80	2473.88	2706.35	3227.07
Current Account Debit	-2058.24	-1792.21	-1901.49	-2276.05	-2546.14	-3035.21
Balance on Goods	-764.59	-694.05	-903.62	-1052.74	-1190.15	-1545.12
Goods: Exports f.o.b.	945.26	754.21	652.54	748.45	832.03	876.32
Goods: Imports f.o.b.	-1709.85	-1448.26	-1556.15	-1801.19	-2022.18	-2421.44
Services: Net	126.00	51.23	90.62	122.98	-28.23	-86.78
Services: credit	403.92	305.78	340.90	465.05	360.84	370.19
Travel	158.70	112.57	151.02	245.93	145.21	133.46
Government n.i.e.	103.13	115.69	85.15	96.81	94.43	104.14
Other	142.09	77.52	104.73	122.30	121.19	132.59
Services: debit	-277.93	-254.55	-250.28	-342.07	-389.07	-456.97
Transportation	-126.08	-115.17	-110.79	-127.15	-147.13	-177.18
Travel	-74.77	-74.55	-79.34	-135.81	-134.50	-166.95
Other	-77.07	-64.83	-60.15	-79.11	-107.44	-112.84
Income: Net	23.04	-7.87	-8.69	-22.82	22.71	68.96
Income: credit	74.10	55.89	57.68	52.06	107.57	159.71
Income: debit	-51.06	-63.76	-66.37	-74.88	-84.86	-90.75
Transfers: Net	888.46	886.92	970.99	1150.41	1355.88	1754.80
Current transfers: credit	907.87	912.56	999.68	1208.32	1405.91	1820.84
Grants*	163.16	164.55	177.94	265.05	292.42	263.94
Workers' remittances	639.52	618.32	696.79	793.98	909.54	1365.98
Pensions	85.45	107.57	94.19	107.14	173.50	168.17
Other (Indian Excise Refund*)	19.72	22.12	30.75	42.15	30.46	22.75
Current transfers: debit	-19.41	-25.64	-28.69	-57.91	-50.04	-66.04

Source: Nepal Rastra Bank

* Grant and Indian Excise Refund are not service export

19 http://www.direxions.co.in/learning_curve/show_learning_curve.php?newsid=35.

20 *ibid.*

The current account trends from 2001 to 2006 give evidence of some structural changes. Remittance flows, generating 33 percent of current account income in the last six years, contributed to sustaining the economy in spite of the adverse political climate. Despite a difficult environment, the tourism sector was able to retain its significant role in services export and accounted for an average of 7 percent of current account income during the same period. The main service import of the country is transport accounting for an average of 6 percent of total current account expenditure. The variation in net services during 2001 to 2006 could be traced to fluctuation of services credit (largely in the tourism business) [Table 2].

Table 3.8: International tourist flow to Nepal

	1991-98*	1999	2000	2001	2002	2003	2004	2005
Total international tourist flow to Nepal	361,249	491,504	463,646	361,237	275,468	338,132	385,297	375,398
Duration of stay (days)	10.93	12.80	11.88	11.93	7.92	9.60	13.51	9.10

Source: Ministry of Tourism

*Average of 1991-998

Nepal's services sector commitments

4.1 Introduction

Historically, the services sector in Nepal has been highly protected, not only against foreign investment but also in terms of participation of the private sector. With the adoption of liberal economic policies in the mid-1980s, the services sector was gradually opened up. Under the WTO, Nepal has committed to liberalize 11 of the 12 services sectors, and 70 sub-sectors.

This chapter reviews Nepal's commitments in the services sector. The chapter includes a review of broader horizontal commitments in the sector and specific commitments in the three services sectors/sub-sectors that are the subject matter of this study: education services, health services and retail services.

4.2 Horizontal commitments

Nepal has made horizontal commitments to keep the first three modes of service supply generally unrestricted except for some conditions. In terms of market access, Nepal has committed to remove all restrictions in Mode 2 except providing only US\$2,000 to Nepalese citizens while going abroad. In Mode 3, Nepal has committed that the supply of services by an existing foreign supplier will not be made more restrictive than they existed at the time of Nepal's accession to the WTO. However, Nepal's commitment in Mode 4 is restrictive except in the categories of services sales persons, persons responsible for setting up a commercial presence, and intra-corporate transferees, that too for a limited time and not exceeding 15 percent of local employees.

With respect to national treatment, there are no restrictions in Mode 3 except that foreign investments and reinvestments are required to obtain the approval of the Department of Industry, and that only wholly owned Nepalese enterprises will be entitled to incentives and subsidies, if any, in the sector. The maximum foreign equity is also limited in most services, and firms wanting to sell their services have to be incorporated in Nepal.

Besides these commitments, Nepal also restricts selling and buying of real estate by foreigners.

4.3 Sector-specific commitments: in health, education and retail services

Nepal has also made some sector-specific commitments in the WTO. The sector-specific commitments in education services sector, health services sector and retail services sub-sector are discussed below.

4.3.1 Education services: Education services consist of four major sub-sectors, namely: primary education services, higher education services, adult education services, and other education services. Among these, the last three (higher education services, adult education and other education services) are subject to sector-specific commitments for Nepal.

Nepal has committed to liberalize education services except for some limitations in market access and national treatment in Mode 3. Foreign services providers must be incorporated in Nepal with a maximum foreign equity capital of 51 percent, which will be increased to 80 percent in 2008 as indicated under the WTO accession arrangements. In terms of national treatment, the only limitation is in Mode 3, for education services funded from state resources.

Table 4.1: Sector-specific commitments in education services

Sector or sub-sector	Limitation in market access	Limitations on national treatment
Educational services		
A. Higher Educational services ²¹	1) None	1) None
B. Adult educational services ²²	2) None	2) None
C. Other education ²³	3) None, except only through incorporation in Nepal and with a maximum foreign equity capital of 51 percent and except for education services funded from state resources. Foreign equity participation will be increased to 80 percent after five years from the date of accession.	3) None, except for educational services funded from state resources.
	4) Unbound, except as indicated in the horizontal section.	4) Unbound, except as indicated in the horizontal section.

Note: 1) Mode 1; 2) Mode 2; 3) Mode 3; 4) Mode 4

Source: WTO (2004)

4.3.2 Health services²⁴: Health services consist of two major sub-sectors: hospital services (Central Product Classification (CPC) 9311)²⁵, and other human health services (CPC 9319 other than 93191)²⁶. Sector-specific commitments have been made only for hospital services.

There are no major specific limitations in this sub-sector except in market access in Mode 3 where foreign services providers must be incorporated in Nepal with a maximum foreign equity capital of 51 percent. In addition, medical experts can work with the permission of Nepal Medical Council for a maximum of one year.

21 Higher education services consist of i) post-secondary, technical and vocational education services: Such education services consist of a great variety of subject-matter programmes. They emphasize teaching of practical skills, but also involve substantial theoretical background instruction; and ii) other higher education services: Education services leading to a university degree or equivalent. Such education services are provided by universities or specialized professional schools. The programmes emphasize not only theoretical instruction, but also research training aiming to prepare students for participation in original work.

22 Adult education services: Education services for adults who are not in the regular school and university system. Such education services may be provided in day or evening classes by schools or by special institutions for adult education. They include education services through radio or television broadcasting or correspondence. The programmes may cover both general and vocational subjects. Services related to literacy programmes for adults are also included. Exclusion: Higher education services provided within the regular system are classified in subclass 92310 (post-secondary technical and vocational education services) or 92390 (other higher education services).

23 Other education services: Education services at the first and second levels in specific subject matters not elsewhere classified, and all other education services that are not definable by level. Exclusion: education services primarily concerned with recreational matters are classified in class 9641 (sporting services). Education services provided by governess or tutors employed by private households are classified in subclass 98000 (private households with employed persons).

24 Under GATS, Health services can also potentially include business service commitments in medical and dental services (9312) and veterinary services (932).

25 Hospital services: services delivered under the direction of medical doctors chiefly to in-patients aimed at curing, reactivating and/or maintaining the health status.

26 Other human health services: ambulance services; residential health facilities services other than hospital services. Services in the field of: morphological or chemical pathology, bacteriology, virology, immunology etc., and services not elsewhere classified, such as blood collection services.

Table 4.2: Sector-specific commitments in health services

Sector or sub-sector	Limitation in market access	Limitations on national treatment
Health-related and social services A. Hospital services (CPC 9311) and direct ownership and management by contract of such facilities on a 'for fee' basis.	1) None 2) None 3) None, except only through incorporation in Nepal and with a maximum foreign equity capital of 51 percent. 4) Unbound, except as indicated in the horizontal section. Medical experts can work with the permission of Nepal Medical Council for a maximum of one year.	1) None 2) None 3) None 4) Unbound, except as indicated in the horizontal section.

Source: WTO (2004)

4.3.3 Retail services: Retail services²⁷ are a sub-sector within the distribution services sector. Retail services have been left unbound, except for retail sales of radio and television equipment, musical instruments and records, music scores and tapes.

There are no major specific limitations on the retail sales of radio and television equipment, musical instruments and records, music scores and tapes except in market access in Mode 3 where foreign services providers must be incorporated in Nepal with a maximum foreign equity of 80 percent.

²⁷ Retailers sell goods for personal or household consumption.

Table 4.3: Sector-specific commitments in retail services

Sub-sector	Limitation in market access	Limitations on national treatment
Retailing services (except CPC 63234)	1), 2), 3) and 4) Unbound except as indicated in the horizontal section. In addition, unbound except until such time that Nepal grants such rights to any WTO Member in any sub-sector, or until Nepal determines the types of foreign entities which may provide these services, or that Nepal authorizes such rights under its laws and regulations, the supply of these services; whichever is earlier.	1), 2), 3) and 4) Unbound except as indicated in the horizontal section. In addition, unbound except until such time that Nepal grants such rights to any WTO Member in any sub-sector, or until Nepal determines the types of foreign entities which may provide these services, or that Nepal authorizes such rights under its laws and regulations, the supply of these services; whichever is earlier.
Retailing services	1) None 2) None	1) None 2) None
Retail sales of radio and television equipment, musical instruments and records, music scores and tapes (CPC 63234)	3) None, except only through incorporation in Nepal and with a maximum foreign equity of 80 percent. 4) Unbound, except as indicated in the horizontal section.	3) None 4) Unbound, except as indicated in the horizontal section.

Source: WTO (2004)

In conclusion, the service sector commitments in terms of Mode 1 and Mode 2 are quite liberal. However, in Mode 3, there is a cap, generally of 51 percent, while there is no commitment to liberalization in Mode 4. Commitments specific to trade in education, health and retail services generally follow this pattern. By virtue of having binding WTO service commitments, this suggests that Nepal has a stable framework in place for trade in the three services.

PART II

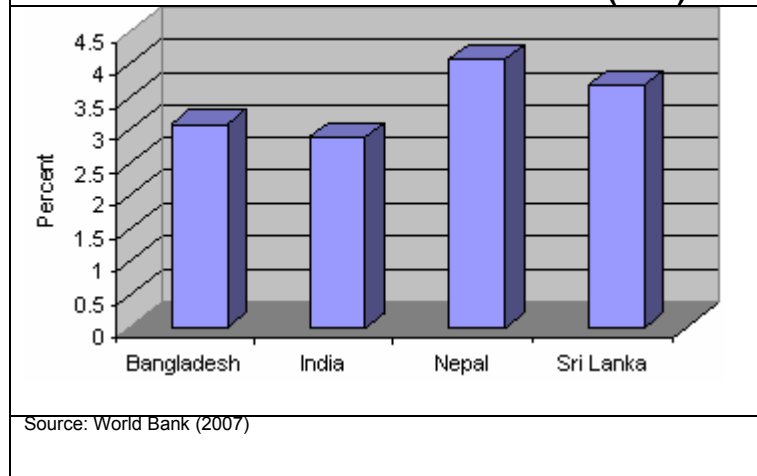
SERVICE SECTOR DIAGNOSTIC STUDY, ANALYSIS AND RECOMMENDATIONS

Education

5.1 Background

Education enhances the skill of the population, which is expected to increase incomes and ultimately alleviate poverty. This has been acknowledged in development plans, annual budgets and education policies of GON. Over the years, GON has allocated an average of 16 percent of annual budget to this sector, which stands at about 4 percent of the country's gross domestic product (GDP). This allocation is the highest in South Asia (Figure 5.1), although the Ministry of Finance (2007) reports that 58 percent of the total government budget for education is financed through foreign aid.

Figure 5.1: Government education expenses to GDP ratio in select South Asian countries (in %)



As of 2005, there were 35,540 public schools and 4,480 private schools in Nepal. Furthermore, there are 6 universities, 2 deemed university-level medical institutions and 621 affiliated campuses under these universities (Appendix 5.1). The schools are scattered across country²⁸, but the higher educational institutions are mostly located in the Kathmandu valley.²⁹ Providers of education services can be broadly categorized as private and public. During 2005–2007, public institutions³⁰ accounted for more than 90 percent of the supply of education services in Nepal (MoF,

various editions).

In 2001, government institutionalized the increasing trend of private investments in schools and other educational institutions, by allowing them to be established under Nepal Company Act.³¹

28 Under the Education for All programme, the government aims to establish schools in all parts of the country at an average walking distance of half an hour. The eastern, central and western development regions of Nepal host 17.7 percent, 26.2 percent and 22.7 percent of schools, respectively, while the mid-western and far-western development regions have comparatively low shares of 11 percent and 9 percent, respectively. This study does not intend to analyse whether the present school distribution follows children's population distribution. However, such a study is essential to develop a new educational policy framework.

29 According to TU (2007), all the faculties and four of five affiliated technical institutions under Tribhuvan University are located in Kathmandu valley. Likewise, three of the four faculties under Kathmandu University are located in Kathmandu valley. Fourteen of 26 campuses affiliated to Pokhara University are located in the valley. Three of six medical colleges offering MBBS course are located in the valley.

30 Public educational institutions cover all government-funded primary, secondary and higher secondary schools, colleges, universities and vocational training centres.

31 The private schools and campuses of Nepal were originally established under the Educational Trust Act which confers these institutions the status of social organizations. The internal financial and administrative control of these schools is based on the social organization approach with ownership not being clear to each investor. In 2001, the government amended the Education Act allowing private schools and colleges to be

GON permitted private universities to come into operation from 1991.³² The private educational institutions are supervised by GON in terms of academic course content but they have financial and administrative independence.³³

This chapter focuses on identifying Nepal's education export potential through literature survey, complemented by a field survey of foreign students pursuing higher studies in Nepal, an in-depth interview with educationists and experts and an FGD with relevant stakeholders.

5.1.1 Working definition of education trade: In terms of education trade, the WTO has classified education services into five sectors: primary education; secondary education; higher education; adult education; and other education. These sectors are further categorized into sub-sectors. As explained earlier, Nepal has made commitments in the last three sectors. Despite the broad commitments in education trade, trade thus far has been mainly in Mode 2. Nepal's experience of education trade mainly being of cross-border nature follows the global experience.³⁴ Education trade through Mode 1 is extremely limited in Nepal.³⁵ This study identifies the export potential of Nepal in education trade through all four modes of supply, but focuses on higher education service delivery through Mode 2.

5.1.2 Limitations of study on education: The analysis of this chapter is based on both secondary and primary sources of information. Nevertheless, there are some constraints regarding availability of secondary information and the time period of the field survey. The limitations of the study are as follows:

- The time period of the study being short, the study relies on a small-sample field survey.
- Time series secondary data on FDI in education and student flow are not available. Further, there is no government agency assigned to provide such detail. So the study is based on the available information, however limited, and might not capture the education trade trend comprehensively (Box 5.1).
- The study focuses on education trade potential but does not intend to analyse the impact of education trade reform policy on delivery of education to poor people.

established under the Nepal Company Law which accords these institutions the status of business organizations so that the financial accounting in particular becomes more transparent and is based on investor ownership.

32 Tribhuvan University, established in 1959, is the first university of Nepal and remained the sole university of the country up to 1985. In 1986, the government established Nepal (then Mahendra) Sanskrit University. Nonetheless, both of these universities are under full government control. It was in 1991, with the establishment of Kathmandu University, that the government allowed the private sector to operate universities.

33 However, educationists Khaniya (2007) and Timalsina (2008) point out the threat from the private sector, particularly in terms of delivery of education to the poor.

34 The WTO website (www.wto.org) and Raychaudhuri and De (2006) state that higher education through Mode 2 is the most traded mechanism in education, and Knight (2002) argues that trade in higher education services is a billion dollar industry with recruitment of international students as the most used means of supply.

35 This is based on conversation where it appears that the Institution of Chartered Accountants of Nepal (ICAN) is the only domestic institution delivering educational services through this mode.

Box 5.1: Data limitations in education trade

Data relating to education trade are not well maintained in Nepal. Nepal Rastra Bank (NRB), the central bank, publishes data on the services in aggregate form in revised BOP format based on IMF Manual V. The analysis in this study is based on NRB (2005), which disaggregated trade flows in some services sectors for the period 2000–2004. However, BOP does not cover total trade movement, particularly because of monetary flows between Nepal and India through informal means like *hundi*. It is to be noted that India is also the largest trading partner in the education sector. Likewise, data on FDI in education are not properly maintained by GON's Department of Industry, the body controlling FDI in Nepal, nor by GON's Ministry of Education and Sports. Furthermore, information relating to the inflow/outflow of students and teachers is not properly managed by the government. Some institutions maintain information relating to student/teacher flows, but that does not cover total flows. Taking these limitations into account, the study is based on the available sources of information.

5.2 Profile of Nepal's education trade

Nepal has been witnessing substantial inflows of religious learners and devotees from India and Tibet to study Hinduism and Buddhism since ancient times (Regmi 1971). Sen (2005) argues that India also received religious students from Nepal seeking to study Hindu culture since ancient times.³⁶ The establishment in 1959 of Tribhuvan University (TU), Nepal's first university, was a milestone in the development of Nepal's education sector. However, the inflow of foreign students became substantial only in the 1990s as medical and technical institutions under TU started to admit foreign students.

There are only a handful of credible studies on such flows. Shrestha (2004), in a study on education trade during 2001–2003, states 683 foreign students came to Nepal in pursuit of higher education as against an outflow of 2,087 students to countries other than India. As per Raychaudhuri and De (2006), 801 Nepalese students went to India for higher studies (Table 5.1). Thus there was a net outflow 2,205 students during the period. In terms of imports, Shrestha (2004) shows India to be Nepal's major education trading partner, followed by the US, the UK, China and Australia.

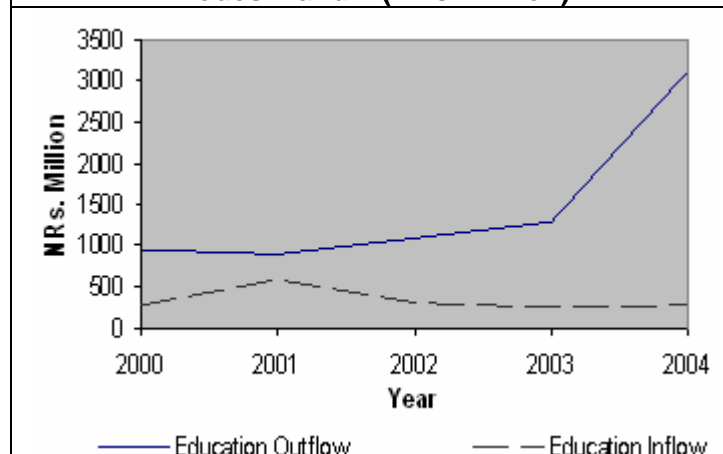
³⁶ Nalanda Religious University of Varanasi in India is a famous university for religious studies among Nepalese students.

Table 5.1: Nepali students' outflow (2001 to 2003)

Destination country	Number
Australia	87
Bangladesh	52
China	224
Russia	43
UK	552
USA	686
Indian	801
Other countries	443

Source: Shrestha (2004) and Raychaudhuri and De (2006)

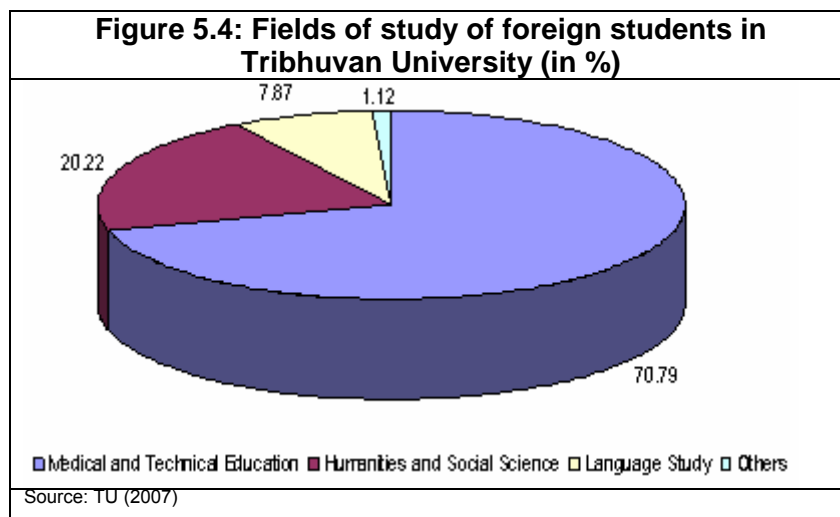
Figure 5.2: Trend of education trade through Modes 1 and 2 (NRs. million)



Source: NRB (2005)

NRB (2005), in a study based on BOP flows, states that during 2000–2004, the country traded in educational services through Modes 1 and 2. Education exports during the period stood far below the NRs. 1 billion mark, while education imports through these two modes averaged NRs. 1 billion (Figure 5.2). Thus, there is a significant deficit in education trade. Education trade made up, on an average, 2.4 percent of total international services trade during the same period. The share of education in total services trade rose from 1.6 percent in 2000 to 4.2 percent in 2004, but this rise was due to a steep increase in education imports. Hence, in terms of BOP flows,

Nepal is a net importer of education services with a significant trade deficit.



The universities of Nepal have quotas for foreign students in all their faculties, comprising about one fifth of total student intake capacity. While the foreign-student quotas in institutions other than medical and technical are partially used up, the same in medical and technical institutions see full enrolment every year. In TU, the largest university, foreign students in medical and technical studies account for, on an average, 62 percent of total foreign students (TU

2007). This suggests that there is a substantial inflow of foreign students to Nepal for medical and technical education.

5.3 Assessment of trade potential

5.3.1 Literature review: As noted Chapter 3, there exist many studies on global trade in educational services. However, there are a number of domestic studies which indicate the country's export potential in educational services. Owing to the slow progress of the education sector in rural areas, studies on Nepal's education sector tend to focus on development of education rather than education trade. Nevertheless, it is being observed that Nepal is also influenced by the global trend of education trade. There are a few studies in this regard. For example, NRB (2005) argues that Nepal has the potential for education exports particularly on account of its natural environment, and this potential has been further enhanced by its commitment, in the course of obtaining WTO membership, to permit foreign investment in higher education institutions—which is necessary to fulfil the financial and technical resource gap the country faces. Khaniya (2007) points out that the natural environment of Nepal is ideal for education but the education quality³⁷ needs to be improved to turn this sector into a potential source of export trade. Mathema (2008) stresses that the quality of education in Nepal should be improved and the high degree of political interference, particularly in public educational institutions, should be minimized to make the educational system of Nepal competitive, which will pave the way for more income-generating activities.³⁸ Furthermore, Belbase *et al.* (2005) strongly recommend improving the quality of education at the school level to develop the educational system of Nepal. In sum, Nepal has a comparative advantage derived from its natural environment to boost its education export potential, but the poor quality of education remains the biggest impediment to realizing that potential.

5.3.2 Discussion of trade potential: The discussion is based on some conceptual factors identified as the major determinants of services trade (Box 5.2).

³⁷ Education quality will be discussed in detail in the following sections.

³⁸ Kedar Bhakta Mathema, former Vice-Chancellor, Tribhuvan University, in an interview to Today's Education. 2008. Year 1, Volume 2.

Box 5.2: Export potential in services: A conceptual note

In contrast to determining the export potential in merchandise trade, there is no generally agreed index for export potential in services trade. This difficulty is largely due to the intangible nature of services trade. However, there is a method of examining the relative competitiveness of services by estimating the Revealed Comparative Advantage (RCA) index. RCA index is obtained by using the formula: $RCA = (X_{iw}^k / X_{iw}^{\Sigma k}) / (X_w^k / X_w^{\Sigma k})$, where X_{iw}^k is country i's world export of services k, $X_{iw}^{\Sigma k}$ is country i's export of goods and services, X_w^k is world export of services k, and $X_w^{\Sigma k}$ is world export of goods and services. A particular sector is considered globally competitive if the estimated RCA index is found to be greater than one (Balassa 1965). This method is highly data-intensive and, in Nepal, with poor data availability, the result is less reliable for policy recommendation purposes. Another shortcoming of RCA is that it relies on past trade data and hence does not reflect the trade potential in a new sector. Due to these limitations, the analysis of export potential is based on the conceptual components which influence the export potential of services, as observed in the literature. These components are grouped into the following five main categories.

- **Natural endowments:** This factor enhances a country's comparative and competitive advantage. If a country has some special or abundant natural resources conducive to enhancing or facilitating a particular service, then that country can deliver that service both more effectively and efficiently.
- **Comparative cost structure:** This factor contributes to a country's comparative advantage and suggests that services can be delivered at relatively cheaper cost. A country with a relatively low cost structure has the potential to attract foreigners for the consumption of services provided by the domestic country via various modes.
- **Level of skill and human capital:** This factor contributes to both a country's comparative and competitive advantage since more qualified and efficient human resources primarily reduce the cost of doing business and, at the same time, attract greater public trust.
- **Level of market integration including cultural and linguistic affinities:** A country with greater market integration and cultural and linguistic affinities with potential consumers has higher potential to export services since transaction costs are reduced.
- **Policy and regulatory provisions:** This factor enhances a country's competitive advantage. A stable legislative atmosphere offers a predictable and transparent environment which has an important bearing on the competitiveness of a host country. This is especially important in areas like labour laws, property and market access rules, and environmental protection. All these affect the ease of doing business.

Natural environment: Nepal is a geographically diverse country endowed with natural beauty and tranquil locations favourable for study. Khaniya (2007) states that the natural environment of the hill region of Nepal is similar to that of Darjaleeing and Deradhun, the traditional education service zones of India. He argues that Nepal also has the potential to develop such education servicing zones which aim to deliver school-level and higher education

not only to Nepalese but also to Indians, nationals of other neighbouring countries, and non-resident Nepalese (NRN).

Cost of living: World Bank (2007) identifies that the cost of living in Nepal is comparatively lower than that in developed countries and the cities of neighbouring countries. The per capita expenditure of the high class in Nepal is US\$640, which is much lower than the US\$1000-plus for the same in Mumbai, an Indian city, and Bangkok, the capital city of Thailand. The low cost of living in Nepal reduces the cost of study, which indicates the potential for increasing the inflow of foreign students to Nepal.

Religion and culture: Xinru (1988) argues that religion and culture can sometimes be an important determinant of trade since there will be less communication problems. Sen (2005) says that there have been substantial student flows between two countries with the same religion and culture since ancient times. In this regard, Nepal has cultural and religious affinities with India as well as other nations where Buddhism and Hinduism are the predominant religions. Khaniya (2007) argues that Nepal can attract Hindu, Buddhist and NRN students for secondary as well as higher-level education since the parents of these students prefer Nepal to other countries for sending their children to study, due to cultural and religious affinities.

Investment regulation and simple cross-border provisions: There are clear provisions for investment in education services. Section 3.8 of Nepal Education Act (NEA), 1971 provisions establishment of schools and campuses under foreign affiliation with a recommendation from the diplomatic agency concerned and a 'conditional' grant from GON. The post-2006 moves of the government have boosted the confidence of the private sector in general and foreign investors in particular to invest in Nepal's education sector as per Section 3.8 of NEA, 1971. Nepal Immigration Act (NIA), 1992 governs the immigration procedure and cross-border movement in Nepal. World Bank (2007) and Maskay *et al.* (2007) identify Nepal's visa regime as being relatively simpler than that of its neighbours since the paper-work requirement is less. Foreign students interested to study in Nepal can travel with tourist visa that can be processed in the student's country of origin if Nepal has an embassy there, or, in the absence of an embassy, at the Tribhuvan International Airport (TIA) in Kathmandu or any other border entry point. Tourist visa will be changed into student visa in Nepal when a foreign student gets admission in an educational institution in Nepal and the Ministry of Education grants permission with a recommendation letter.

5.3.3 Empirical study

Methodology: The empirical study comprises survey, interview and FGD. As educational institutions are highly concentrated in Kathmandu valley, seven educational institutions were purposively selected from the valley under two categories: i) medical and technical and ii) others, with five and two institutions in the sample, respectively. The sampled institutions are provided in Table 5.2. A total of 53 students from these institutions were selected as per the students available during the time of visit by the research team, by maintaining the ratios of total foreign students admitted by these institutions.³⁹ The students in the sample were selected randomly. Experts, policy makers and heads of educational institutions were also interviewed. The questionnaires are provided in Appendix 5.2 and Appendix 5.3; Appendix 5.4 lists the names of the interviewees. Finally, an FGD was conducted with experts in the domestic education sector to get their views and, in a way, to reconfirm the results of the study.

³⁹ If students of any level were not present in the institution during the time of visit, such level was dropped.

Table 5.2: Details of educational institutions covered by field survey

Name of institution	Year of establishment	Year of commencement of service for foreign students	Number of foreign students admitted in 2007	Number of students in sample
Affiliation: Tribhuvan University				
Tribhuvan University Central Campus	1959	1961	26	4
Bishwo Bhasha Campus	1962	1988	109	6
Institution of Engineering	1972	1992	5	4
Tribhuvan University Teaching Hospital	1972	1994	29	28
Affiliation: Kathmandu University				
Kathmandu Medical College	1997	1997	8	9
Nepal Medical College	1997	1997	2	1
Affiliation: Pokhara University				
National College of Information Technology	1999	2003	0	1

Typology of sampled students: Since the survey was conducted among higher education students, all of the respondents had 12 years of schooling while joining the educational institution of Nepal. Further, 36 students of the sample had 12 years of schooling and joined bachelor level course in Nepal. Likewise, 14 students of the sample had at least 16 years of education and joined Master's or post-graduate level courses in Nepal (Table 5.3).

Table 5.3: Year of education of foreign students prior to education in Nepal

Year of education before joining educational institution of Nepal	Number of students	Level of education joined in Nepal
12 Years	37 (69.81)	Bachelor
16 Years	7 (13.21)	Master
More than 16	9 (16.98)	Post Graduate

Source: Field Survey

Note: Figures in bracket represent the percentage of total sample size

Most of students' household level income stands above IRs. 15,000 per month. In the sample, 12 percent students responded that their household level income was below IRs. 15,000; 28 percent students responded that it falls between IRs. 15,000 to IRs. 25,000; 48 percent student responded that it is above IRs. 25,000, and 17 percent student did not reply to the question (Table 5.4).

Table 5.4: Income level of foreign students' household

Income	Number of students	Percent in total sample size
Less than IRs. 15000	6	11.32
IRs. 15000 to IRs. 25000	14	26.42
Above IRs. 25000	24	45.28
No response	9	16.98

Source: Field Survey

Only one student in the sample came from a rural area. While 42 students in the sample said they hailed from urban areas, the remaining 10 students did not respond (Table 5.5).

Table 5.5: Residential status of foreign students

Residence	Number of Students	Percent in total sample size
Rural area in the country of origin	1	2
Urban area in the country of origin	42	84
No response	10	14

Source: Field Survey

On an average, one fifth of foreign students applying for seats in medical and technical schools are enrolled. This suggests that there is significant interest of foreign students in these two fields of studies (Table 5.6).

Table 5.6: Enrolment of foreign students in medical and technical schools

Year	Number of foreign students enrolled	Enrolment as percentage of applicants
2005	50	21
2006	44	19
2007	44	20

Source: Field Survey

The field survey shows that India is the biggest importer of education services from Nepal, accounting for 60.4 percent of the sampled students. NRN accounted for 13.2 percent of total students in the sample, while South Asian countries other than India accounted for 25 percent (Table 5.7).

Table 5.7: Foreign students by nationality

Country of origin of students	Number of students in sample	Share (%)
Leading trade partners		
India	32	60.4
NRN	4	7.5
Other South Asian nations		
Bangladesh	2	3.8
Bhutan	1	1.9
Maldives	3	5.7
Sri Lanka	4	7.5
Other Asia		
China	1	1.9
Japan	1	1.9
Korea	1	1.9
Others		
Canada	1	1.9
Germany	1	1.9
New Zealand	1	1.9
NRN	1	1.9
Spain	1	1.9

Switzerland	1	1.9
UK	1	1.9
NRN	1	1.9
USA	2	3.8
NRN	1	1.9
Total	53	100.0

Source: Field Survey

Some of the private educational institutions covered by the field survey have FDI ranging from 10 to 25 percent of total investment. Foreign affiliation is more prevalent among these FDI-financed institutions than among government-owned institutions (Box 5.3). Furthermore, there is an inflow of teachers as visiting professors under Mode 4. The annual outflow of teachers from Nepal ranges from 0.5 to 15 percent of total staff capacity of the institutions. The outflow of teachers as a proportion of total staff capacity is higher in private institutions, and is the highest in FDI-financed institutions.

Box 5.3

There are around 3,000 private secondary and higher secondary schools in Kathmandu valley. Of these, 100 have FDI ranging from 20 to 50 percent. FDI-financed schools have institutional links with foreign universities, so they encourage students to sit for foreign degree examinations simultaneously with examinations conducted by Nepalese education boards and help the students gain admission to foreign universities for higher education.

(Interview with an ex-official of Private and Boarding Schools Organization of Nepal)

Survey findings: The field survey showed that Nepal's potential for education services exports is derived from factors such as pleasant environment low cost of living, cultural and religious affinity, and ease of FDI and movement of persons.

Pleasant environment: Some 45 percent of the students desired to return to Nepal for further studies; the pleasant environment in the country contributed to this decision. Likewise, 50 percent of students who recommended Nepal to other students cited environment as an attraction. In the in-depth interviews with education services providers, it was found that the foreign students felt quite relaxed when they were taken on excursions and field visits to rural mountain areas.

Cost of living: The field survey showed that the cost of living amounts to NRs. 11,300 per month, which is relatively lower than that in neighbouring countries.⁴⁰ Foreign students spend NRs. 1,800 on transport, NRs. 6,600 on lodging and food and NRs. 2,900 on other expenses, which means that lodging and food have the highest share in the cost of living of foreign students. All of the education service providers believed that the cost of living is lower in Nepal, with five of them ranking it as the second reason why foreign students come to Nepal. Fourteen of the sampled students responded that the

⁴⁰ The survey team made an inquiry about the cost of living for students in New Delhi, India and Chengdu, China from four and three Nepalese students studying there, respectively. They said that the cost of living for students is NRs. 16,000 per month in Delhi and NRs. 20,000 per month in China.

cost of living was one of the reasons for selecting educational institutions in Nepal; six of them ranked it as the fifth important reason, while one ranked it as the first.

Cultural and religious affinity: Fifteen students cited religion as the secondary reason for choosing Nepal. The students were from India, Sri Lanka and Bhutan, countries that have religious ties (e.g., Hinduism and Buddhism) with Nepal. Likewise, NRN students in general are encouraged to study in Nepal because of their ancestral and cultural ties with the country (Box 5.4).

Box 5.4

I got admission in two medical colleges: one located in Nepal and the other located in a developing country outside South Asia. My guardian advised me to choose Nepal because the country has Hindu culture and I won't forget my culture if I study in Nepal. They were afraid that I would be fascinated by an alien culture of another religion if I chose to study in another country where there is no Hindu culture.

(An Indian medical student)

My parents suggested that I study in Nepal because we are originally from the country. They think that if I study in Nepal, I will also simultaneously learn Nepalese culture and won't just get immersed in western culture. Initially, I was upset with their decision, but after staying here for a few months I feel that they made the right decision as I now know lots of thing about my land.

(NRN students)

Ease of FDI and movement of persons: None of the sampled students had any complaint about the visa regime and cross-border movement of persons in Nepal. The education service providers also felt that students have little technical problem with the visa regime. They observed that the 2001 decision of the government allowing the establishment of educational institutions under Nepal Company Law was an investor-friendly decision as it gave educational institutions the status of business organizations with a clear financial record of each investor's share.

Focus group discussion on trade in education services: The participants of the FGD agreed that Nepal has the potential for trade in education services but identified policy instability is a major disincentive, which minimizes the scope for improving education quality. (Details of the FGD are given in Appendix 5.5).

5.3.4 Assessment: Nepal is presently a net importer of education services. Nevertheless, it does export education services through Mode 2 and Mode 4. The foreign student inflow to Nepal is due to pleasant natural environment, economic cost of living and easy cross-border movement. Teachers' outflow is observed in those educational institutions which have foreign affiliations or institutional links with foreign institutions. Thus, while the data suggest that Nepal is a net importer, there is potential for exports of education services.

Table 5.8: Synopsis of education trade in Nepal (based on field survey and literature survey)

<u>Mode 1 (Only in higher studies)*</u>	<u>Mode 3*</u>
Import from Indira Gandhi Open University	Higher education: 10 to 25 % in some institutions
Export by ICAN	School education: 20 to 80 % in some institutions
<u>Mode 2 (Only in higher studies)**</u>	<u>Mode 4 (Only in higher studies)*</u>
Student inflow = 683 in 2001–2003	Teacher inflow
Student outflow (other than India) = 2,087 in 2001–2003	Medicine = 20 per year
Student outflow = 801 in 2003	Technical = 5 per year
	Other = 12 to 19 per year
	Teacher outflow
	Medicine = 18 per year
	Technical = 8 per year
	Other = 7 to 9 per year

Source: * Field Survey; ** Shrestha (2004) and Raychaudhuri and De (2006)

5.4 Disincentives to education export

Quality of education: Quality of education is one of the major impediments to enhancing the education exports of a country (Knight 2002).⁴¹ There are two-fold effects of foreign university affiliation on education trade. It facilitates the flow of students since they will be less worried about educational certificate recognition. Unfortunately, Nepal has poor quality of education. The educational economy index produced by the World Bank (2007) gave Nepal a score of 1.60, lower than that of South Asia (2.1) and Western Europe (8.09).⁴²

The field survey yielded conflicting signals in this regard. In interviews with education service providers, they argued that the massive foreign student inflow to Nepal, particularly in medical and technical studies, is mainly due to the limited number of seats in such institutions in neighbouring countries, particularly India, and not because Nepal offers quality education (Box 5.5). On the other hand, however, students are assured of the quality of education in their respective institutions, as 71 percent of students responded that their expectations have been met, 51 percent cited education quality as one of the reasons for selecting an institution in Nepal, and 94 percent ranked education quality as high or moderate.

41 Raychaudhuri and De (2006) claim that India has the highest exports in IT education because of its quality.

42 The educational economy index ranks countries and regions from 1 to 10 on the basis of educational attainment and educational quality of the citizens.

Box 5.5

Most of the foreign medical students who come to Nepal will be diverted to India in the future if the medical institutions of India increase the seats in MBBS and other medical courses. It won't be justified to say that Nepal has potential in health education until there is an improvement in quality because the student inflow to this sector is due to the limited seats in Indian and other neighbouring countries' medical colleges.

(Officials of private medical colleges)

It is useless to compare Nepal's education quality with India's because they are far better than us. The substantial increase in the number of technical colleges in India, particularly in the IT sector, is a serious threat to maintaining the current flow of foreign students into technical educational institutions in Nepal.

(Official of an engineering institution)

I joined a college in Nepal because many Nepalese suggested it to be a good institution, but the quality is quite poor compared to what I had presumed.

(Medical students of post-graduate level)

Thus, although students seem to be satisfied with the quality of education in Nepal, service providers stress the need to improve the education quality for education service exports to increase substantially and be sustainable.

Price discrimination: In Nepal, there are differences in the range of 50–68 percent in the tuition fees charged to Nepalese and non-Nepalese students (Table 5.9).

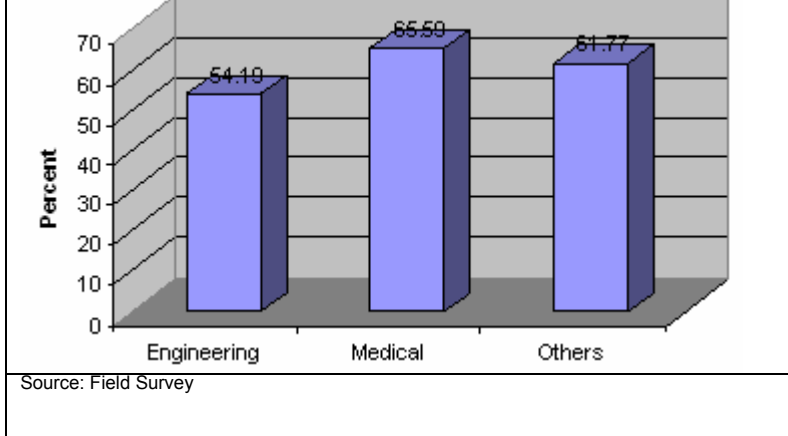
Table 5.9: Tuition fee charged by institutions to Nepalese and non-Nepalese students

Course	Total tuition fee for Nepalese (NRs.)	Total tuition fee for non-Nepalese (NRs.)
Medical*	2,200,000	5,440,000
Technical**	300,000	480,000
Other***	4,500	20,000

Note: * Average tuition fee for MBBS course in the institutions covered by the field survey, ** Average tuition fee for BE Civil course in the institutions covered by the field survey, ***Average tuition fee for MA course in the institutions covered by the field survey.

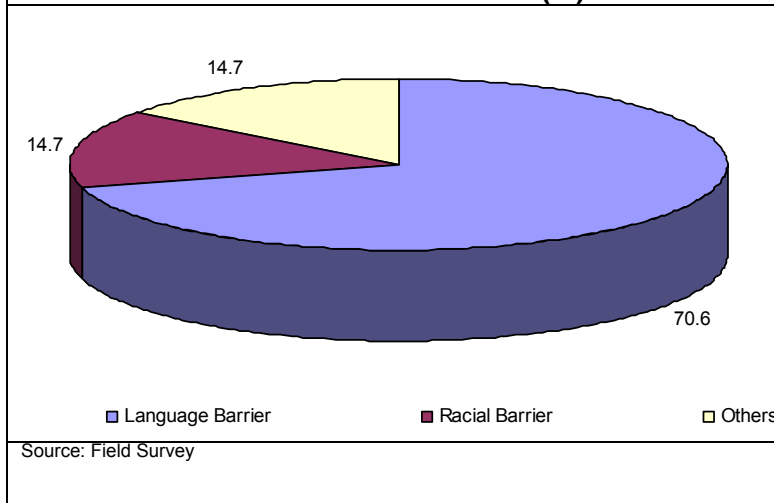
However, education service providers claim that it is a general practice to charge foreign students a higher fee as their processing charge is higher than that of national students. Nevertheless, the survey suggests that foreign students are ready to pay only 55 to 65 percent of the fee they are charged, which indicates that the students are facing the problem of price discrimination in Nepalese educational institutions (Figure 5.5). Students also complain that the teachers are associated with many organizations so they do not give adequate time to any particular educational institution.

Figure 5.5: Proportion of tuition fee foreign students are ready to pay (in %)



Language barrier: Knight (2002) argues that language is one of leading non-technical barriers to education trade.

Figure 5.6: Problems faced by foreign students in educational institutions (%)



In this regard, the eighth amendment to NEA, 1971, in 2001, has stipulated teaching in the English medium in all education levels and faculties except for language courses. Five education service providers responded that the English language was the teaching medium. However, this provision is only nominally followed in academic sessions as 24 students identified language barrier as a major problem while receiving education—which amounts to half of the total sample of students if the students of College of International Language are not taken into account.⁴³ Over 70 percent of students who faced problems in educational institutions cited language barrier, while the rest faced problems due to racial and other kinds of discrimination (Figure 5.6; Box 5.6).⁴⁴ Hence, Maskay and Bajracharya (2007) argue for crafting a socially inclusive education policy.

International Language are not taken into account.⁴³ Over 70 percent of students who faced problems in educational institutions cited language barrier, while the rest faced problems due to racial and other kinds of discrimination (Figure 5.6; Box 5.6).⁴⁴ Hence, Maskay and Bajracharya (2007) argue for crafting a socially inclusive education policy.

⁴³ College of International Language is not taken into account in this analysis because of its special status. This college has separate courses and classes for Nepalese and non-Nepalese, so there is little chance of language barrier in classes.

⁴⁴ Luitel (2008) argues that the language barrier exists not only in higher education but also in school education, and discriminates against not only foreign students but also non-Nepali-speaking nationalities of Nepal.

Box 5.6

Nepalese students ask questions in Nepali in classes and the teacher answers them in the same language, so we do not understand their conversation. If we happen to ask the same question again, the teacher gets irritated at times. At other times, the teacher uses Nepali while teaching and we get confused. So I think foreign students should join Nepali language courses or the institutions concerned should provide such a course.

(An engineering student)

For two years, I had difficulty understanding the lectures because of language problem. Later, I managed to learn some Nepali words. However, during the intern period, I came to find out that the little bit of Nepali that I had learnt was not enough to talk with patients. Although some Nepali friends helped me a lot, I could not perform well. I think the institution should offer language classes to non-Nepalese students.

(An MBBS intern student)

Poor infrastructure: Physical infrastructure is one of the important requirements for enhancing the trade competitiveness of a country (World Bank 2007). The existing educational institutions are ill-equipped. They lack well-maintained lecture halls, laboratories, libraries and information centres. Four of the seven surveyed institutions do not even have a hostel for foreign students, with the result that the students are compelled to stay in rented flats outside the institutions and face unnecessary trouble. Moreover, the institutions that do have hostels are also not well-maintained, as a result of which students face problems while staying there (Box 5.7).

Box 5.7

Our college does not have a hostel for international students, so I am staying in a flat. Other people staying in the house disturb me by playing loud music.

(A female MBBS student)

I am staying in an international hostel. Recently, there was drainage problem in the hostel, but the administration took two months to settle the problem. During those two months, I had health problems thrice.

(MA student who stays in a hostel)

Security: Dixit (2007) argues that the security environment for foreign students in Nepal is not good. Maskay *et al.* (2007) are of the view that the government does not even maintain a proper record of the whereabouts of foreign nationals. Education service providers who were interviewed demanded adequate security measures, particularly for foreign students, and 15 percent of total foreign students covered by the field survey noted security problems outside educational institutions.

Insufficient marketing: The field survey results show that around 70 percent of the foreign student inflow is through personal contacts. Education service providers said that foreign diplomatic missions contribute little towards informing foreign students about the education

services available in Nepal. Many of these diplomatic missions do not even have an education counselling section (Box 5.8).

Box 5.8

My father's friend referred me to this institution. When I went to Nepal's diplomatic mission in my country to know more about this institution, I was surprised that none of its officials had any idea about it and there wasn't even an education counsellor. At last, my father's friend helped me get admission.

(An Indian MBBS student)

Weak implementation of liberalization provisions: The cost of doing business is significantly high in Nepal due to poor implementation of liberalization commitments (World Bank 2007). Likewise, Karmacharya and Maskay (forthcoming) point out that failure to implement commitments to liberalizing FDI and high incidence of corruption are deterring foreign investors from investing in Nepal. In this context, education service providers point out that the earlier mentioned 2001 decision on ownership of private schools would have definitely helped increase FDI inflows if the government had properly implemented liberalization measures.

5.5 Channels for education export

The study identifies the following channels for Nepal's education exports through various modes. These channels show how education imports from one mode can enhance exports through another mode and thereby enable the country to achieve positive net exports.

Education trade through Mode 1: The improvement of IT has enhanced the potential of distance education. Nevertheless, Nepal has so far been unable to fully exploit its potential for education trade through this mode. Furthermore, the country does not have the potential to exploit trade through this mode due to limited improvement of technology. Nepal needs to ease FDI flow in order to improve its technical capacity.

Education trade through Mode 2: The natural environment of Nepal is suitable for education. NRN and some nationals of neighbouring countries, particularly India, prefer to educate their children in Nepal because of cultural and religious affinities. Thus, Nepal has the comparative advantage to export education to populous markets like India. But the poor education quality in Nepal is an impediment to realizing that potential. Furthermore, students feel that they are discriminated against in terms of tuition fees, and the physical infrastructures of educational institutions are ill-developed. So, there is a need to improve the education quality and develop infrastructure so that foreign students do not excessively feel that they face price discrimination.

Nepal's education trade is limited to higher studies. Nevertheless, the country has many places with pleasant natural environment conducive to developing 'education services zones' for boosting secondary education exports, as developed by India in Darjeeling, Kalingpong, Dehradun, Masourie and Nainital. Besides Nepalese students, these zones should also focus on providing school education to Indians and NRN.⁴⁵ Nepal needs to improve the quality of its school education and infrastructure in order to develop itself as an exporter of school education.

⁴⁵ Due to their cultural, religious and ancestral ties with Nepalese people, NRN and Indian parents prefer to send their children to Nepal. Furthermore, although there is substantial investment in higher education in India, there will be still greater demand for high quality school education, which can be fulfilled by Nepal.

Education trade through Mode 3: Nepal lacks technical and financial capacity to enhance education trade through Modes 1, 2, and 3. FDI flow in education will enhance quality and infrastructure by fulfilling the financial and technical resource gap faced by the country. The financial resource flow will help improve infrastructure, while the technical resource flow will improve the education quality and bring in the latest technology. In addition, FDI flow will increase the number of schools in Nepal, which will in turn increase the demand for teachers and other professional staff. As a result, educated Nepalese will gain employment. Furthermore, foreign student inflow will increase the demand for lodging and food, thereby giving a boost to the hostel business. Likewise, the government needs to encourage foreign investors in particular to develop 'education services zones'.

Education trade through Mode 4: Nepal exports education services through Mode 4 in the form of 'visiting lecturers and professors'. Professors from developing countries like Nepal are in demand in developed countries for sharing their ideas and expertise on issues like poverty and under-development. Further, the field survey showed that the outflow of teachers from FDI-financed private institutions is higher than from other institutions. This is because these institutions have affiliations with foreign universities through foreign investors, and the foreign investor is likely to recommend professors who teach in the educational institution in Nepal in which it has a share when there is a need for professors on poverty and under-development in the foreign university. However, Nepal also needs to analyse its potential to export professors in other subjects.

5.6 Recommendations

Education is a highly regulated service sector in Nepal. Nonetheless, the private sector is gradually making its presence felt in education, with some foreign investment. The gradual liberalization of the higher education sector since 1991 and the legal amendment in 2001 have buoyed the confidence of the private sector and foreign investors to invest in Nepal's education sector. BOP and student flows suggest that Nepal is a net importer of education. However, there is ample potential to boost Nepal's education exports. But the government needs to properly address the constraints in order to exploit such opportunities. The issues which should be addressed are: education quality, language barrier, infrastructure, security, marketing, and implementation of liberalization commitments.

Enhance education quality: Good education quality is a crucial factor for enhancing education exports. GON needs to identify the education policy's major constraints on quality improvement and revise the policy accordingly. As private education service providers interviewed in the field survey generally complained about the poor education quality, the government should launch public-private partnership initiatives for a revision to the education policy. Improvement of quality of education will also address the sense of price discrimination among foreign students.

Provide language training: Language is one of the most important non-technical barriers in global education trade. Nepal is no exception. The government should make Nepali language classes compulsory or mandate English language as the sole medium of instruction in all educational institutions which admit foreign students. Such Nepali language programmes should be run during the regular academic session rather than as a separate language course as adopted by Russia, which will only increase the time period and cost of study in Nepal. The Nepali language training should also not be a formal course with a core academic content because students will take such a course as a burden. Nepali language training helps make their stay in Nepal comfortable. Moreover, there should be strict rules on the medium of instruction for the teachers as well as students. At least in the formal classroom setting, there should be no communication in Nepali.

Upgrade infrastructure and facilitate accreditation: Educational institutions should have proper institutional infrastructure (viz. hostel for foreign students, library, laboratory and information centre) to draw foreign students, and such infrastructure should be properly maintained. The government should also monitor the educational institutions in terms of such infrastructure.

Strengthen security: Maskay *et al.* (2007) argue that Nepal has exploited its services trade potential to only a limited extent due to poor security. The government needs to improve its security infrastructure by maintaining a proper record of foreign students and their movement. Further, the government needs to control the activities of criminal groups. Likewise, educational institutions and security agencies should jointly develop an effective mechanism to keep foreign students in the country safe.

Enhance marketing and economic diplomacy: The educational institutions of Nepal need to advertise Nepal's education through agents and at international educational fairs. Nepal's diplomatic missions abroad also have a major role to play in this regard. These missions can inform educational institutions in Nepal about various educational fairs being organized in foreign lands. These missions should also maintain proper records of educational institutions in Nepal to be able to provide information to interested foreign students.

Implement liberalization commitments: Halfhearted implementation of liberalization commitments is deterring foreign investment in the education sector. Taking FDI-related liberalization measures in earnest will help fulfil the country's financial and technical resource gap. Foreign investment also assists in education quality improvement and infrastructure development.

Health services

6.1 Background

Health is important for economic growth and development. Accordingly, GON has been increasing its expenditure on health services: during the period 1990–2004, health spending increased by 14.3 percent compared to the 10.6 percent and 11.8 percent rise in total government expenditure and nominal GDP, respectively.⁴⁶ In the past, there was much intervention by GON in trade in health services. However, this trend is changing with the recognition that international trade in health services can potentially increase the contribution of the health sector to the national economy (Maskay 2004).

6.1.1 Working definition: In an era of globalization, the importance of health services is reflected in the growing cross-border delivery of health services through various channels. Using GATS definition, trade in health services occurs through four different modes of supply: 'cross-border supply' (Mode 1), 'consumption abroad' (Mode 2), 'commercial presence' (Mode 3), and 'movement of natural persons' (Mode 4).⁴⁷ Health services can be categorized in various ways, such as: preventive, promotive and curative health services; primary, secondary and tertiary health services; general and specialized health services; and alternative medicine- and modern medicine-related health services. Among these, the study focuses on curative services, which are related to modern medicine. Medical services, hospital services, diagnostic services, nursing and midwifery services and hospital management services are the constituents of the health sector, as per GATS classification. Among these, the study mainly concentrates on hospital services, particularly those targeting inpatient treatments. Moreover, literature shows that many countries have given strategic emphasis to the export of health services via Mode 2. Our analysis therefore basically focuses on hospital services, particularly inpatient treatment, while keeping the export of health services via Mode 2 on top priority.

6.1.2 Limitations: The specific limitations of the study on health services are as follows:

- As a qualitative study, based on the field survey conducted in selected health institutions, this study presents indicative results. The survey was carried out during a short period of time: the second and third weeks of February 2008. Therefore, the information presented in the study may not necessarily reflect the situation of the whole year and the whole health sector.
- All the patients covered by the field survey are found to be of Indian origin, so the findings of the study are much influenced by the India-centric nature of trade in health services.

46 External Development Partners (EDPs) have been significantly supporting public health financing, particularly for strengthening health infrastructure in rural areas and fighting communicable diseases. Their support stood at 33 percent of total public spending in 2003.

47 Mode 1 of supply involves services crossing the national border with consumers in their home territory. This includes shipment of laboratory samples, diagnosis, and clinical consultation via traditional mail channels, as well as electronic delivery of health services, such as e-health, telemedicine and drug online. Mode 2 refers to patients from outside the country visiting the country to consume health services in the country; services cross the national border. Under Mode 3, service is supplied through commercial presence of foreign producers in the country. Commercial presence involves foreign investment in health facilities such as hospitals, clinics, treatment centres and nursing homes in the country. Mode 4 refers to health-related persons of a country such as physicians, specialists, nurses and paramedics working abroad.

- Though inpatient treatment is of particular focus of the study, some outpatient services have also been incorporated. Specifically, in the case of eye treatment, even well-established centers were not providing ward facility to patients. Therefore, patients visiting a hospital for eye treatment were not admitted to the hospital, but the treatment received was, however, mostly of inpatient type.

6.2 Profile of Nepal's trade in health services

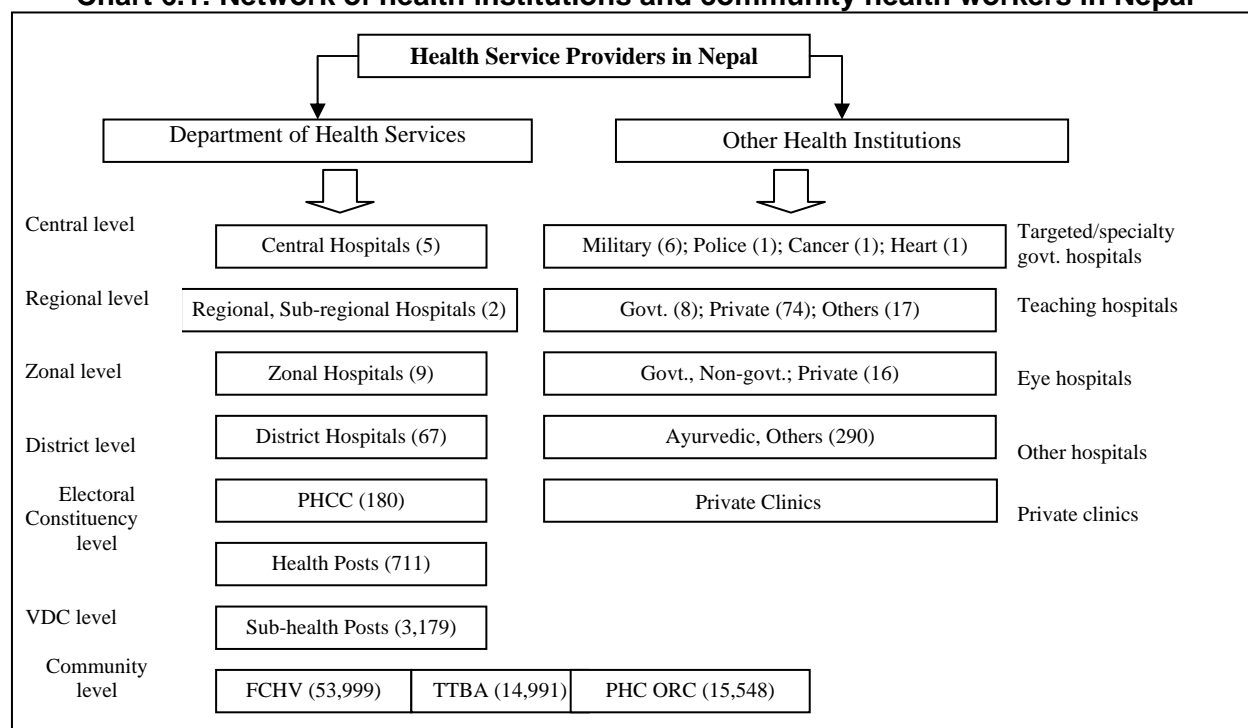
While international trade in health services in Nepal is limited, particularly when compared to other traded services (NRB 2005), accession to the WTO and the ensuing commitments in the health sector have gradually increased the volume of trade in health services. Many factors must be considered when assessing the implications of trade in health services for the country, but ultimately the net impact of trade depends on the specifics of a country's national health care system, regulatory environment and government policies.

6.2.1 Characteristics of domestic health services: The health sector in Nepal is regulated by the above-mentioned policies, programmes and plans. Primary and secondary health services are largely provided by the public sector. Specialized services are open to both the public and private sectors. The public sector health service delivery mechanism is organized in a hierarchal structure—from the sub-health post (SHP) level to the central level.⁴⁸ The structure is presented in Chart 6.1 for both the public and private sectors.⁴⁹

48 The SHP is a first contact point with referral as necessary to higher levels of health services. The referral chain, as a policy objective, is to ensure that the majority of population are able to receive public health and minor treatment in places accessible to them and at a price they can afford.

49 In practice, the referral system has not been effective. Poor people without any access to other facilities visit local public health institutions where service quality is poor, service coverage is limited and the staff are commonly absent (Gautam 2007). In the country, more than 70 percent of child deaths occur due to measles, diarrhoea, pneumonia, malaria and malnutrition (MoF 2005) and this is obviously because of lack of awareness and poor access to essential facilities, including primary healthcare in rural villages.

Chart 6.1: Network of health institutions and community health workers in Nepal



Source: Compiled from <http://www.moh.gov.np/Home/FACT.ASP>.

Among the different levels of service providers shown in Chart 6.1, institutions operating below the district level have less possibility of extending services to foreigners. This is because those institutions provide services of a primary/basic nature. Therefore, from a trade in health services perspective, the service providers limited to central, regional, zonal and district levels are of particular interest to this study. Table 6.1 reveals that health service providers are concentrated in the central region of Nepal followed by the eastern region. As a result, trade in health services is also concentrated in the central and eastern regions.

Table 6.1: Regional distribution of health service providers

Regions	Public hospitals	Private hospitals /nursing homes	Non-government hospitals	Eye hospitals	Govt. teaching hospitals	Private teaching hospitals	Total
Eastern	18	5	3	4	1		31
Central	22	58	6	4	2	3	95
Western	17	5	3	3	NA	1	29
Mid-western	11	5	1	2	NA	1	20
Far-western	10	1	1	1	NA	NA	13

Source: Compiled from MOH (2001)

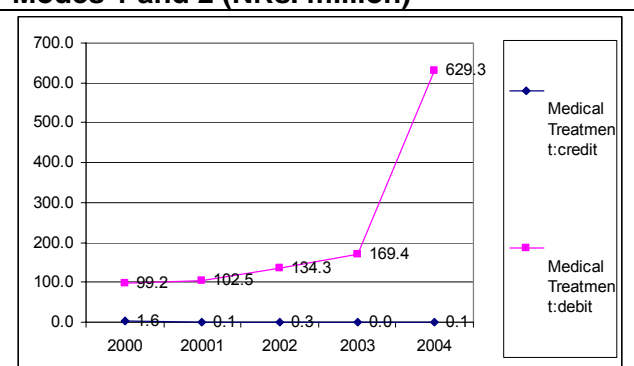
The non-government sector, including 'for-profit' institutions, non-governmental organizations (NGOs) and mission hospitals, accounted for 41 percent of the total beds in 2003 (MOH 2003)—which are, however, mostly concentrated in urban areas. Together with the liberal policy shift which had commenced in the last decade of the twentieth century, GON is taking a very

proactive approach to the development of the private sector with a view to promoting public-private partnership with particular emphasis on the private sector in tertiary care.⁵⁰

6.2.2 Characteristics of domestic health services: The health sector in Nepal has been guided by policies, programmes and plans such as the National Health Policy, 1991, the subsequent Second Long Term Health Plan (SLTHP, 1997–2017), the Eighth, Ninth and Tenth Development Plans, and the present Three-Year Interim Plan (TYIP).⁵¹ The strategies have been translated into Health Sector Strategy: An Agenda for Reform, 2003 and Nepal Health Sector Program–Implementation Plan (NHSP-IP), 2004.⁵²

6.2.3 International trade in health services: The health sector in Nepal has been significantly liberalized. However, trade in health services

Figure 6.1: Trend of health trade through Modes 1 and 2 (NRs. million)



Source: NRB (2005)

could not become a matter of policy focus until very late. It thus contributes only a small proportion of total trade in services. The share of health services in services trade in 2004 was relatively low⁵³ (only 0.8 percent). The data trend suggests that there were minimal credit flows, which were more than offset by massive debit flows, resulting in a net deficit in trade in health services (Figure 6.1). However, health services were expanding in terms of FDI flows, attracting 28.2 percent of the total FDI flowing into the services sector in 2004 (NRB 2005). NRB data show Nepal as a net importer of health treatment services under Modes 1 and 2.

Requests for approval for FDI (Mode 3) in this sector are also on the rise. No data is available for trade in health services under Mode 4.

6.3 Assessment of trade potential

The research design of the health study is primarily an exploratory and descriptive one, following a cross-sectional survey to explore the characteristics and export potential of trade in health services. The study employs both qualitative and quantitative approaches to data

50 The Three-Year Interim Plan also includes the strategy of managing and coordinating human, financial and physical resources for the improvement of the quality of services provided under the partnership of private, government and non-governmental sectors.

51 The health policy of Nepal is primarily guided by National Health Policy 1991. The salient features of the policy are:

- Primary healthcare is a human right
- Providing an equitable and acceptable quality of health services for the Nepalese people
- Providing free healthcare to all people through health posts and sub-health posts
- Providing free healthcare through hospitals with up to 25-bed capacity to the poor, the elderly, most vulnerable groups, and underprivileged and marginalized groups, among others
- Priority is given to primary healthcare; trade in health services is not given much importance
- Public-private partnership for providing health services
- Implicitly, tertiary health services are recognized as trade in health services

52 Although there is a provision for 'for-profit' and 'not-for-profit' health institutions, all policies and programmes are focusing on primary healthcare for citizens.

53 Tourism is the dominant sector contributing one third of the total trade in services and half of the total FDI flow into the services sector in Nepal.

collection and analysis and relies on both primary and secondary sources of information. From these diverse perspectives, an assessment of Nepal's services trade potential is made.

6.3.1 Literature review: As noted in Chapter 3, there exist a plethora of studies on trade in health services. Despite this, in Nepal there are only a handful of credible studies on international trade in health services. From a policy perspective, GON's present Three-year Interim Plan (TYIP) recognizes the potential for trade in health services and incorporates strategies like promoting the establishment and expansion of telemedicine, and developing and expanding *ayurvedic* and other alternative health service systems. Providing computers and internet access for facilitating telemedicine, collecting information regarding herbs and intellectual property, and enhancing research activities are the important programmes envisioned in the plan which are relevant in terms of export of health services. In sum, TYIP has identified the importance of health services trade and aims to produce benefits from international trade in services. However, no concrete strategies have been delineated for mode-specific supply of the services.

Another study is NRB (2005), which examines the country's services sector commitments and their impact on the BOP situation. The study suggests a link between the commitments and their consequent impact on BOP. It finds that WTO membership will result in an increase in aggregate services-related credit and debit flows, projected to grow by 150 and 155 percent, respectively. The study also projects that there will be higher growth in Mode 3 credit supply compared to Modes 1 and 2 with the possible exception of the tourism sector (Mode 2). Given a stable situation, the study, based on a survey, expects health-related credit flows to grow by a lower rate than debit flows in Modes 1 and 2 in the short run. However, the trend is likely to be reversed in 5 to 10 years (NRB 2005). Thus, as implied by the study, the potential for Nepal's health service exports is relatively weak in the short run, though potential exists in the long run.

Likewise, Maskay *et al.* (2006), after examining investment liberalization and incentives in selected Asia-Pacific developing countries, conclude that Nepal must continue enhancing the existing facilitating mechanism, along with the incentives in the services sector, to capture the benefit of health services investment liberalization. The study alludes to the potential for attracting FDI in health services and produces a roadmap in this regard. However, despite this roadmap, the study concludes that a more 'difficult' road lay ahead for attracting investment in general and in health services in particular.⁵⁴

Hence, the above literature review suggests that Nepal has a comparative advantage derived from its natural environment to boost its health export potential.

6.3.2 Discussion on health service export potential: Trade in health services is influenced by the interplay between the demand for health services by foreign visitors, and the cost of providing and regulating these services by national governments (Brenzel and Franc 2007). There are many important components that contribute to the expansion of trade in health services at the global level. Following the conceptual note on service export potential presented in Chapter 5, the five factors that significantly impact the export potential of health services are examined below.

⁵⁴ Similarly, UNCTAD-WHO (1998) observes that the absence of a domestic health insurance market and the prohibition on private foreign investment in health insurance are among the factors limiting private sector participation in the health sector, and this is relevant to the Nepalese context as well.

- **Natural endowments:** Nepal, rich in geographical diversity, is home to different kinds of herbs which are useful in different treatments. However, the modes of utilization of such herbs and treatment systems are conventional and traditional, lacking proper integration with the advancement in medical science. By utilizing such natural resources available in the country and exploring other unique features of traditional medicines and treatment procedures, Nepal has the potential to develop its own features of treatment.⁵⁵ Natural endowments provide Nepal with comparative advantage to export health services.
- **Comparative cost structure:** Due to cheaper human resources and lower cost of living in the country, health services provided in Nepal are relatively cheaper. The survey also supports the point that low cost is one of the important factors for attracting non-Nepalese patients to consume health services. Demand for health services by foreign consumers is not only determined by the cost of medical services but also by the time and transportation cost with acceptable quality of services. Comparisons of the cost structure in Nepal and India's Bihar and Uttar Pradesh states show that Nepal has a lower cost structure in terms of total cost of treatment and diagnosis because Indian consumers informed that cost of living, transportation cost and diagnosis costs are higher in India. Hence, Nepal's comparative advantage in health services also lies in its low cost structure of health services.
- **Level of skill and human capital:** In terms of level of skill and volume of human capital, Nepal is relatively weak in exporting health services. Nevertheless, the country can enhance the quality of skilled personnel for export, by attracting foreign medical institutions. FDI can be attracted for the exploration and refinement of the herbal medicine and training local personnel to work with the features of the treatment system unique to the country.
- **Level of market integration, including cultural and linguistic affinities:** Linguistic and cultural affinities with some Asian countries, particularly with India, as well as geographical proximity with the People's Republic of China constitute special advantages for Nepal that can be gradually exploited. This aspect is crucial, particularly for exporting health services through Mode 2.
- **Policy and regulatory provisions:** Development of an efficient service delivery system and proper policy adjustment is important for the export of health services. Thanks to the liberal policy adopted since 1990, the involvement of the private sector has been significantly increasing, which has enhanced the competitiveness of domestic health service providers and made the service delivery system more efficient. During its accession to the WTO, Nepal made health sector-specific commitments, and it aims to liberalize the sector further. Thus, Nepal is enhancing its competitive capacity through different policy adjustments which are supportive of health service exports.

6.3.3 Empirical study

Methodology: The empirical portion includes survey, interview and an FGD. The former is based on multistage sampling techniques, using probability and non-probability sampling, employed to collect information from primary sources. A multistage sampling procedure is

⁵⁵ In accordance with National Ayurved Health Policy, 2052, the Three-Year Interim Plan aims to take initiatives for the establishment of two regional ayurved hospitals, each having the capacity of 30 beds.

employed to select health care providers that export health services through Mode 2. The Eastern and Central regions were purposively selected since health service providers are found to be concentrated there, according to available information (Table 6.1). Four categories—government hospitals, teaching hospitals, private or non-government hospitals and eye hospitals—represent diversified health services, so at least one institution was selected from each category based on where such health services are available. In addition to this, the list of possible institutions that export health services was developed from formal and informal information. The institutions that have only primary healthcare services, have no specialized health services, do not have at least five years of experience in supplying health services, and have no data record system were not selected in this study. Based on these criteria, five medical institutions were selected from the Central region: Tribhuvan University Teaching Hospital, Patan Hospital, Tilganga Eye Centre, Norvic Hospital and Bir Hospital. Similarly, five medical institutions were selected from the Eastern region: BP Koirala Institute of Health Sciences (BPKIHS), Koshi Zonal Hospital, Birat Nursing Home, Ramlal Golchha Eye Hospital, and Biratnagar Eye Hospital (a branch of Lahan Eye Hospital). A total of 54 health service consumers from India were selected as respondents to the questionnaires. All consumers who were admitted to the hospitals were considered the population; from this group a smaller sample was randomly selected from the admission registration. Likewise, the managers or heads of the selected institutions were also interviewed. The questionnaires are provided in Appendix 6.2 and 6.3. Finally, an FGD was conducted with experts in the domestic health sector to get their views and, in a way, to reconfirm the results of the study.

Characteristics of health service consumers: The general characteristics of the non-Nepalese service consumers covered by the field survey are presented in Tables 6.2 and 6.3. More than 50 percent of the patients were not educated above the primary level while 50 percent were found to be above 45 years of age. Similarly, most of the service consumers belonged to low-income groups, with more than half having farming as their primary occupation. Almost all the patients had come from locations nearby Nepal, and, in most cases, they had either family members or other acquaintances in Nepal.

Table 6.2: General characteristics of non-Nepalese health service consumers

Statistics	Age	Years of schooling	Monthly income (IRs.)	Persons accompanying the consumer
Mean	41	5	7,390.74	3
Median	45	4	5,550.00	3
Mode	60	1	3,000.00	2
Std. deviation	20	4	8,938.43	1
Minimum	1	1	1,500.00	0
Maximum	80	16	30,000	8

Table 6.3: Primary household occupation (main source of income)

S.N.	Occupation	Frequency	
		Number	Percent
1	Services	10	18.52
2	Industry	1	1.85
3	Business	11	20.37
4	Manual labour	2	3.70
5	Agriculture	30	55.56
	Total	54	100.00

Estimation of revealed demand analysis index: Based on revealed demand for health services provided in Appendix 6.1, an index of the export potential of identified health service providers in specific health services can be developed. The revealed demand analysis (RDA) index has been thus estimated based on the following formula (Balassa 1965):

$$\text{RDA Index} = (D_{si}^{pj} / \Sigma D_{si}^{pj}) / D_s^{pj} / \Sigma D_s^{pj}$$

where,

D_{si}^{pj} = Demand for specific health services 'si' at provider (pj) by foreigners

ΣD_{si}^{pj} = Total demand for specific health services 'si' at the provider (pj)

D_s^{pj} = Demand for total health services 's' at provider (pj) by foreigners

ΣD_s^{pj} = Total demand for total health services 's' at the provider (pj)

If the index of RDA is greater than one, it indicates that the corresponding provider has export potential in the particular service.

BP Koirala Institute of Health Sciences (BPKIHS): Table 6.4 suggests that only three of the health services provided have export potential, based on the revealed demand for health services.

Table 6.4: Export potential of health services at BPKIHS

S.N.	Health services	RDA Index		
		2005	2006	2007
1	Antenatal			
2	Gynaecology			
3	Postnatal			
4	General Medicine			
5	Ophthalmology	Greater than 1	Greater than 1	Greater than 1
6	Orthopedics			
7	Otolaryngology	Greater than 1	Greater than 1	Greater than 1
8	Paediatrics			
9	Psychiatry		Greater than 1	
10	Surgery			
11	Tropical Disease			

Sources: Calculations based on Table 6.1.2 (Appendix 6.1)

Birat Nursing Home: The available data are not sufficient to estimate the volume, value and direction of export of health services from this provider. However, during the in-depth interview, the manager provided some indicative information. He revealed that more than 15,000 foreign consumers demand pathology test services every year and the institution earns more than IRs. 1 million from the services. Health service exports are growing by 5–10 percent per year.

Table 6.5: Export potential of health services at Birat Nursing Home

RDA Index			
S.N.	Health services	Outpatient services	Inpatient services
1	Gynaecology		Greater than 1
2	Orthopedic		
3	General Surgery	Greater than 1	

4	General Medicine	Greater than 1	
5	Paediatrics	Greater than 1	Greater than 1
6	Cardiology		
7	Dentistry		
8	Urology		
9	Neurology	Greater than 1	

Source: Calculations based on the Table 6.1.3 (Appendix 6.1)

The indicator suggests that five outpatient services do not have export potential, while only two inpatient services have export potential. An interviewee also suggested that diagnostic services have higher export potential because of the availability of modern technology and skilled manpower.

Koshi Zonal Hospital: One of the oldest and biggest hospitals in the eastern region of the country, Koshi Zonal Hospital provides three types of services—emergency, outpatient and inpatient—to Nepalese as well as Indian consumers at subsidized prices. Table 6.6 shows that Koshi Zonal Hospital had export potential in three inpatient services in FY 2062/63 and in an additional service in FY 2064/65.

Table 6.6: Export potential of inpatient services at Koshi Zonal Hospital

S.N.	Services	RDA Index		
		FY 2062/63	FY 2063/64	FY 2064/65 (up to Paush)
1	ENT			Greater than 1
2	Eye			
3	Gynaecology	Greater than 1	Greater than 1	Greater than 1
4	Intensive Care Unit			
5	Medical			
6	Observation	Greater than 1	Greater than 1	Greater than 1
7	Obstetric			
8	Orthopedic			
9	Paediatrics	Greater than 1	Greater than 1	Greater than 1
10	Psychiatry			
11	Surgical			

Source: Calculations based on the Table 6.1.4 (Appendix 6.1)

Interpretation of the survey findings

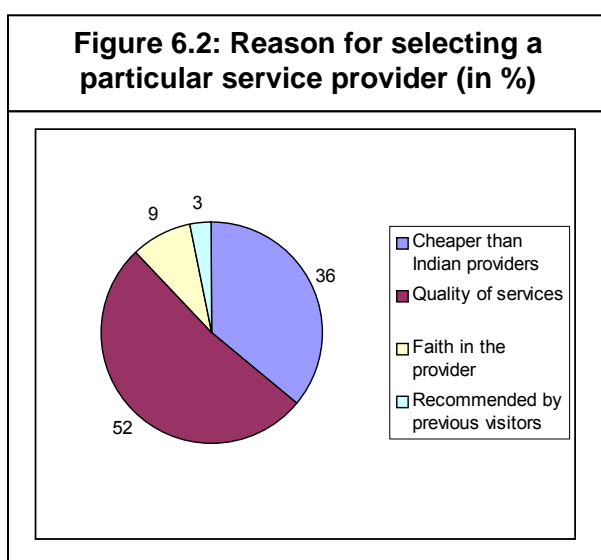
Information channels: Previous visitors are an important source of information about Nepalese service providers for non-Nepalese patients (Table 6.7). More than two thirds of patients received information on service providers from previous visitors, reflecting that they were satisfied with the services they had received. Notably, 15 percent of the patients decided to visit Nepalese service providers as per the referral of local service providers in India. This implies that service providers in India have a positive impression about their Nepalese counterparts and recognize the quality of the services in Nepal. Family members familiar with Nepal's treatment system were the source of information for the remaining 15 percent of the patients. None of the patients were random visitors; nor had they got information through the Internet or newspapers. Based on this information, we can argue that services provided in Nepal have been positively recognized by familiar persons, previous patients and Indian service providers (located close to Nepal). However, the source of inflow of patients is concentrated in low-income households and nearby locations in India across the border. This implies that there exists potential for extending

health services to non-Nepalese patients—which, however, requires effective marketing and fringe facilities targeting high-income groups.

Table 6.7: Information channels

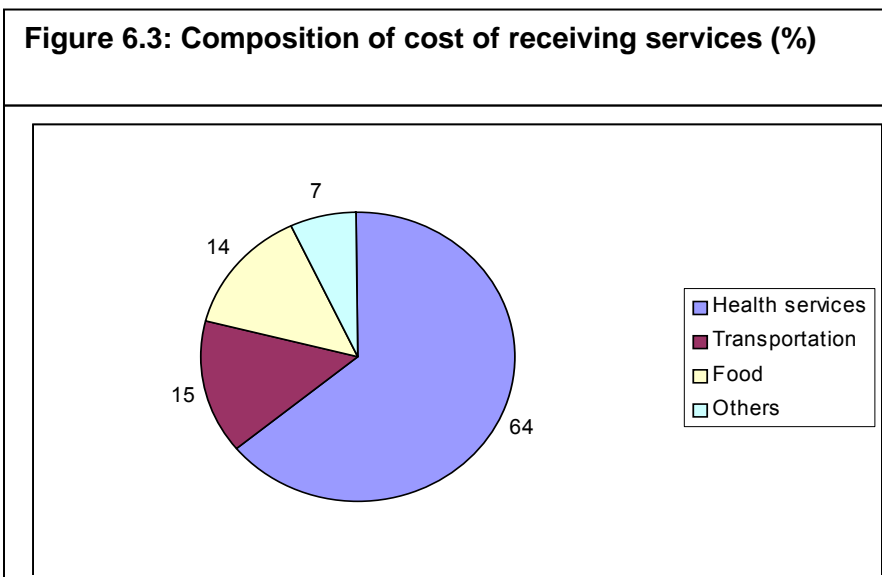
S.N.	Sources of information	Frequency	Percent
1	Family members	8	14.81
2	Previous visitors	38	70.37
3	Referral from Indian service providers	8	14.81
	Total	54	100.00

Reasons for choosing Nepalese service providers: Visitors were also asked about the reason for selecting a particular service provider. As shown in Figure 6.2, more than half and more than one third of the visitors, respectively, cited ‘quality of the services’ and ‘cheaper than Indian providers’ as the reason for visiting Nepalese service providers.



This choice was unaffected by service providers being either of public or private nature. Moreover, 9 percent of the patients had faith in the particular service provider. Good quality services and lower cost ensure competitive advantage for the selected institutions. This fact reinforces the existence of export potential of health services which the surveyed health institutions are providing to non-Nepalese patients.

Cost of receiving services: Out of the total cost incurred while receiving health services, 64 percent was for the consumption of the health service itself.



Transportation (15 percent) and food items (14 percent) had an almost similar share, while patients spent 7 percent on other things, including accommodation and shopping (Figure 6.3). The export of health services triggers multiplier effects, in terms of increase in transportation services and consumption of goods, expansion of shopping centres, and promotion of the tourism industry. On average, a patient spent NRs. 3,485 on health services, NRs. 832 on transportation, NRs. 781 on food and NRs. 413 on others (Table 6.8). This suggests that the inflow of Indians seeking health services produces significant credit flows.⁵⁶

Table 6.8: Cost of receiving health services (NRs.)

Statistics	Cost of health services	Cost of transportation	Cost of food	Other costs, including accommodation and shopping
Mean	3,485.0	831.8	781.4	412.9
Median	1,722.5	150.0	310.0	305.0
Mode	5,000.0	40.0	600.0	100.0
Std. Deviation	6,501.6	1,616.7	1,218.5	506.2
Minimum	20.0	10.0	0.0	40.0
Maximum	41,500.0	9,000.0	5,400.0	2,000.0

Willingness to pay for services: Patients are generally found to be satisfied with the existing fee structure for health services. Twenty percent of the respondents expressed readiness to pay more than the fee that they were paying. This substantiates the potential for services exports.

⁵⁶ The data of Birat Nursing Home are for the year 2062/63. The estimated earnings appear to be positively biased because the respondents covered by the study are mostly taking inpatient services while a large percentage of patients have received outpatient services which are relatively less expensive than inpatients services by nature.

Table 6.9: Willingness to pay for services

Categories	Frequency	Percent
Less than existing price	2	3.70
Equal to existing price	41	75.93
More than existing price	11	20.37
Total	54	100

Quality of services: Out of the 54 respondents, 44 rated the quality of the services as moderate, while others rated it as high (Table 6.10).

Table 6.10: Consumers' rating of quality of services

Rating	Frequency	Percent
High	10.0	18.5
Moderate	44.0	81.5
Low	0.0	0.0
Total	54.0	100.0

Focus group discussion on trade in health services: An FGD was held on the export potential of health services. The report is attached in Appendix 6.5. The FGD indicated that trade in health is of a cross-cutting nature. While all the participants reiterated that Nepal has the potential for export trade in health services, it was emphasized that the social cost and benefit of this trade has to be fully explored. The participants felt that the present unstable situation in Nepal is a challenge, which makes the general environment inhospitable for doing business.

6.3.4 Analysis of export potential of health services: Though the private sector in Nepal has been significantly expanding health services after 1990, it has yet to become efficient enough to progressively expand the export of the services. In the present context of increased priority being placed on decentralization, a greater involvement of communities and private health service providers, the country's accession to the WTO and the importance given to alternative health service systems and research activities, Nepal has good prospects for export of health services.

Nepal is attempting to promote trade in health services but is yet to formulate specific policies. Based on the review of the global trade pattern and strategies for health service exports discussed in Chapter 3, we conclude that Nepal's export potential in health services mainly lies in Mode 2. It is mainly because of the open border with India and the increasing trend of health tourist arrivals. Landlocked between the rapidly growing giants People's Republic of China (PRC) and India, Nepal has good prospects for health service exports by attracting foreign patients, as indicated by the survey finding that over half of the foreign health consumers are attracted to Nepalese institutions on account of quality of services and over one third of them on account of low cost. Furthermore, health service exports via Mode 4 too have high potential as some advanced countries have a high demand for medical personnel as well as liberal regimes in place for the entry of such personnel. However, as it cannot compete in terms of advanced technology and has limited experience in telemedicine services, health service exports through Mode 1 is less relevant than other modes to Nepal at present. The challenge lies in the proper management of human resources to fulfil the domestic demand and at the same time facilitating the outflow of medical personnel to deliver services.

There is a discrepancy in the data. That is, BOP data from NRB (2005) show that average credit flow for the 2000–2004 period was around NRs. 400,000. This is in sharp contrast with the above survey of a handful of institutions. For example, an interviewee at Birat Nursing Home suggests that its annual income is about NRs. 1,600,000 (IRs. 1,000,000)—which indicates that the measurement of the credit flow is underestimated. This inconsistency in data suggests that much of the health services trade is not being captured by the formal mechanism. In other words, the data on credit flow of health services is biased and grossly underestimated.

Based on the conceptual discussion in Section 6.3.2, we can argue that Nepal has good potential for exporting health services, particularly to neighbouring countries, via Mode 2. This, however, demands substantial efforts from both public and private sectors. Empirical findings also suggest that select health services have export potential. On the basis of consumer inflows and in-depth interviews, we can conclude that ophthalmology (eye care), paediatrics and gynaecology services are found to have the potential to attract a greater number of foreign patients as compared to other services. However, at present, only limited service providers have given priority to attracting foreign patients and consequently launched some specific programmes for the same purpose. In all cases, almost all the foreign services consumers are from India. In the long run, health tourists from other Asian countries can also be attracted by substantially enhancing the quality of services. However, it must be noted that countries such as India and China are also working hard to improve their health services to attract more patients from abroad. To successfully realize the potential for exporting health services, targeted and pragmatic policy reforms should be enhanced to bring efficiency to the service system and to explore new techniques of treatment focusing on the availability of resources in the country.

6.4 Disincentives to health services exports

During the field survey, some consumers identified the absence of ward facilities at some service providers, lack of adequate information about service providers and limited choices of service providers as the existing disincentives related to health services and their providers in Nepal. Similarly, a few respondents mentioned the security problem/unpredictable situation in the country and being overcharged on transport fares (particularly by taxi drivers in Kathmandu) as disincentives. Moreover, though the study could not capture non-Indian foreigners, service providers said that they were facing additional disincentives in the form of limited choices in food items. Besides these, no other specific disincentives were noticed during the field survey while examining the issue from consumers' perspective.

With regard to movement of patients, one of the most important barriers is emotional insecurity of patients who do not wish to be far from their families and are particularly sensitive to possible cultural and linguistic differences. However, patients from India do not face such problems—nor discrimination in the provision of consultation services—both within and beyond the service providers, while receiving health services in Nepal. Disincentives to the export of health services from the service providers' perspective have been identified as follows.

Mode 1: The recent rapid development in telecommunication technologies and health informatics has been changing the landscape of health services trade dramatically. Patan Hospital and Om Hospital are occasionally involved in receiving such benefits from this mode of supply; however, professionalism is far from developed in this sector. The existence of enabling technology constitutes a critical element in providing some of these services: the substantial investment needed would make trade in telemedicine services prohibitively expensive in some cases. IT infrastructure such as Internet access, electricity, computer networking and technical expertise are the basic requirements for exploring the possibilities of the market in this area. Most of the healthcare providers in Nepal are facing problems in these areas.

Mode 2: Patients from foreign countries, particularly from India, seeking healthcare include i) those who travel to Nepal looking for specialized and surgical treatments, especially eye care that employ advanced technology, which may not be available at home; and ii) those who travel for medical and diagnostic services, looking for a service of similar quality that they can receive at home country, but less expensive (in terms of time and money) or for specific services not available in the home country. Lack of or incomplete information may discourage consumers from looking for the same or better services at affordable prices in Nepal. The findings of the field study suggest that services in Nepal are cheaper compared to those in the bordering Indian market at least for two reasons: i) the exchange rate of Nepalese currency vis-à-vis Indian currency (NRs. 1.6 = 1 IRs.), and ii) lower time cost (travel, waiting and treatment time) for receiving health service. However, information channels for foreign consumers are extremely limited; for example, they receive information on health services available in Nepal from their family members and past visitors only. Lack of appropriate information channels for attracting non-Nepalese consumers is also a barrier to service exports.

The objective of health policy is to open markets to domestic and foreign competition with the aim of reducing costs and improving quality. A new challenge for the private and public sectors is how to coexist in the same market, while benefiting from each other's presence. The lack of coordination between public and private institutions in general is another disincentive to service exports. There is a good relationship between BPKIHS and Birat Nursing Home in providing diagnosis services. BPKIHS suggests the consumer to consult Birat Nursing Home when it does not have the required services. However, there is no such relationship between Koshi Hospital and Birat Nursing Home. Health services are produced by a combination of human resources and technology. Shortage of specialized human resources outside Kathmandu valley and high cost of technology are the main barriers to expanding services for foreign consumers in areas bordering India.

Wealthy patients in particular might wish to take advantage of advanced, specialized treatments unavailable in the home country or those perceived as being of a better quality, or simply to avoid long waiting lists in the home country. Eye care providers have a strategy of exporting services by different levels of consumer incomes. The Eye Hospital at Biratnagar offers cataract services at various prices: NRs. 900, 1,700, 2,500, 3,500, 5,000 and 8,000. However, Koshi Hospital and BPKIHS are able to provide only limited choices. The limited choice of services offered by the providers is a major obstacle to expanding services for high-income groups. As a result, high-income patients are diverted to Patna and Darbhanga (India) for consumption of health services, with Nepalese institutions confined to providing services to the low- and middle-income groups.

Mode 3: The country has started opening its health market to foreign commercial presence in various forms, favouring competition as a means to achieve better health services, reduce price escalation, and take pressure off the public sector. In addition, new business techniques have facilitated foreign participation with a minimum of actual investment. Hospital management companies usually try to establish themselves in countries that have liberal investment laws, are open to joint ventures, and have either high per capita income or a sufficiently large share of the population which can afford private health treatment. However, high government intervention relative to other consumption goods-producing industries and continued domestic political instability are the major factors reducing the incentives for foreigners to invest in Nepal's health sector (Maskay *et al.* 2006).

Mode 4: There is a debate on how to benefit from the outflow of health personnel. The outflow of health services has a clear impact on equity if it produces shortages in the home country, thus reducing access to the services that would have been provided by the emigrants. The loss of health professionals in specific categories will also reduce the range of services available. On the other hand, if the categories of health personnel migrating abroad are those in which the home country has an oversupply, the country can benefit from exporting skilled human resources to developed countries. The lack of a cost-benefit analysis for formulating a clear policy is limiting market access in Mode 4.

Finally, lack of awareness of our own potential areas for exporting health services and lack of policy priority for promoting trade in the health sector are also factors working as disincentives constraining Nepal's health service exports.

6.5 Channels for potential benefits

There are many channels which help in enhancing trade in health services. For example, if patients move to the country where the treatment is offered, they bring with them foreign exchange and new market access opportunities and, in that process, may even diminish the incentive for qualified personnel to migrate. On the other hand, due to the special characteristics of the health market, the establishment of additional health providers increases the scope of the market. Due to the increase in access to services, information and choices, additional consumers will be attracted. There are good eye care services in Nepal. Eye care providers are competing to export their services. This is a leading sector exporting health services. Other health providers can explore the prospect of exporting their services.

Various international forces—e.g., advancement in IT and demographic changes (growing ageing population in developed countries)—are exerting a significant influence on health services and are creating opportunities in the health sector. Health is an essential good that can be linked with other sectors such as tourism and education. Studies have identified different channels of potential benefit depending on the country context. In the Chilean context, Leon (2000) has identified prioritizing elderly care, establishing links between tourism and health, exporting health services in border areas, enhancing international agreements on health insurances, and facilitating specialized professional and technical training. Similarly, Chacko (2001) has identified issues requiring attention with reference to medical tourism in India, namely: i) upgradation of basic amenities and hospital infrastructure, ii) co-ordination between healthcare and tourism sectors, iii) creating a pool of highly skilled and cordial manpower, iv) standardization of services and accreditation of hospitals, v) increasing the visibility of India on the world map, and vi) the impact on domestic healthcare services. The channels that are being used presently or are appropriate for future in order to exploit the potential export opportunities for Nepal are discussed below.

Channels for Mode 1: Advancements in telemedicine and the Internet have led to new opportunities for exporting health services worldwide. The practice of telemedicine addresses a number of issues, including cost containment, optimizing the use of expensive technology and specialized medical services, upgrading health treatment, improving access of patients in remote areas to primary and specialized health services, and regional sharing of knowledge and cooperation. This facilitates international flow of the service, usually from more advanced locations to less advanced areas. However, in Nepal, due to lack of communications infrastructure and absence of proper coordination and integration with foreign health service providers, problems remain in the areas of quality assurance, reliability, and competitive cost structure. Although Tilganga Eye Hospital, Gangalal Hospital, Norvic Hospital, Model Hospital, B&B Hospital and BPKIHS, among others, and some specialized doctors are involved in

supplying services through Mode 1, the mechanism of supply is not systematic and not institutionalized. The volume of services is primarily determined by individual connections with hospitals and doctor. Available literature and information collected from the field survey suggest that Model 1 supply of health services remains in its early stages in Nepal. Hence, in the present context there is little feasibility to significantly export services via Mode 1.

Channels for Mode 2: To expand exports via Mode 2, the areas of both competitive and comparative advantage should be identified. Currently, the following are the important elements in exporting services.

- **Better quality of service at lower cost:** Better quality of health services available at lower (affordable) cost in Nepal compared to Bihar and Uttar Pradesh.
- **Regular campaigns:** Nepalese eye hospitals, in particular, are regularly conducting campaigns among rural communities in India.
- **Establishment of referral chains:** Training in the symptoms of eye diseases are provided to representatives of communities in India which are then identified as the referral persons for eye care services in Nepal. Referral chains in the Indian communities are not formal but are well-established.
- **Components of comparative/competitive advantage:** Different factors such as quality, lower travel time, lower cost of treatment and relatives living in Nepal (time, quality and price) have jointly contributed to the comparative/competitive advantage for attracting patients to Nepal.
- **Presence of Indian doctors:** Some health service providers have Indian doctors. This is motivating Indian consumers to go to such service providers.

The potential channels that could be promoted in the future to enhance service exports by attracting foreign patients to the domestic territory are as follows:

- Developing new and unique methods of services delivery that are feasible in the country;
- Integrating health services and tourism. For example, Nepal can promote the concept of attaching old-age homes to hospitals to cater to the needs of foreign consumers who have retired. They would like to come and live here in old-age homes that are attached to hospitals, to tap affordable medical facilities at affordable rates post retirement. The good climate of Nepal and the medical facilities available here can be exploited to cater to their specific wants. There should be a link-up between hotels and travel agents to work out packages for international patients.
- Encouraging the establishment of service providers targeting foreign patients; and
- Enhancing the capacity of existing service providers where there is greater inflow of foreigners, and encouraging the establishment of other service providers in similar geographically accessible locations.

Channels for Mode 3: Maskay *et al.* (2006) have examined the practices of service sector investment liberalization and incentives in select developing countries. They have found that there does not appear a clear relationship between the incentives (e.g., liberalization strategy) and FDI flows; the exception is the regulatory incentive, which perhaps gives an indication of the investment climate—this has a strong relationship with FDI flows. Some of the benefits from trade through Mode 3 are expansion of market and increased competition; importation of technology and technical know-how and the resultant better diagnosis and treatment in the domestic market; and earning foreign exchange by increasing exports through Mode 2. However, it should be noted that trade through Mode 3 also entail costs for the society: healthcare cost will be high due to the use of modern technology and this will encourage an increase in healthcare cost in the local market as well; the quality of public health services might be adversely affected due to the possibility of internal brain drain, with public services becoming "poor services for poor people"; and rural-urban gap in terms of access to information and therapy will increase.

The important channels for exporting services through Mode 3 are as follows:

- Encouraging recognized specialty service providers to take the initiative by extending their services to foreign markets through FDI outflows;
- Provisioning regular visit of international medical personnel, through management contract or tie-up with foreign hospitals, at a greater number of domestic hospitals;
- Liberalizing the policies of licensing provisions and the establishment of joint-venture hospitals; and
- Attracting FDI, which has the capacity to enhance the export of services through other channels. For example, liberal provisions can be made for attracting reputed foreign hospitals, retirement homes and old-age care centres to invest in the country, targeting service consumers from abroad.

Mode 3 trade promotes Mode 1, 2 and 4 trade because Mode 3 trade is not only infusion of capital but also that of quality and experience. The latter acts as a catalyst to spurt trade in other modes.

Channels for Mode 4: As discussed earlier, the current trend is for the health personnel to move from developing to developed countries. Nepal has apparent potential for exporting health services via Mode 4. However, the problem that stands in the way is that there is an inadequacy of skilled personnel in the country. Together with solving the domestic problem, the country can promote exports through the following channels:

- Prioritizing the production of medical personnel in the domestic country;
- Promoting bilateral and multilateral agreements for mutual benefits by creating the environment for the movement of natural persons;
- Enhancing international network by coordinating with reputed foreign health institutions so as to expand and manage the outflow of health personnel to provide health services in foreign lands.

Maskay (2004), however, has highlighted some of the challenges of unbridled liberalization in general, and for Nepal in particular. Likewise, there are a number of barriers which impede the movement of service suppliers, including visa and entry provisions, and licensing and recognition of qualifications, which to some extent have been addressed under GATS. Similarly, at the multilateral level, there is a need for the promotion of transparency in standards and qualifications requirements.

6.6 Recommendations

- **Encouraging greater involvement of private sector:** Health services at most of the public institutions in Nepal are subsidized by the government and services are generally provided from the 'public good' perspective. This implies that such public institutions are less important from the trade viewpoint. Therefore, greater involvement of the private sector, particularly in operating teaching hospitals and tertiary care, and liberalization of the policies for exporting health services are necessary for exporting services.
- **Facility differentiation along with cost differentiation:** Most of the patients from India belong to low-income households. However, some patients have expressed their willingness to pay even higher fees for the services (e.g., additional and fringe benefits while consuming health services). Therefore, a provision of at least two or three levels of fee structure with differing facilities, particularly for specialty and high-cost treatment, should be arranged to attract high-income foreigners for service consumption.
- **Promoting specialty services:** Rather than general services, Indian patients are found to be interested in specialty and chronic illness-related services. Therefore, Indian patients-targeted departments with relevant services should be established particularly in the hospitals which are nearer to India. In doing so, priority should be given to illnesses requiring high-cost treatment so that volume of the trade would be large.
- **Building effective information channels:** Effective information channels need to be developed to attract a larger volume of patients from foreign lands. Many patients are facing problems in identifying the appropriate service provider because of the non-availability of information regarding available services and the cost structure in different institutions.
- **Promoting unique treatment system:** A different strata of patients can be attracted if unique features can be incorporated into the domestic service system. For this purpose, more attention should be given to research activities for exploring the locally available natural resources that are useful for treatment and, at the same time, for developing domestic methods of treatment and promoting traditional methods of treatment.
- **Assuring service quality:** Quality of services is one of the most important factors for attracting patients to a particular health institution. Therefore, the government should make necessary provisions for assuring the quality of health services.
- **Attracting FDI for human resource development:** Some of the advanced countries like the US and Canada have a high demand for low-cost health service providers, particularly from developing countries. To fulfil this gap in those countries and for the promotion of service exports through bilateral agreements, efforts should be made to attract FDI to raise the production of high-quality human resources in the domestic

economy. By this means, the export of health services can be facilitated mainly via Mode 4.

- **Integrating health services with tourism industry:** Despite the increasing inflow of non-Indian tourists, health tourism in Nepal is found virtually limited to Indian service consumers. Therefore, there is a need to integrate health services with tourism for exporting services to non-Indian foreigners via Mode 2. For this purpose, tourists can gradually be attracted to the health services in the country by making them familiar with the domestic service system by, for example, incorporating health services into tour packages.
- **Management tie-up and network expansion:** Management tie-up and expansion of the network of domestic service providers with reputed foreign health service providers and insurance companies is important for exporting services via both Modes 2 and 3.
- **Effective policy and regulatory provisions:** In the present context of the increasing role played by the private sector, the regulation of health services in the country and registering medical practitioners according to their qualifications by the Medical Council is provisioned in Nepal Medical Council Act (2020). However, the Act is silent over the registration of foreign medical practitioners in Nepal. Initiatives should be taken to ensure quality services and bring homogeneity in the services—which are crucial for attracting foreign patients for service consumption.
- **Mutual recognition agreement:** It is necessary to have mutual recognition agreement with the target countries so as to enhance the credibility of medical professionals. This will enhance the trust of foreigners in Nepal's health system. The 'portability' and 'acceptability' of medical insurance policies issued by other countries should be ensured.

High-end retail services

7.1 Background

The retail industry has brought about global changes in the process of production, distribution and consumption of consumer goods. Presently, developed economies are using the retail industry as a vital growth instrument. This boom in the global retail industry has been accelerated by the liberalization of the retail sector. Cashing in on this development, East Asian countries such as Malaysia, the Philippines and Thailand have developed cities like Kuala Lumpur, Manila and Bangkok into shopping hubs targeting mainly tourists. They emulated these models from city states like Hong Kong (now Hong Kong, China) and Singapore. Oil-rich Middle-East countries too are vying to become shopping destinations for tourists, with Dubai taking the lead. In South Asia, India is planning to tap the enormous potential of the retail sector. For example, Wal-Mart, the world's largest retailer, is interested in opening its outlets in India. The Indian retail industry is expected to generate 10–15 million jobs through direct and indirect effects within the next five years. Given these developments, the objective of this chapter is to assess the export potential of Nepal in this sector, identify challenges, and make relevant recommendations to address the same.

7.1.1 Working definition of high-end retail services: There is no clear definition of high-end retail services (HERS). However, this sector covers the upper spectrum of distribution services, defined by the WTO as including commission agents' services, wholesale trade services, retail services and franchising services (WTO 1998).

In the Nepalese context, products traded under HERS range from imported foreign products (such as electronics, cosmetics, modern clothes and other fashion wear) to indigenous products (such as pashmina, wooden and metal handicrafts, carpets and silver jewellery). From a trade perspective, the practice of e-shopping is yet to make any significant inroad in Nepal. Likewise, it is important to note that Nepal has not made any commitment to open the wholesale and retailing services in the WTO except for wholesale and retailing services for radio and television equipment, musical instruments and records, music scores and tapes with a maximum foreign equity of 80 percent. In other words, trade in HERS is limited in Modes 1, 3 and 4. Since the objective of this chapter is to assess the export potential of HERS and given its cross-cutting nature, it will only consider Mode 2, i.e., shopping tourism. This includes tourist expenses in the areas of shopping other than spending related to transportation, accommodation, and food and drinks.

7.1.2 Limitation: The study on HERS has been constrained by the availability of literature and other necessary information on shopping tourism. Some of the major limitations are as follows:

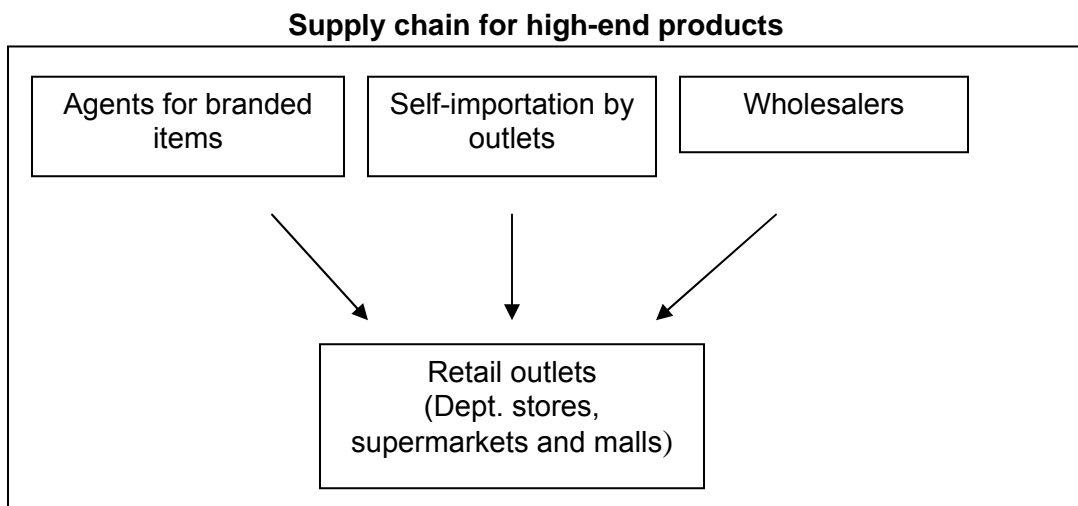
- The study is primarily based on the indicative survey conducted at the end of January 2008. Therefore, the information generated by the study is not necessarily applicable for the entire year.
- Tourists' expenditure does not include expenses made by tourists on international airfares and food and drinks during their stay in Nepal.

- Although the high-end modern products and indigenous products are bought by foreigners inside Nepal, they have been considered as exports for the purpose of this study.

7.1.3 Situation analysis of HERS in Nepal: Distribution services in Nepal are governed by the general laws of the country, namely, the Company Act, 2021 (1964, and amended in 1997), the Industrial Enterprises Act, 1992 (amended in 1996), and the Foreign Investment and Technology Transfer (FITT) Act, 1992. According to Section 3.4 of FITT Act, 1992, no permission is granted for the establishment of foreign companies or for foreign investment in retail trade.

There are three major actors in the local distribution services sector: commission agents/dealers, wholesalers and retailers. However, given the low stage of development of the Nepalese market, it is dominated by a handful of organized large retail outlets and numerous kirana shops (small groceries). The organized large retail outlets comprise departmental stores and supermarkets. The large retail outlets are limited to a few urban areas in the central, eastern and, to some extent, western development regions of the country. There are about 2,500 kirana shops under the Retailers' Association of Nepal. However, of the two categories, departmental stores and supermarkets (offering various retail outlets owned by different individuals under a single roof) are the major retail outlets targeting customers of high-end products (HEPs).

The distribution chain for HEPs involves agents (for branded items), the self-importation of these products by local retail outlets, and wholesalers; this relationship is shown schematically below. The direct import of HEPs takes place either through agents, wholesalers in the local market or manufacturers abroad.⁵⁷ Out of the total trade in HEP, a substantial portion is accounted for by departmental stores, supermarkets and malls respectively. Malls are a recent phenomenon and boast various exclusive brands and outlets for high-end shopping. On the other hand, indigenous products are put on the market by outlets mainly targeting tourists visiting the country.



⁵⁷ Some of the major sources of imported HEPs in retail outlets such as departmental stores and malls are Thailand, Singapore, Hong Kong, the United Arab Emirates, China and India.

Regarding the pattern of consumption of HEPs in Nepal, the major consumers are Nepalese nationals working in foreign missions, international non-governmental organizations (INGOs) and joint-venture banks, and other high-income groups. Tourists visiting Nepal consume a smaller proportion of these products. This was revealed during in-depth interviews with the owners of a few leading departmental stores and some major retail outlets selling HEPs. In an important development, local consumers have been gradually opting for branded items in garments, footwear and other fashion wear. This has led to the introduction of a number of international as well as Indian brands in a wide range of products in the major outlets in Kathmandu. The situation was quite the opposite until a decade ago, when foreign tourists were the main consumers of HEPs. This suggests a gradual emergence of an important local segment that can afford such products.

7.2 Profile of Nepal's trade in shopping tourism

Nepal's trade in HERS is difficult to capture. This is largely because the current BOP statistics do not separately show the contribution of tourists involved in shopping. In other words, there is no separate information on the value of HERS comprising HEPs and indigenous items consumed by tourists in the country. As per the BOP Summary prepared by Nepal Rastra Bank (NRB), the central bank, the net income under the travel services heading was NRs. 9,555.8 million in FY 2005/06. The net income from travel services was NRs. 11,717 million, NRs. 8,654 million, NRs. 11,747.7 million, NRs. 18,147.4 million and NRs. 10,463.8 million in FY 2000/01, 2001/02, 2002/03, 2003/04 and 2004/05, respectively. Discussion with NRB officials suggests that India's share in the total net income under the travel services heading is estimated at 14 percent. However, the actual figure may be much higher due to the open border between Nepal and India.

The main source of information on shopping tourism is Nepal Tourism Board's *Expenditure Summer Survey 2005* (NTB 2005). This survey examined the expenditure behavior of tourists visiting Nepal and revealed that gross tourism receipts in 2005 were around US\$205 million, including expenditures of Indian tourists.⁵⁸ It is to be noted that the gross tourism receipts excluding Indian tourists in 2005 was US\$14.8 million (MOCTCA 2007). The survey showed that tourists in Nepal devoted around 29 percent of their total expenditures (average expenditure per capita was US\$544) on the purchase of modern products and indigenous items (Appendix 7.1). On the basis of the expenses on shopping activities by the surveyed tourists in 2005, it is estimated that around US\$59.4 million worth of HEPs were traded in the same year.

7.3 Assessment of Nepal's trade potential

7.3.1 Literature review: The potential for developing shopping tourism in Nepal has not yet been adequately addressed in the literature. NTB (2005) has linked shopping tourism with tourism inflows. Because of this link, together with the potential for growth of tourist arrivals and the inherent features of Nepal's tourism industry, it can be concluded that there is potential for shopping tourism.⁵⁹ Additionally, an open import policy, low customs tariff, relatively cheaper accommodation rates, availability of a variety of shopping outlets to choose from, and an abundant labour force are some features conducive to shopping tourism in Nepal. There are two major studies which point to the potential of shopping tourism in Nepal.

⁵⁸ Though the expenditure was for 2005, the survey used the tourist arrivals figure for 2004 due to the unavailability of arrivals figure for 2005.

⁵⁹ Holiday and pleasure-seeking tourists from Nepal's major markets such as India, the US, Japan, the UK and Germany constituted 50 percent of the total arrivals (around 383,000) in 2006 (MOCTCA 2007).

First, a 1997 study of 1,600 tourists carried out by the Marketing and Research Group Nepal Private Limited estimated that the average spending of a tourist in Nepal was US\$90 a day—much less than what the government statistics showed. It found that only 2 percent of inbound tourists specifically visited Nepal as a shopping destination, while 80 percent of the visitors ended up shopping in the country, even if it was not planned. The study concluded that there was potential and incentive for inducing more tourists to visit Nepal mainly for shopping.

Second, NTB (2005), which estimated the expenditure pattern of tourists visiting Nepal based on a sample of 1,504 tourists, put the average expenditure per visitor per day and average expenditure per capita at US\$53 and US\$544, respectively. However, the average expenditure per visitor and the average expenditure per capita reached US\$55 and US\$561 in 2006 (MOCTCA 2007). It is to be noted that these figures do not take account of the receipts from Indian tourists. Moreover, NTB (2005) showed that gross tourism receipts inclusive of expenditure made by Indian tourists were US\$205 million in 2004 (Appendix 7.2). The top three expenditure categories for tourists were found to be food and drinks (accounting for 29 percent of total expenditure), shopping of indigenous products (23 percent) and accommodation (19 percent). These three categories, thus, had a combined share of well over two thirds of the total expenditure of tourists. Shopping was one of the favourite activities among the respondents covered by the study. Shopping accounted for 29 percent of the total spending on average. Shopping for indigenous products was found to be popular. Forty percent of the tourists shopped for local clothes and accessories, 33 percent shopped for pashmina products, and 4 percent shopped for trekking items. Of the total respondents in the survey, 1,176 were engaged in shopping. Six percent of such shoppers purchased electronics durables, the mean spending for which was US\$107. Electronic items were among the major items purchased by Indians and SAARC nationals. Likewise, shopping for modern products was an important expenditure for Indians, accounting for 14 percent of their total spending. Likewise, the incidence of shopping (51 percent) for modern clothes was also found to be high, with a mean expenditure of US\$132 per person who went for shopping (Appendix 7.3).

7.3.2 Discussion of export potential: The potential for HERS exports is closely tied with the comparative advantage Nepal has in tourism. Tourist arrivals registered an all-time high growth in 2007, with total arrivals crossing the half-a-million mark for the first time. A total of 513,350 tourists visited Nepal during the year, including 360,350 tourists by air (*The Himalayan Times*, 2 February 2008). The peace process and end of the conflict in the country, together with increased air connectivity with many destinations made possible by the operation of nine new international airlines, are the major causes of this growth. The increase in domestic tourist arrivals is bound to boost the services sector, especially HERS. This is because of a positive correlation between shopping tourism and the tourism industry of the country.

Given the dearth of data on HERS, an RCA analysis is not possible. But some of the important conceptual factors that influence export potential are briefly discussed below.

- **Natural endowments:** The country's natural endowments in terms of climate, topography, cultural diversity, etc., constitute a competitive advantage in the international market.
- **Comparative cost structure:** International brands are found to be relatively cheaper in Nepal while the costs of Indian brands are almost the same in Nepal and India. A comparison of the import duties levied on some HEPs in Nepal and India reveals that import duties are relatively higher in India. While total customs duties on fabrics, footwear and electronics are around 20 percent, 25 percent and 10 percent respectively

in Nepal, the same are charged at the rate of 22 percent (fabrics), 34 percent (footwear) and 34 percent (electronics) in India.⁶⁰

- **Level of skill and human capital:** Skill and human capital required for indigenous products—such as pashmina, carpet, metal and wooden handicrafts and jewellery—are available locally.
- **Level of market integration including cultural and linguistic affinities:** Nepal has cultural and linguistics affinities with India. This raises the potential to increase the inflow of Indian tourists.
- **Policy and regulatory provisions:** Realizing the potential of the tourism sector, the policy and regulatory regimes affecting domestic and foreign investment in this sector have been kept liberal since the early 1970s.

7.3.3 Empirical study: The empirical study on shopping tourism in Nepal involved i) survey; ii) in-depth interview; and iii) FGD.

Methodology: The survey aimed at identifying the potential of shopping tourism. Accordingly, a questionnaire for tourists was developed taking into account the conceptual factors presented in Section 7.2.2 and aiming to acquire information on: purpose of visit; major considerations while shopping; motivations for shopping; shopping sites; major purchased items; and estimated expenditure on such items in Nepal. Besides, the survey also collected some information on the problems and potential of shopping tourism in Nepal. The rationale behind choosing Tribhuvan International Airport (TIA) for the empirical study was the prospect of having different tourists in a single venue. Besides, it was assumed that departing tourists would be able to share their shopping experiences in Nepal. The questionnaires were administered to 50 international tourists; half of them were from India and the remaining tourists were from countries other than India (non-Indian tourists). While the latter were surveyed at the TIA departure lounge, the former were surveyed partly (two thirds) at TIA and partly (one third) at a few hotels in Kathmandu. Likewise, for in-depth interviews, relevant officials of associations of departmental stores and retail stores, owners and representatives of retail outlets, tour operators and guides were contacted. FGD was held with the participation of different stakeholders of the Nepalese tourism industry and regulators related to HERS.

The study on HERS places greater emphasis on Indian tourists since they account for approximately one third of total tourist arrivals (MOCTCA 2007). The rapid growth of the Indian economy has substantially increased the disposable incomes of a large number of families. Similarly, the liberalization of civil aviation policies of India and greater awareness about destinations due to marketing campaigns by an increasing number of countries are identified as factors contributing to the high growth of outbound tourism in India.⁶¹

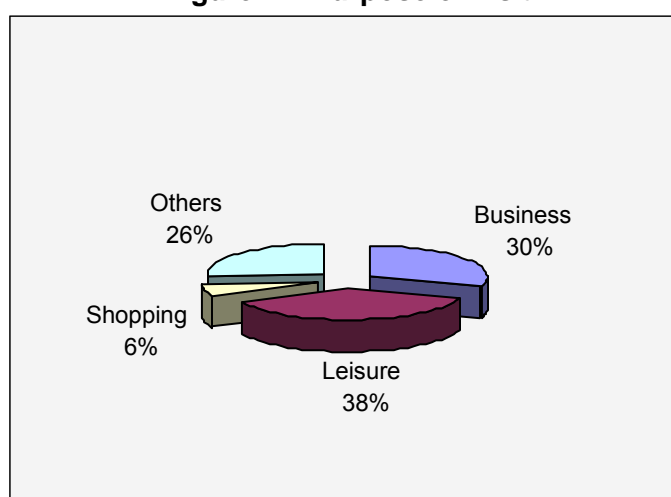
60 GON (2007); Goyal (2007)

61 A World Travel and Tourism Chapter (WTTC) study carried out in 2001 in India has shown that the purpose of 30 percent of outbound Indian tourists was shopping. India generated almost 7.2 million outbound trips in 2005 (http://www.direxions.co.in/learning_curve/show_learning_curve.php?newsid=35). It has been projected that the 1.05 million Great Indian Middle Class (GIMC) households shall have earnings around INRs. 28.5 million by the year 2010. Average spending by an Indian visitor is generally higher than that of visitors from most other countries. According to an assessment by the United Nations World Trade Organization (UNWTO), India will emerge in the future as an important source market for outbound tourists.

Survey findings

- **Purpose of visit:** Out of the total tourists surveyed, 38 percent mentioned that their main purpose of visiting Nepal was to get pleasure and enjoy their holidays.⁶² While 30 percent were visiting for business purposes, only 6 percent were visiting specially for shopping (Figure 7.1); this result is consistent with earlier studies. The remaining 26 percent of tourists were in Nepal for other reasons. However, there were distinct differences among Indian and non-Indian tourists with respect to their purpose of visit. One fifth of Indians (20 percent) were visiting Nepal for business purposes, while 30 percent of international tourists were here for holiday/pleasure. *Nepal Tourism Statistics 2006* (MOCTCA 2007) also reveals a similar trend, although it reports that about 15 percent of Indians visit Nepal for pilgrimage.

Figure 7.1 Purpose of visit

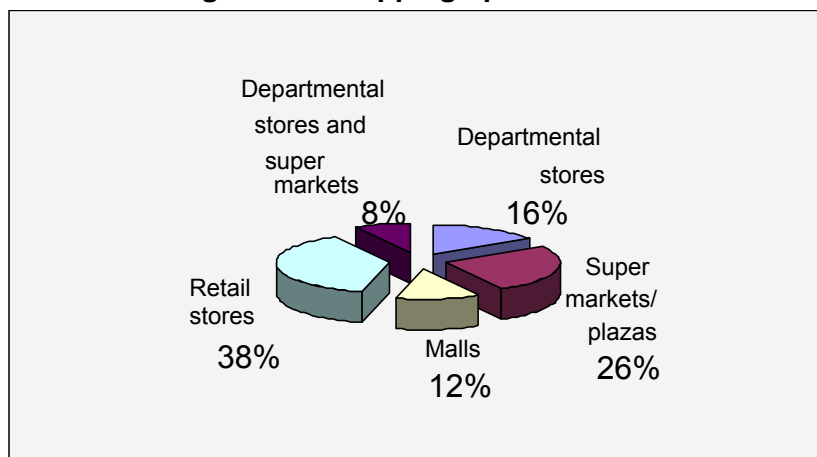


Source: Field Survey

- **Factors for choosing a destination:** Touristic importance appears to be a main consideration while choosing a destination. Half of the surveyed tourists stated that touristic importance, rather than other reasons such as cost of travel, was a vital factor in choosing a destination. While more than 33 percent of non-Indian tourists cited touristic importance as the main factor, only 20 percent of Indian tourists did so, emphasizing, instead, that the cost of travel was a major consideration while choosing a destination.
- **Travel partners:** Out of the different options available, family members were the ideal travel partners that tourists coming to Nepal preferred to be accompanied by. Thirty-four percent of the surveyed tourists came to Nepal with their family members. Twenty-eight percent came with their friends and 24 percent with their colleagues. The rest came alone.
- **Shopping options:** The available options for shopping were departmental stores, supermarkets, malls and retail stores. Tourists' preferences among these options are shown in Figure 7.2.

⁶² Coincidentally, the highest proportion of tourists visited Nepal for recreational purposes (38 percent) in 2006 (MOCTCA 2007).

Figure 7.2 Shopping options



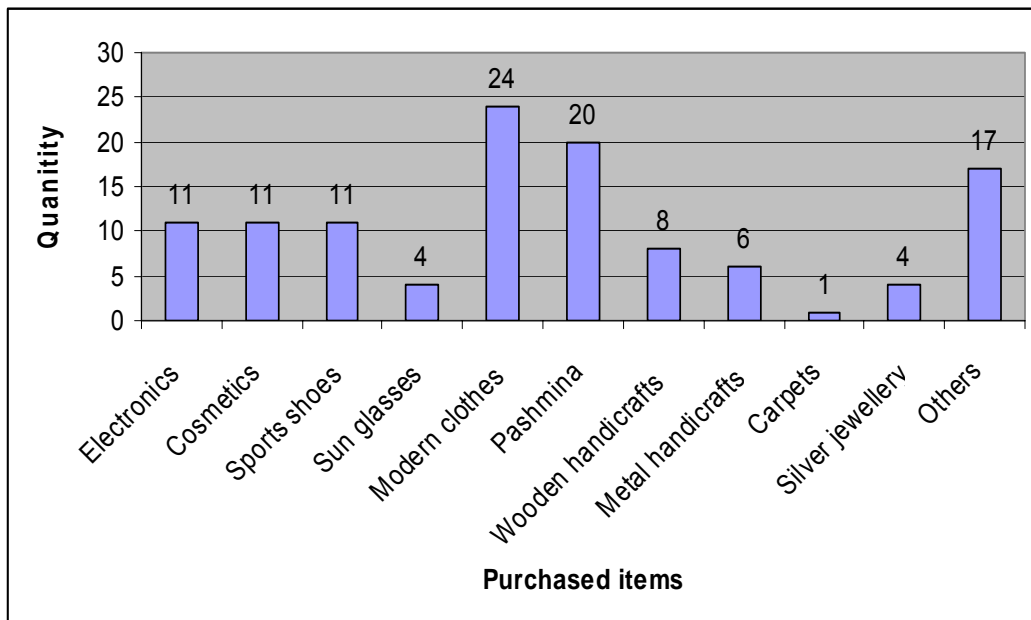
Source: Field Survey

Indian tourists preferred shopping in departmental stores and supermarkets to shopping in retail stores. The reasons they cited for their choice include: i) variety; ii) information regarding expiry date of products; iii) export quality; iv) convenience; v) ease of shopping; vi) standard pricing; and vii) absence of cheating. Out of the total of 50 tourists surveyed, 11 visited departmental stores, 9 supermarkets, 8 malls, 6 both department stores and supermarkets, while 16 visited retail shops. Out of the 16 who visited retail shops, the majority were non-Indian tourists.

Non-Indian tourists preferred retail stores near sight-seeing areas for the following reasons: i) availability of pashmina products, souvenirs, silverware and statues; ii) enjoyable bargaining process; iii) affordable prices; iv) interaction with local people; v) availability of handmade goods; and vi) desire to support local businesses and local interest groups. Out of the total of 50 tourists, 15 bought pashmina, 6 bought wooden handicrafts and 5 bought metal handicrafts.

- **Reasons for shopping in Nepal:** The reasons for shopping in Nepal ranged from low prices to the availability of branded products and the uniqueness of local products. Non-Indian tourists considered the products in Nepal to be cheap, while Indian tourists took the prices to be quite high. However, both considered Nepal as a good shopping destination because of the uniqueness of the local products: 34 percent of Indians as well as international tourists cited this reason. Thirty percent of the total surveyed tourists considered prices to be low. However, most of them were non-Indians.
- **Type of money used while shopping:** Due to the abundance of retail stores in Nepal, hard currency was the most widely used money by the tourists. About 44 percent of the tourists relied on hard currency for shopping. Indian tourists, however, also used credit and debit cards for shopping in departmental stores and supermarkets. The least used means of payment was traveller's cheque; only 4 percent of the tourists used this while shopping.
- **Products purchased:** Figure 7.3. shows the quantities of various products purchased by all the surveyed tourists.

Figure 7.3 Tourists' purchases

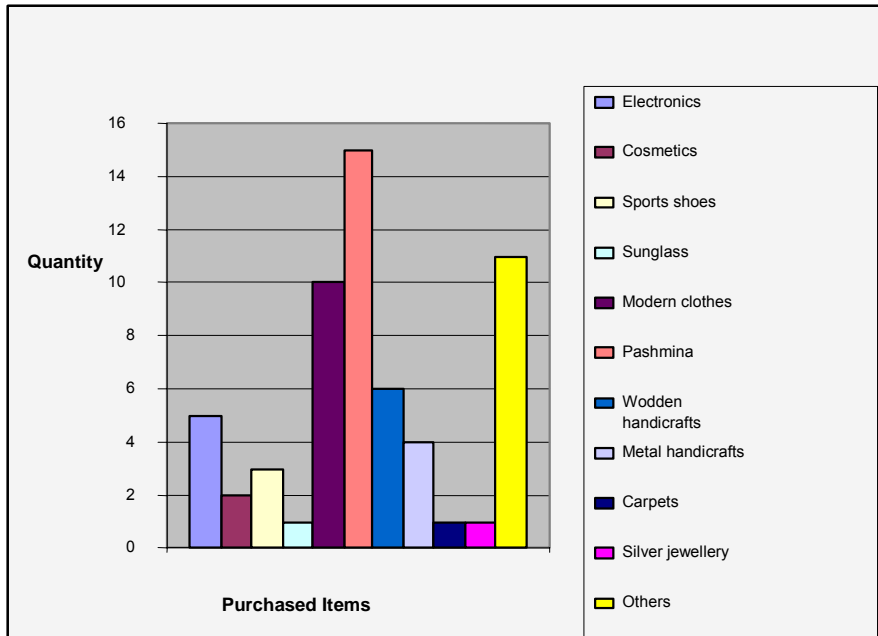


Source: Field Survey

The tendency of buying modern clothes was high among Indian tourists whereas non-Indian tourists were more inclined towards buying pashmina. Overall, tourists were more interested in buying pashmina and modern clothes rather than carpets. Only non-Indian tourists bought carpets. Furthermore, 20 percent of the total tourists purchased modern clothes, 16 percent bought pashmina, 14 percent bought items not mentioned in the questionnaire, 9 percent bought electronics, cosmetics and sports shoes, 7 percent bought wooden handicrafts, 5 percent bought metal handicrafts, and 8 percent bought items like sunglasses, carpet and silver jewellery.

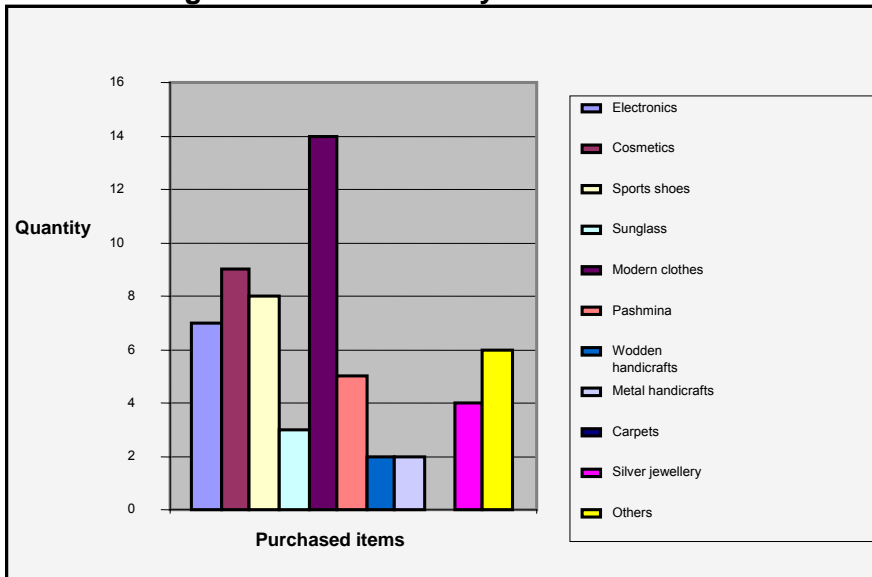
Figure 7.4 and Figure 7.5 show products purchased by non-Indian tourists and Indian tourists, respectively. The non-Indian international tourists were more eager to buy local handmade products, including paintings, than modern western items. Their preference for indigenous items supports the local retail markets where handicrafts, pashmina and other products are sold. Indian tourists, on the other hand, were lured by the attractive prices of items like sports shoes and sunglasses. Non-Indian tourists, however, were not much attracted by the same. The study indicates that, overall, tourists visiting Nepal want to buy both indigenous and modern products available in the country.

Figure 7.4 Purchases by non-Indian tourists



Source: Field Survey

Figure 7.5 Purchases by Indian tourists



Source: Field Survey

- Average spending by tourists:** The surveyed Indian tourists were spending IRs. 5,000 on an average. Interestingly, an Indian tourist visiting Nepal by land route had earmarked a minimum of IRs. 5,000 for shopping. Likewise, 50 percent of the Indian tourists were found to be spending over IRs. 10,000 on shopping during their stay in Nepal.

Table 7.1: Ranges of expenditure on shopping by Indian tourists

Range (IRs.)	No. of tourists
100–5,000	13
6,000–10,000	5
11,000–20,000	3
21,000–25,000	2
26,000 and above	2

Source: Field Survey

Likewise, non-Indian tourists spent an average of US\$100; more than 55 percent of such visitors spent more than US\$200 during their visit in Nepal. The highest expenditure on shopping among non-Indian tourists was US\$5,000.

Table 7.2: Ranges of expenditure on shopping by international tourists

Ranges (US\$)	No. of tourists
10–100	11
110–200	5
210–300	2
310–400	2
410–500	2
510–600	1
610 and above	2

Source: Field Survey

Focus group discussion on HERS: An FGD was held on trade in HERS. The report of the FGD is attached in Appendix 7.5. The participants emphasized that Nepal has the potential for trade in HERS. While they pointed out that disincentives to trade in HERS are related to infrastructure and policy, they agreed that the major challenge is the unstable political situation plaguing the nation.

7.3.4 Analysis of export potential of shopping tourism: The preceding discussion on shopping tourism underscores the fact that tourists visiting Nepal are engaged in shopping of HEPs comprising modern as well as indigenous items. This is irrespective of whether the tourists are Indian or non-Indian—both groups spend a reasonable amount on shopping. The expenditure behaviour of tourists further indicates that Nepal’s tourism potential is yet to be fully tapped.

Nepal primarily attracts holiday and pleasure-seeking tourists. The growth in tourist arrivals over the last decade and, more importantly, the recent rebound of the industry following the end of conflict suggest that enhancing opportunities for shopping can attract tourists further. According to Timothy (2006), shopping opportunities provide competitive edge to areas where heritage and nature-based tourism are dominant.

Given Nepal’s potential in tourism and the high tariff rates on HEPs prevailing in India, the increasingly affluent Indian middle-class can potentially be major customers of Nepal’s organized retail outlets.⁶³

63 However, as regards tapping the Indian market, Nepal faces the challenge of having to compete directly with Sri Lanka in shopping tourism, which was not the case earlier. Moreover, package tours operated by travel agents to ASEAN countries, particularly Thailand, Malaysia and Singapore,

Likewise, Nepal's open import policy, low customs tariff, cheap and idle labour and relatively cheap accommodation rates can also help develop the country into an attractive shopping destination. Unlike the situation of Hong Kong, Singapore and Thailand, where the workforce and rents are becoming prohibitively expensive, Nepal possesses advantages favourable for establishing shopping complexes.

The field survey of 50 tourists has revealed that tourists who visit Nepal for leisure and recreation are also engaged in shopping of both modern products and indigenous items. This obviously indicates the potential of expanding such exports.

The recent increase in the number of department stores/supermarkets and malls offering HEP in the country also indicates the export potentiality of such services even though international tourists account for a very small share in the total turnover of the retail outlets. Interviews with the officials of a few leading outlets revealed that trade has been growing at 10 percent per annum. The conversion of one of the leading four-star hotels in Kathmandu into a popular mall boasting about 50 exclusive branded outlets can be considered as an indication of the lucrative nature of such outlets in the country. Roopjyoti (2003) argues that if Nepal is developed into a shopping complex on the basis of its strength of cheap service, shopper tourists can be attracted from far and near.

In the light of the above discussion, it can be concluded that Nepal has export potential in tourism-related HERS.

7.4 Existing disincentives in shopping tourism

The study has shown a number of disincentives hindering the services trade associated with shopping tourism. Some of the disincentives observed in the empirical study are as follows:

- **Poor image of TIA:** Inadequate physical facilities and poor management at TIA cause inconvenience to the tourists and are seen as one of the major deterrents for attracting more tourists to Nepal as 'word of mouth' is the main source of information on Nepal for prospective tourists.
- **Lack of adequate information on shopping destinations:** The majority of the incoming tourists in the survey felt a need for effective dissemination of information on shopping destinations in Nepal.
- **Overcharging:** The discrimination against tourists by some retail stores that overcharge them on certain products was a source of frustration for a high number of respondents. This was especially the case with Nepalese indigenous items. Furthermore, there is a huge price differentiation among retail and departmental stores. The prices of goods at retail stores are set arbitrarily; at times, they exceed the average market price for similar products. Some 30 percent of the tourists surveyed cited this problem. Likewise, lack of provision of discounts was a problem for 14 percent of the tourists.
- **Insufficient amount of indigenous products in departmental stores and malls:** Non-Indian tourists prefer to buy indigenous products in their visit to Nepal. However,

and the increased affordability of the Indian middle class means that number of Indian tourists coming to Nepal may decline in the future in relative, if not absolute, terms. The share of Indian tourists in total tourist arrivals declined in 2006 and 2007.

they complained that such products were not available in sufficient quantities in supermarkets and malls.

- **Inadequacy of qualified and trained sales persons in stores:** The absence of trained sales personnel in most of the outlets inhibited proper communication with foreign tourists, indicating the need to improve service quality.
- **Fake products dominating the market:** The sale of fake products as branded items—even indigenous products such as pashmina in some outlets—was annoying to the surveyed shoppers. Fake products were considered as a problem by 6 percent of the tourists

Furthermore, Indian tourists complained about the non-existence of marketing policies such as discounts and bargaining for customer satisfaction, rudeness of the staff at some outlets, and non-acceptance of Indian currency of denominations 500 and 1,000. Likewise, non-Indian tourists identified the need for better and well-organized malls, pointed out the inadequacy of parking facilities and suggested making Thamel, a prominent tourist hub in Kathmandu, a vehicle-free zone.

7.5 Recommendations: In the light of the disincentives, the following recommendations are made for boosting shopping tourism in Nepal.

- **Enhancing the image of TIA:** High priority needs to be given to enhance the facilities at TIA and improve its management. Public-private partnership will be vital for achieving this in short time.
- **Dissemination of shopping-related information:** Information on shopping destinations should be made easily available at TIA, city hotels and other important tourist areas.
- **Establishing duty-free shopping complexes for exclusive brand items:** Taking into account the low operational costs and favourable environment for the establishment of shopping complexes in Nepal, duty-free shopping complexes exclusively devoted to select branded items should be promoted in Kathmandu for luring South Asian tourists. However, enforcement of measures which encourage the sale of such duty-free goods without causing revenue losses to the government is necessary.
- **Instituting an effective mechanism for refunding VAT to tourists at TIA:** The Value Added Tax Act, 2052 states that foreign tourists purchasing taxable items exceeding NRs. 15,000 and returning by air shall be eligible for claiming refund of the VAT before their departure. Nevertheless, the current provision with respect to VAT needs procedural simplifications and execution of the refund facility through a separate counter. There is also a need to publicize this facility.
- **Effectively promoting travel packages and extending air connections with other major markets:** Given the relationship of shopping with tourism in general, promotion of travel packages is essential. This should be supported by developing necessary infrastructures and better services in the country so as to bring in a higher number of tourists, thereby supporting shopping tourism indirectly.

- **Controlling quality:** Departmental stores and supermarkets need to sell genuine products to ensure customer satisfaction. It is necessary to develop guidelines for maintaining fair price and quality and other necessary services to customers.
- **Opening retail outlets in border towns:** Retail outlets could be opened in border towns to cater to Indian tourists residing across the border so as to promote shopping tourism outside Kathmandu as well.
- **Establishing a single major outlet for jewellery, ornaments and gems:** Gold ornaments and gems are high-end products, but both demand a high degree of consumer trust and market regulation. Guarantee of quality and organized trading practices could boost this sector tremendously. A single major outlet for jewellery, ornaments and gems, ensuring quality, international standard and choices, could offer huge potential to tap the high-end retail market.
- **Developing high-value products in the handicraft sector:** Nepal must now strive to develop some unique high-value and high-quality handicraft items and explore new markets of such products. The products must reflect the choices and wants of the tourists, especially Indians, who have proven to be regular customers of such products. Nevertheless, there must be some provisions to guarantee quality—for example, quality certification and labelling.
- **Coordinated approach for promotion of shopping tourism:** Coordination between the Nepal Tourism Board (NTB), the Federation of Handicraft Associations of Nepal (FHAN) and organizations operating outlets that especially target tourists is necessary for supporting shopping tourism in the country. For instance, the existing vacant area on the NTB premises in Kathmandu can be utilized for establishing fair-price handicraft outlets, as proposed in the FGD. Another idea could be providing shopping vouchers to tourists through airlines, hotels or tourism-related magazines distributed in airlines and hotels.

PART III

SUMMARY AND CONCLUSION

Summary and conclusion

The diagnostic study examined Nepal's export potential in three services sectors, namely, education services; health services; and high-end retail services. Looking at each of the three service sectors from three separate perspectives suggests that the country has comparative advantages for the export of these services.

The study has shown that Nepal's potential for education services exports is derived from factors such as pleasant environment, low cost of living, cultural and religious affinity, and ease of FDI and movement of persons.

Likewise, good quality and comparatively low cost of services are the predominant reasons why foreign health consumers choose Nepalese institutions. Patients are generally found to be satisfied with the existing fee structure for health services, and all of them are satisfied with the quality of services. Nepal has good potential for exporting health services, particularly to neighbouring countries, via Mode 2. Ophthalmology, paediatrics and gynaecology services are found to have the potential to attract a greater number of foreign patients as compared to other health services.

The study has also found that tourists who visit Nepal for leisure and recreation are also engaged in shopping of both modern products and indigenous items. Nepal's open import policy, low customs tariff, cheap and idle labour and relatively cheap accommodation rates can also help develop the country into an attractive shopping destination. Given Nepal's potential in tourism and the high tariff rates on HEPs prevailing in India, the increasingly affluent Indian middle-class can potentially be major customers of Nepal's retail shopping outlets.

Despite these comparative advantages, the study results point to the nation's export potential not being fully harnessed due to sector-specific constraints and disincentives. To address those disincentives, each service study puts forward recommendations for enhancing the respective competitive advantage for services export.

The diagnostic study on educational services finds that Nepal has a comparative advantage for educational services exports. The study identifies lack of quality control; price discrimination; language barriers; poor infrastructure; insecurity; and insufficient marketing as competitive disadvantages to the nation. In other words, despite having a comparative advantage for trade in educational services, there is a lack of competitive advantage which prevents Nepal from maximizing the benefits presented by the trade potential. The study recommends to: enhance marketing and economic diplomacy; improve domestic educational quality; provide Nepali language training to foreign students; upgrade infrastructure and facilitate accreditation; strengthen security; and implement liberalization commitments.

The diagnostic study on health services finds that Nepal has a comparative advantage for health service export. The disincentives to exports identified by the study include underdeveloped IT-related infrastructure, lack of appropriate information channels, lack of coordination between public and private institutions, the limited choice of services offered by service providers, high government intervention relative to other consumption goods-producing industries, and continued domestic political instability. The study recommends to: encourage

greater involvement of the private sector; have facility differentiation along with cost differentiation; promote specialty services; build information channels; promote unique treatment system; assure service quality; attract FDI for human resource development; integrate health services with the tourism industry; have management tie-ups and network expansions; enhance effective implementation of policy and regulatory provisions; and enter into mutual recognition agreements with major trade partners.

The diagnostic study on HERS finds that Nepal has a comparative advantage for HERS trade. The study identifies the following disincentives to HERS trade: poor image of TIA; lack of adequate information on shopping destinations; overcharging; insufficient amount of indigenous products in department stores and malls; inadequacy of qualified and trained sales persons in stores; and fake products. These constitute a competitive disadvantage to the nation. To address these disadvantages, the study recommends to: enhance the image of TIA; more effectively disseminate shopping information to tourists; set-up duty-free shopping complexes; develop an effective mechanism for VAT refund; promote travel packages; develop outlets to foster shopping culture; build specialized outlets for jewellery, ornaments and gems, and ensure quality control; produce high-value products in the handicraft sector; and adopt a coordinated approach towards promotion of shopping tourism.

The disincentives in the three service sectors share many common strands. Because of their commonalities and therefore overlap, the disincentives can be put into three broad groupings:

- **Lack of coordinated effort:** Lack of coordinated effort largely occurs in the public sector due to confusion regarding the definition and scope of services. For example, is Mode 2 trade in health services under the purview of GON's Ministry of Health and Population or that of Ministry of Culture, Tourism and Civil Aviation? A similar situation occurs in the case of trade in education and HERS. Clarity in determining which body is responsible for regulation, monitoring and supervision of services export is essential to facilitate effective coordination. It is also important to point out that there is lack of coordination also between the public and private sector.
- **Poor infrastructure for trade in services:** Presently, there is poor infrastructure for trade in services. For example, the existing infrastructure is inadequate for fully utilizing the potential for Mode 1 supply of services, while the absence of adequate physical facilities, such as at TIA, hampers trade through Mode 2. The poor quality of infrastructure is an impediment to the flow of services trade.
- **Unfriendly business environment:** This disincentive touches on trade facilitation issues, which is exacerbated by the present political instability. There is also security concern (pointed out in all the FGDs), which is a big deterrent to doing business in the nation.

These three groupings of disincentives point to a major shortcoming with the present understanding of trade: compartmentalization of service components. On the contrary, trade has to be understood as a comprehensive process, from start to conclusion, which involves a number of distinct actors. The acknowledgement that trade is a process would address the issue of coordination among relevant stakeholders, development of essential infrastructure and enhancement of the business environment. This would entail development of a comprehensive trade policy whose starting point can be taken from the existing Trade Policy 1992. Such activities will ensure the full participation of all sectors of the economy leading to high rates of economic growth.

It is also important to highlight the beneficial effect of Mode 3, i.e., FDI inflow. The impact of FDI inflow has many externalities which can also increase service exports through other modes of supply. While GON has recognized the importance of attracting FDI, there are many stumbling blocks, such as effectively implementing the Foreign Investment and One Window Policy. It is also important that any activity in this regard should be harmonized with WTO's Agreement on Trade-Related Investment Measures.

We would also put forward three concluding observations:

- First, GON has an important role to minimize the unequal effects of trade—e.g., between the traded and non-traded sectors. These unequal effects magnify inequality, which exacerbate and magnify social tension. In this regard, the role of GON is important to minimize these effects. This may be through regulation or development of a compensatory mechanism, with transfers from the beneficiaries of trade to the non-beneficiaries, etc. While the presence of GON during this period is necessary, the specific and time varying role of GON is an area of future study.
- Second, the report is biased towards the existing trade relations. For example, the study is influenced by the existing southward focus of trade. However, history shows that Nepal largely functioned as an entrepot of trade between the southern region (what is presently South Asia) and the northern region (what is presently PRC). In this regard we feel that future trade perspective should also have a northward focus. Such perspective will harness the nation's ideal location between the growing economic giants, India and PRC.
- Lastly, the study focuses on international trade on services; however, it misses out on the potential for internal trade in services. This is an important component given the trend for reorganizing the state along the lines of a federal structure. Thus an important agenda for future research is to examine the modalities to facilitate internal trade. Also, though the study focuses on formal education, the FGD indicated that Nepal has potential to export technical and vocational education also. This is an area for further research.

Despite all these recommendations, the end result largely depends on political factors. The absence of political stability carries over to policy instability, which limits the possibility to capture and harness the nation's export potential. Thus a prerequisite for realizing the country's inherent potential in these services' exports is attaining stability. In this way the nation's potential will be harnessed for spurting economic growth in the new Federal Democratic Republic of Nepal.

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Appendixes

Appendix 2.1: Services sectoral classification list

<u>SECTORS AND SUB-SECTORS</u>	<u>CORRESPONDING CPC</u>
1. <u>BUSINESS SERVICES</u>	<u>Section B</u>
A. <u>Professional Services</u>	
a. Legal Services	861
b. Accounting, auditing and bookkeeping services	
c. Taxation Services	863
d. Architectural services	8671
e. Engineering services	8672
f. Integrated engineering services	8673
g. Urban planning and landscape architectural services	8674
h. Medical and dental services	9312
i. Veterinary services	932
j. Services provided by midwives, nurses, physiotherapists and para-medical personnel	
k. Other	
B. <u>Computer and Related Services</u>	
a. Consultancy services related to the installation of computer hardware	841
b. Software implementation services	842
c. Data processing services	843
d. Data base services	844
e. Other	
C. <u>Research and Development Services</u>	
a. R&D services on natural sciences	851
b. R&D services on social sciences and humanities	
c. Interdisciplinary R&D services	853
D. <u>Real Estate Services</u>	
a. Involving own or leased property	821
b. On a fee or contract basis	822
E. <u>Rental/Leasing Services without Operators</u>	
a. Relating to ships	83103
b. Relating to aircraft	83104
c. Relating to other transport equipment	83101+83102+83105
d. Relating to other machinery and equipment	

e.	Other	
F.	<u>Other Business Services</u>	
a.	Advertising services	871
b.	Market research and public opinion polling services	864
c.	Management consulting service	865
d.	Services related to man. consulting	866
e.	Technical testing and analysis serv.	8676
f.	Services incidental to agriculture, hunting and forestry	
g.	Services incidental to fishing	882
h.	Services incidental to mining	883+5115
i.	Services incidental to manufacturing	884+885
j.	Services incidental to energy distribution	887
k.	Placement and supply services of Personnel	
l.	Investigation and security	873
m.	Related scientific and technical consulting services	
n.	Maintenance and repair of equipment (not including maritime vessels, aircraft or other transport equipment)	633+ 8861-8866
o.	Building-cleaning services	874
p.	Photographic services	875
q.	Packaging services	876
r.	Printing, publishing	88442
s.	Convention services	87909*
t.	Other	
2.	<u>COMMUNICATION SERVICES</u>	
A.	<u>Postal services</u>	7511
B.	<u>Courier services</u>	7512
C.	<u>Telecommunication services</u>	
a.	Voice telephone services	7521
b.	Packet-switched data transmission services	
c.	Circuit-switched data transmission services	
d.	Telex services	7523**
e.	Telegraph services	7522
f.	Facsimile services	7521**+7529**

The () indicates that the service specified is a component of a more aggregated CPC item specified elsewhere in this classification list.

** The (**) indicates that the service specified constitutes only a part of the total range of activities covered by the CPC concordance (e.g. voice mail is only a component of CPC item 7523).

g.	Private leased circuit services	7522**+7523**
h.	Electronic mail	7523**
i.	Voice mail	7523**
j.	On-line information and data base retrieval	
k.	electronic data interchange (EDI)	7523**
l.	enhanced/value-added facsimile services, incl. store and forward, store and retrieve	
m.	code and protocol conversion	n.a.
n.	on-line information and/or data processing (incl. transaction processing)	843**
o.	other	

D. Audiovisual services

a.	Motion picture and video tape production and distribution services	
b.	Motion picture projection service	9612
c.	Radio and television services	9613
d.	Radio and television transmission services	
e.	Sound recording	n.a.
f.	Other	

E. Other

3. CONSTRUCTION AND RELATED ENGINEERING SERVICES

A.	<u>General construction work for buildings</u>	512
B.	<u>General construction work for civil engineering</u>	
C.	<u>Installation and assembly work</u>	514+516
D.	<u>Building completion and finishing work</u>	517
E.	<u>Other</u>	

4. DISTRIBUTION SERVICES

A.	<u>Commission agents' services</u>	621
B.	<u>Wholesale trade services</u>	622
C.	<u>Retailing services</u>	631+632
D.	<u>Franchising</u>	8929

E.	<u>Other</u>	
5.	<u>EDUCATIONAL SERVICES</u>	
A.	<u>Primary education services</u>	921
B.	<u>Secondary education services</u>	922
C.	<u>Higher education services</u>	923
D.	<u>Adult education</u>	924
E.	<u>Other education services</u>	929
6.	<u>ENVIRONMENTAL SERVICES</u>	
A.	<u>Sewage services</u>	9401
B.	<u>Refuse disposal services</u>	9402
C.	<u>Sanitation and similar services</u>	9403
D.	<u>Other</u>	
7.	<u>FINANCIAL SERVICES</u>	
A.	<u>All insurance and insurance-related services</u>	
a.	Life, accident and health insurance services	
b.	Non-life insurance services	8129
c.	Reinsurance and retrocession	81299*
d.	Services auxiliary to insurance (including broking and agency services)	8140
B.	<u>Banking and other financial services</u> (excl. insurance)	
a.	Acceptance of deposits and other repayable funds from the public	
b.	Lending of all types, incl., inter alia, consumer credit, mortgage credit, factoring and financing of commercial transaction	
c.	Financial leasing	8112
d.	All payment and money transmission services	
e.	Guarantees and commitments	81199**
f.	Trading for own account or for account of customers, whether on an exchange, in an over-the-counter market or otherwise, the following:	

	- money market instruments (cheques, bills, certificate of deposits, etc.)	
	- foreign exchange	81333
	- derivative products incl., but not limited to, futures and options	
	- exchange rate and interest rate instruments, inclu. products such as swaps, forward rate agreements, etc.	
	- transferable securities	81321*
	- other negotiable instruments and financial assets, incl. bullion	
g.	Participation in issues of all kinds of securities, incl. under-writing and placement as agent (whether publicly or privately) and provision of service related to such issues	8132
h.	Money broking management, all forms of collective investment management, pension fund management, custodial depository and trust services	81339** i. 81323*
j.	Settlement and clearing services for financial assets, incl. securities, derivative products, and other negotiable instruments	or
k.	Advisory and other auxiliary financial services on all the activities listed in Article 1B of MTN.TNC/W/50, incl. credit reference and analysis, investment and portfolio research and advice, advice on acquisitions and on corporate restructuring and strategy	8131 or 8133
l.	Provision and transfer of financial information, and financial data processing and related software by providers of other financial services	
C.	<u>Other</u>	
8.	<u>HEALTH RELATED AND SOCIAL SERVICES</u> (other than those listed under 1.A.h-j.)	
A.	<u>Hospital services</u>	9311
B.	<u>Other Human Health Services</u>	9319 (other than 93191)
C.	<u>Social Services</u>	933
D.	<u>Other</u>	

9.	<u>TOURISM AND TRAVEL RELATED SERVICES</u>	
A.	<u>Hotels and restaurants (incl. catering)</u>	641-643
B.	<u>Travel agencies and tour operators services</u>	
C.	<u>Tourist guides services</u>	7472
D.	<u>Other</u>	
10.	<u>RECREATIONAL, CULTURAL AND SPORTING SERVICES</u> (other than audiovisual services)	
A.	<u>Entertainment services</u> (including theatre, live bands and circus services)	9619
B.	<u>News agency services</u>	962
C.	<u>Libraries, archives, museums and other cultural services</u>	963
D.	<u>Sporting and other recreational services</u>	964
E.	<u>Other</u>	
11.	<u>TRANSPORT SERVICES</u>	
A.	<u>Maritime Transport Services</u>	
a.	Passenger transportation	7211
b.	Freight transportation	7212
c.	Rental of vessels with crew	7213
d.	Maintenance and repair of vessels	8868**
e.	Pushing and towing services	7214
f.	Supporting services for maritime transport	
B.	<u>Internal Waterways Transport</u>	
a.	Passenger transportation	7221
b.	Freight transportation	7222
c.	Rental of vessels with crew	7223
d.	Maintenance and repair of vessels	8868**
e.	Pushing and towing services	7224
f.	Supporting services for internal waterway transport	745**
C.	<u>Air Transport Services</u>	
a.	Passenger transportation	731

b.	Freight transportation	732
c.	Rental of aircraft with crew	734
d.	Maintenance and repair of aircraft	8868**
e.	Supporting services for air transport	746
D.	<u>Space Transport</u>	733
E.	<u>Rail Transport Services</u>	
a.	Passenger transportation	7111
b.	Freight transportation	7112
c.	Pushing and towing services	7113
d.	Maintenance and repair of rail transport equipment	
e.	Supporting services for rail transport services	
F.	<u>Road Transport Services</u>	
a.	Passenger transportation	7121+7122
b.	Freight transportation	7123
c.	Rental of commercial vehicles with operator	
d.	Maintenance and repair of road transport equipment	6112+8867
e.	Supporting services for road transport services	
G.	<u>Pipeline Transport</u>	
a.	Transportation of fuels	7131
b.	Transportation of other goods	7139
H.	<u>Services auxiliary to all modes of transport</u>	
a.	Cargo-handling services	741
b.	Storage and warehouse services	742
c.	Freight transport agency services	748
d.	Other	
I.	<u>Other Transport Services</u>	
12.	<u>OTHER SERVICES NOT INCLUDED ELSEWHERE</u>	

(Source: WTO 1991)

Appendix 2.2: Mode of supply and its future potential for health, education and retail services

Mode of Supply	Definition	Service Sector	Some Relevant Examples in Respective Services	Size of Global Market*	Future Market Potential*
Mode 1: Cross-border supply	Provision of service trade where services cross the border	Health	E- Health	Relatively small	Increasing due to IT advancement
		Education	Correspondence college, online universities and other e-learning	Relatively small	Increasing due to IT advancement but the potential of correspondence college is decreasing
		Retail Services	Online shopping and postal purchases	Relatively small	Increasing due to IT advancement and change in consumers' shopping behavior
Mode 2: Consumption abroad	Provision of service trade in which consumer moves to the supplier country	Health	Patients using hospital in foreign land	Relatively high market share	
		Education	Studying abroad	Relatively high market share	Shifting from traditional leading exporter (US) to new emerging nations (Australia)
		Retail Services	Tourism shopping and tourism promotion through shopping fair	Relatively high market share	Increasing due to the rise in tourist flow
Mode 3: Commercial presence	Provision of establishment of commercial entity in another country to render service	Health	Establishment of foreign hospital	Growing interest	Increasing in emerging economies and LDC due to significant FDI flow from developed economies
		Education	Establishment of foreign universities	Growing interest	Increasing in emerging economies and LDCs due to significant FDI flow from developed economies
		Retail Services	Establishment of foreign shopping chains	Growing interest	
Mode 4: Presence of natural person	Provision of person traveling to another country on temporary basis to provide service	Health	Doctor performing surgery in foreign land	Relatively small	
		Education	Visiting lecture	Relatively small	Increasing due to emphasis on mobility of professionals
		Retail Services	Door-to-door marketing in foreign land	Relatively small	Decreasing due to the rise in IT

Appendix 5.1: Universities and deemed universities of Nepal

Name of University/ Deemed University	Year of Establishment	Faulty, School and Technical Institutions	Number of Affiliated Campuses	District Location of Central Office
Tribhuvan University	1959	Faculty of Education Faculty of Humanities and Social Science Faculty of Law Faculty of Management Institution of Medical Science Institution of Science and Technology Institution of Engineering Institution of Forestry Institution of Agriculture and Animal Science	460	Kathmandu
Nepal Sanskrit University	1986	Faculty of Education Faculty of Science (Ayurved) Faculty of Sanskrit	29	Dang
Kathmandu University	1991	School of Medical Science School of Science School of Engineering School of Education School of Management School of Arts	17	Kavre
Purbancal University	1993	Faculty of Education Faculty of Humanities and Social Science Faculty of Law Faculty of Management Faculty of Engineering Faculty of Science and Technology Faculty of Agriculture	89	Morang
Pokhara University	1996	Faculty of Humanities and Social Science Faculty of Management Faculty of Engineering Faculty of Science and Technology	26	Kaski
Lumbini Bouddha University	2005	Not functional yet		Kapilvastu
B P Koirala Health Science Academy		Deemed Medical University		Dharan
Medical Science National Academy(Bir Hospital)		Deemed Medical University		Kathmandu

Source: University Grant Commission

Appendix 5.2: Questionnaire for foreign students studying in Nepal

Name of interviewer:

Name of supervisor:

Serial No. of questionnaire:

Name of education service provider:

1. General information about the student:

- 1.1 Name of the student:.....
- 1.2 Address: Country..... State: Village/ City.....
- 1.3 Age: years
- 1.4 Sex: a) Male b) Female c) Don't know
- 1.5 Education (years of schooling)
- 1.6 How many persons accompanied you?..... persons
- 1.7 Main occupation of individual or household (please circle any one):
 - (a) Service (in government or private, NGO, INGO etc)
 - (b) Industry
 - (c) Business
 - (d) Study
 - (e) Manual labour
 - (f) Work in the field (one's own or for wage)
 - (f) Housewife
 - (g) Others (specify)
 - (h) Doing nothing (if child, <15 yrs and old age 59 yrs<)
- 1.8 Level of incomes (please circle one):
 - a) less than IRs. 15000 per month
 - b) IRs. 15000 to 25000 per month
 - c) IRs. 25000 plus

2. Purpose of visit

2.1 What is the primary purpose of visit to Nepal?

- a) Business
- b) Religious
- c) Shopping
- d) Study
- e) Treatment
- f) Adventure
- g) Other (specify).....

2.2 What is the secondary purpose of visit to Nepal?

- a) Business

- b) Religious
- c) Work
- d) Study
- e) Treatment
- f) Adventure
- g) Other (specify).....

3. From what channels did you receive information about educational services available in Nepal? (Multiple answers possible)

- a) Family members
- b) Previous visitors
- c) Referral from local service providers
- d) Internet/newspapers/ magazine
- e) Random visit
- f) Other (specify).....

4. What are the reasons for selecting institution? (Multiple answers possible)

- (a) Quality of services (perceived quality of services)
- (b) Faith in the provider
- (c) Suggested by previous visitors
- (d) Cheaper than other providers
- (e) Lower total cost of receiving services (including price of services, transportation and cost of living)
- (f) Other (specify).....

4.1 If multiple reasons, please rank them (I, II, III, IV,...)

- (a) Quality of services (perceived quality of services) (.....)
- (b) Faith in the provider (.....)
- (c) Suggested by previous visitors (.....)
- (d) Cheaper than other providers (.....)
- (e) Lower total cost of receiving services (including price of services, transportation and cost of living) (.....)
- (f) Other (specify)..... (.....)

5. Costs of consumed educational services

Categories	Tuition fees	Cost of transportation in Nepal	Cost of living per month	Other costs (including expenses for secondary purpose)	Expected total cost
NRs.					

6. Was your expectation met by the institution?

- a) Yes
- b) No

7. How do you rate the total quality of this institution?

- a) Higher
- b) Moderate
- c) Lower

8. Did you face any problems when receiving educational services in the institution?

- a) Yes
- b) No

9. If yes, what are the problems?

- a) Language problem
- b) Discrimination in dealing to Nepali and Non-Nepali people
- c) Price discrimination between Nepali and Non-Nepali people
- d) Other (specify).....

10. Did you face any problems when obtaining the educational services outside the institution?

- a) Yes
- b) No

11. If yes, what are the problems?

- a) Security problems
- b) Discrimination between Nepalese and non-Nepalese in transportation facilities
- c) Other (specify).....

12. Does the educational institution in Nepal you are currently studying in recognize your previous certificate?

- a) Yes
- b) No

13 If no, which certificate is not recognized?

.....

14. What provision has your present educational institution in Nepal made to make such certificate recognized?

12. Do you want to come again to obtain education services from this institution?

- a) Yes
- b) No

13. Do you suggest other people to come to Nepal to receive this educational service?

- a) Yes
- b) No

14. Do you have any suggestions to improve the services for non-Nepalese students?

.....
.....
.....

Appendix 5.3: In-depth interview with educational service providers

Name of the interviewer:

Name of supervisor:

Serial No. of questionnaire:

Name of institution:

1. General information about the institution:

- 1.1 Name of the respondent:.....
- 1.2 Number of years the institution has been providing services:.....
- 1.3 For how long has the institution been providing services to non-Nepalese people
.....years
- 1.4 How many professional staffs are there in your institution?
..... persons

2. Trend of non-Nepalese seeking admission in the institution (please provide at least last three years' data. If it is possible to get more than three years' data, please provide them in a separate sheet of paper)

Year	2005	2006	2007	
No. of people sitting for entrance examination in the institution				

3. What are your special qualities that attracted non-Nepalese students to the institution? (Multiple answers possible)

- (a) Quality of services (perceived quality of services)
- (b) Faith in the provider
- (c) Suggested by previous visitors
- (d) Cheaper than other providers
- (e) Lower total cost of receiving services (including price of services, transportation and cost of living)
- (f) Other factors (other than related to this institution such as shopping, excursion, climate, etc.)
- (g) Other (specify).....

3.1 If multiple reasons, please rank them (I, II, III, IV...)

- (a) Quality of services (perceived quality of services) (.....)
- (b) Faith in the provider (.....)
- (c) Suggested by previous visitors (.....)

- (d) Cheaper than other providers (.....)
- (e) Lower total cost of receiving services (including price of services, transportation and cost of living) (.....)
- (f) Other factors (other than related this institution such as shopping, excursion, climate etc) (.....)
- (g) Other (specify)..... (.....)

4 Average costs of educational services

Categories	Tuition fees	Cost of transportation in Nepal	Cost of living in Nepal	Other costs (specify)	Expected total cost when completing degree
NRs.					

5. Do have any targeted programme to attract non-Nepalese to your institution?

.....

6. Did you face any problems when providing educational services to non-Nepali people?

- a) Yes
- b) no

8. If yes, what were the problems?

.....

9. What are the barriers/difficulties (supply constraints) to increase the numbers of visitors to receive the education services?

.....

10. What are the barriers/ difficulties to improve the quality of education services?

.....

11. Do you have any suggestions to improve the education services for non-Nepalese consumers?

.....

.....

.....

Please discuss with education service providers to obtain further information related to export potentiality of the services

.....

.....

.....

Appendix 5.4: List of people interviewed on education

The study team met with the following educationists, policy makers and stakeholders for an in-depth interview on Nepal's education trade.

1. Dr. Hemang Dixit, Principal, Kathmandu Medical College
2. Dr. Shekhar Babu Rizal, Principal, Nepal Medical College
3. Mr. Hridaya Bajracharya, Chairman, University Grant Commission
4. Mr. Sailendra Sigdel, Research Officer (Education), Save the Children – US
5. Mr. Suman Nanda Vaidya, Campus Chief, Institution of Engineering, TU
6. Dr. Bhuban Bajra Bajracharya, Economist, Kathmandu
7. Mr. B.N. Sharma, ex-official, PABSON
8. Mr. Dharmendra Shakya, ex-official, PABSON
9. Ms. Reeta Malla, Administrator, Centre for International Relations, TU
10. Mr. Pradimna Adhikari, Chief, TU – Vice Chancellor's Office
11. Mr. Kali Prasad Roshiyara, International Student Officer, PG Department, TUTH
12. Mr. Kalinath Adhikari, International Student Division, Institution of International Language, TU
13. Mr. Saroj Shakya, Vice Principal, National College of Information Technology
14. Mr. Kumar Pant, Chief, Exam Division, Kathmandu Medical College
15. Mr. Hari Prasad Tripathi, Chief Administrator, Nepal Medical College

Appendix 5.5: FGD on Nepal's education export potential

The FGD on Nepal's educational export potential was held on 9 May 2008 in Kathmandu. It was attended by owners of private educational institutions, government officials from the Ministry of Education, education experts, SAWTEE officials, the coordinator of this study and the education consultant to this study (Table 1).

Table 1: Participants of FGD

	Name	Institution/Designation
1	Mr. Dinesh Shrestha	Nepalgunj Medical College
2	Dr. Bijay KC	South Asian Institute of Management
3	Mr. Dilli Ram Rimal	Ministry of Education
4	Dr. Durga Lal Shrestha	Associate Proferssor, CEDA, TU
5	Dr. Shailendra Sigdel	Save the Children US (formerly, an official at Ministry of Education)
6	Mr. Sameer Thapa	Silver Mountain Hotel Management College
7	Mr. Santosh Sharma	Nepal Music Centre
8	Mr. Navin Dahal	Executive Director, SAWTEE
9	Dr. Nephil Matangi Maskay	Study Coordinator
10	Mr. Rojan Bajracharya	Education Consultant

Before presenting the main conclusions of the FGD regarding export potential and problems in realizing the potential, it must be noted that some participants in the discussion raised the issue that education should not be treated like merchandise and that the welfare implications of liberalizing trade in education—including the possible rise in the overall cost of education in the country and the adverse impact on the poor's access to education—should be also considered.

Potential

- Nepal has the potential to export formal education services due to cheap tuition fee, economic cost of living, location, natural beauty and friendly nature of the Nepalese people.
- Nepal has export potential in technical and vocational education. There is high demand for technical workers like plumbers, nurses and other blue color technical personnel in Indian states bordering Nepal which do not have a sufficient number of institutions offering such education. Nepal can export such education services to India.
- Nepal also has export potential in its traditional music, folk dances and traditional culture.

Disincentives/recommendations

- Lack of clear policy of GON is a major constraint to exploiting the potential. Changes in government policies due to the changes in government hurt the business environment of the country. The government has not formulated any concrete policy on education export. GON lacks a clear monitoring procedure and powerful bodies to supervise educational institutions; this has led to problems in certificate accreditation and punishing bad educational institutions.

- Political instability and deteriorating security situation are damaging the business environment of the country and thus deterring private and foreign investment.
- Nepal should improve its educational quality in order to enhance education exports in the long term. It may lose whatever foreign students it currently has if the quality is not improved.
- GON should have a clear vision on improving educational quality and such vision should not change with changes in government.
- Visa regime should be relaxed for students.
- Educational infrastructure should be improved and, given the country's financial constraints, foreign investment should be tapped towards that end.
- Affiliations with foreign institutions would enhance export potential.
- The export potential in the area of traditional music and folk dances is constrained by a lack of formal education in this field. There is a need to develop curriculum, faculties and infrastructure to start formal education of music, folk dances and traditional culture.
- As regards distance learning, infrastructure needs to be developed significantly to be able to export via Mode 1.
- Nepal should gradually liberalize its education sector by strengthening the government's institutional capacity of monitoring and supervision.

Appendix 6.1: Consumers' flow in selected health service providers

Selection of health service providers: Multistage sampling procedures have been employed to select the healthcare providers that export health services through Mode 2. The Eastern and Central regions are purposively selected where health service providers are found to be concentrated from available information, as shown in Table 6.1 (Chapter 6). The four categories—government hospitals, teaching hospitals, private or non-government hospitals and eye hospitals—represent diversified health services and at least one institution is selected from each category on the basis of availability of specialized and diversified health services. In addition to this, the list of possible institutions that export health services was developed from formal and informal information. The institutions that have only primary healthcare services, have no specialized health services, do not have at least five years of experience in supplying health services, and have no data record system were not selected in this study. Based on these criteria, five medical institutions were selected from the Central region: Tribhuvan University Teaching Hospital, Patan Hospital, Tilganga Eye Centre, Norvic Hospital and Bir Hospital. Similarly, five medical institutions were selected from the Eastern region: BP Koirala Institute of Health Sciences (BPKIHS), Koshi Zonal Hospital, Birat Nursing Home, Ramlal Golchha Eye Hospital, and Biratnagar Eye Hospital (a branch of Lahan Eye Hospital).

A format that demands at least three years' time series data of flow of health service consumers to Nepal from abroad was designed to collect information from each selected institution. First, the researchers contacted the heads of the institutions or go through medical records to collect the primary information on whether the consumers are registered by nationality or not and whether the flow of consumers is significant or not. Based on the information collected from the medical records or the heads of the institutions, the researchers decided whether further consultation was fruitful or not for the purpose of the study. If the required data were not available or there was no categorization by nationality due to a non-significant number of consumers, the institutions were not considered in the sampling without replacement method because of time and financial constraints. All other preliminarily selected healthcare providers from the Central region except Tilganga Eye Centre were not included as a sample institution for the study because of either irregular and non-significant flow of consumers from abroad or lack of valid records of exports of health services from the institutions. Eventually, Tilganga Eye Centre, BPKIHS, Koshi Zonal Hospital, Birat Nursing Home, Ramlal Golchha Eye Hospital, and Biratnagar Eye Hospital were included in the sample of healthcare providers.

BP Koirala Institute of Health Sciences (BPKIHS): BPKIHS is a teaching hospital type of health service provider that offers diverse health services. Almost 5 percent of total visitors to this institution are from India. Table 6.1.1 suggests that BPKIHS is exporting almost 5 percent of its total services in a year. About 50 percent of ophthalmology services are exported to India. The head of the hospital informed that the services are provided at affordable cost to the consumer. There is no price discrimination in the provision of the same services to Nepalese and Indian citizens. The registration fee for outpatient services per visit is NRs. 40. The admission charge for inpatient services is NRs. 200. Costs of pathology test, operation and other services are determined by the level of services consumed. Food for admitted patients is provided by the hospital. A patient admitted to the hospital for up to five days spends on an average NRs. 5,000. Almost 30,000 consumers are admitted to this provider to consume all types of health services.

Table 6.1.1: Outpatient service consumers at BPKIHS

Year	Indian consumers	Nepali consumers	Total consumers	% of Indian consumers
2005	9,019	169,954	179,012	5.0
2006	9,775	182,916	192,695	5.1
2007	6,644	184,721	191,371	3.5

Source: BPKIHS

The provider does not have any specific strategies to increase exports of its services. However, quality of services and affordable price motivate the foreigners to consume health services in this institution. The manager of the hospital said: "The quality of our health services, the devotion of our qualified staff and affordable price [lower price compared to Indian providers] are the major factors that attract foreigners to this provider." He adds that "there is no disincentive and barrier to exporting health services, although too expensive health technologies limit the possible expansion of services."

Table 6.1.2: Inpatient service consumers at BPKIHS

SN	Service type	% consumers of health services from India		
		2005	2006	2007
1	Antenatal	0.4	1.2	0.7
2	Gynaecology	1.7	1.6	0.6
3	Postnatal	1.0	0.8	0.9
4	General Medicine	3.5	2.8	2.7
5	Ophthalmology	52.5	52.9	44.5
6	Orthopedics	3.7	2.8	1.6
7	Otolaryngology	6.9	6.6	4.3
8	Paediatrics	2.2	3.0	2.5
9	Psychiatry	4.8	5.6	3.0
10	Surgery	2.6	3.2	2.2
11	Tropical Disease	0.7	2.2	2.6
	Total	5.5	5.3	3.6

Source: BPKIHS.

* Indian consumers as a percentage of total consumers of all health services

Birat Nursing Home: Birat Nursing Home is one of the leading private healthcare providers in Biratnagar. The manager informed that the nursing home provides outpatient, inpatient and diagnostic services; however, data on diagnostic service users are not recorded. Almost 40 percent of the consumers come from India to receive pathology test at this nursing home. Table 6.1.3 shows the trend of exporting health service by the nursing home.

Table 6.1.3: Percentage of Indian consumers at Birat Nursing Home

S N	Service type	Outpatient services	Inpatient services 2064				Total
		FY 2062/63	Bhadra	Kartik	Mangsir	Paush	
1	Gynecology	3.8	8.0	9.5	5.3	7.6	7.8
2	Orthopedic	6.0	0.0	0.0	0.0	0.0	0.0
3	General Surgery	7.1	1.1	2.0	1.2	2.7	1.8
4	General Medicine	8.7	3.6	2.8	3.6	4.1	3.5
5	Paediatrics	7.0	11.2	11.1	10.2	9.6	10.5
6	Cardiology	2.1	0.0	2.5	0.0	0.0	1.6
7	Dentistry	5.0	na	na	na	na	na

8	Urology	6.3	0.0	5.3	0.0	4.2	1.9
9	Neurology	8.1	na	na	na	na	na
	Total*	6.5	5.3	6.5	4.6	6.0	5.6

Source: Birat Nursing Home

* Indian consumers as a percentage of total consumers of all health services

The manager pointed out that the consumers with low and middle income levels are coming to consume the services in this nursing home; however, it has the target of attracting high-income consumers by expanding the choice of services, particularly pathology and diagnostic tests. He added: “We are competing with healthcare providers in Kathmandu as well as in Garbhanga and Patna [India]. People think not only in terms of prices and quality, but also choices of services.” Quality of services, relatively lower price (including transportation cost) and timely treatment are major motivational factors for Indian consumers to visit Nepalese healthcare providers. The nursing home has adopted some strategies to attract Indian consumers such as advertising in Indian culture programmes, health camps and mass media. Similarly, almost 200 health networking centres are established in Indian communities to develop a referral network. The problems of expanding services are the complicated and time consuming administrative procedures for all types of health services. Lack of specialized human resources in local area is one of major obstacles to expanding the range of services on offer. (Public-private partnership and coordination may solve this problem.)

Koshi Zonal Hospital: Koshi Zonal Hospital is one of oldest public hospitals in Nepal. This provider has supplied more than 10 diversified services to consumers at affordable prices. On an average, 150,000 individuals annually consult this hospital as outpatient services consumers. Ten percent of them are from India, as informed by the head of the hospital. There isn't any type of discrimination between Nepalese and non-Nepalese consumers in this provider. However, Indian patients coming with their relatives who live in Nepal put an address in Nepal in their prescription notes. Consequently, recorded data grossly underestimate exports of health services from this institution. The recorded data for inpatient services reveal that almost 2 percent of total services are exported. This provider supplies services at subsidized rates, which are cheaper than the market price.

Table 6.1.4: Inpatient services in Koshi Zonal Hospital

SN	Services	% of health service consumers from India		
		FY 2062/63	FY 2063/64	FY 2064/65 up to Paush
1	ENT	0.92	1.97	3.77
2	Eye	1.08	0.00	0.00
3	Gynaecology	1.76	1.61	2.88
4	Intensive Care Unit	1.49	0.00	0.63
5	Medical	0.45	0.57	0.52
6	Observation	1.52	1.91	1.64
7	Obstetric	1.40	1.20	1.38
8	Orthopedic	0.90	1.01	0.33
9	Paediatrics	2.95	3.38	3.31
10	Psychiatry	0.00	0.00	0.00
11	Surgical	0.61	0.76	0.52
	Total*	1.43	1.47	1.62

Source: Koshi Zonal Hospital

* Indian consumers as a percentage of total consumers of all health services

Ramlal Golchha Eye Hospital (RGEH): RGEH is a non-government hospital that provides specialized services in eye care. In fact, eye hospitals in Nepal are major health service exporters. More than 50 percent of their services are exported in some cases. The major motivating factors for consuming eye care services in Nepal are quality of services and lower prices compared to the Indian market. On an average 10,000 Indians demand outpatient services from this provider every year. Similarly, almost 1,500 consumers demand inpatient services. An individual pays almost NRs. 2,000 for inpatient care.

Table 6.1.5: Indian inpatient eye care service consumers in RGEH (in %)

Months	2005	2006	2007
January	48.89	52.87	68.09
February	55.49	64.26	61.36
March	65.22	64.79	53.28
April	63.82	59.43	65.19
May	53.29	54.22	57.69
June	64.86	59.60	69.29
July	66.94	66.88	69.95
August	59.87	71.24	78.95
September	64.78	76.2	89.63
October	71.30	57.58	86.81
November	62.44	73.76	75.19
December	63.27	61.75	76.66
Total	61.40	63.78	73.47

Source: RGEH

Biratnagar Eye Hospital: This is a branch office of Sagarmatha Eye Hospital, popularly known as Lahan eye hospital, and was opened with the main purpose of attracting Indian consumers.

Table 6.1.6: Biratnagar Eye Hospital (2007)

Nepali consumers		Indian consumers		Total consumers		% of Indian IP consumers
OPD Services	IP Services	OPD Services	IP Services	OPD Services	IP Services	
19,742	3,076	38,681	9,225	58,423	12,301	75.0%

Only one-year data were available in this hospital; there was no system of collecting monthly data.

Tilganga Eye Centre (TEC): TEC is not only a well-established and esteemed institution within the country; it has gained recognition and popularity even in the international arena with its quality services. An administrative staff in the organization says that the services of the Centre are recognized as good even in the competitive international market. This unique eye centre of Nepal (Lak 2003) has gained public popularity since it extended its eye care facility in 1994, and consequently there has been an increasing flow of patients in recent years. Hygiene is crucial because exports of lenses to Australia, Europe, Latin America and other countries provide much of Tilganga's income (Lak 2003). In addition to the six divisions (clinical facility, education and training department, outreach unit, eye bank, manufacturing facility and research unit) incorporated in TEC, it is also the implementing body of the Nepal Eye Programme. The organization says its focus is always on affordability and uncompromised quality. Himalayan Cataract Project (HCP), USA and The Fred

Hollows Foundation (FHF), International are the international partners of the non-profit community organization, which provides subsidized and even free services to consumers. Unlike some eye hospitals in the Tarai belt, TEC has no price discrimination policy for Nepalese and non-Nepalese (based on interview with a TEC administrator).

Table 6.1.7 presents the flow of Nepalese and non-Nepalese patients at TEC. Recorded data show a declining trend of non-Nepalese service consumers but the reality is not so, according to a record keeper at the organization. The reason is that increasing numbers of non-Nepalese patients who visit the institution are mentioning a Nepalese address where their relatives or acquaintances live or where they have been living temporarily. The TEC administration accepts that at present the supply of the services at the institution is limited relative to the demand within the country and hence no specific additional initiatives have been taken for the export of the services. Nevertheless, doctors of the institution frequently visit other countries, mainly in East Asia and South Asia, to provide services, and hence eye care services are exported via Mode 4 as well.

Table 6.1.7: Consumers' flow at Tilganga Eye Centre

Year	Non-Nepalese consumers	Nepalese consumers	Total consumers	% of non-Nepalese consumers
2005	735	114,470	115,205	0.64
2006	612	121,983	122,595	0.50
2007	590	137,054	137,644	0.43

Source: TEC

TEC is also playing a leading role in extending services through outreach programmes; it conducts 51 percent of the total cataract surgeries in Outreach Microsurgical Eye Clinics (OMECS) in Nepal (National Society for Comprehensive Eye Care Monitoring & Evaluation unit, cited in TEC webpage). Further, the Centre assists and supports other institutions inside and outside Nepal to conduct their own outreach programmes through the supply of intraocular lenses and provides professional expertise. The number of OMECS conducted in Nepal and other countries are presented in Table 6.1.8. As per the need, TEC also provides training to surgeons and assistants from other countries and is directly involved in performing operations in an effort to extend services in neighbouring countries.

Table 6.1.8: Summary of Outreach Microsurgical Eye Clinics (OMECS) (1994–2006)

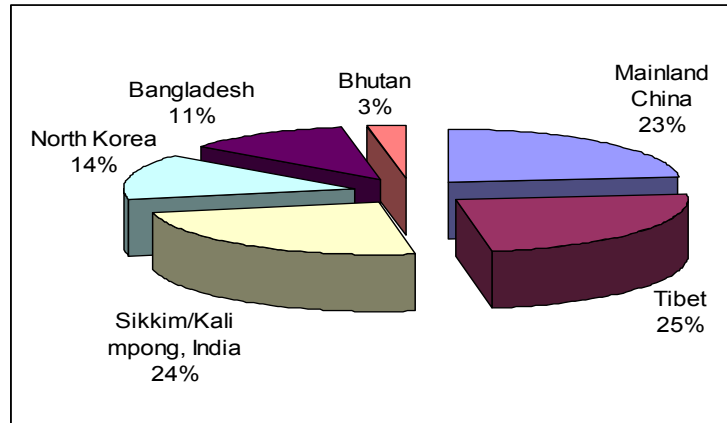
Countries	Number of OMECS	Screened patients	Major surgery	Minor surgery	Total surgery
Mainland China	10	7,964	2,871	31	2,902
Tibet	18	6,483	2,979	23	3,002
Sikkim/Kalimpong, India	10	13,673	2,987	43	3,030
DPR (North) Korea	5	3,693	1,754	1	1,755
Bangladesh	3	3,965	1,398	1	1,399
Bhutan	4	3,667	350	2	352
Nepal	159	277,544	43,978	656	44,634
TOTAL	181	316,989	56,317	757	57,074

Source: TEC

A large percentage of surgeries are done in bordering areas of China and India, namely Tibet and Sikkim/Kalimpong (Figure 6.1.1). The number of surgeries is also

significantly high in North Korea, though it is not economically integrated with Nepal. Similarly, Bangladesh and Bhutan are also benefiting from TEC initiatives to extend services to other countries through OMECs. Financial support for operating these outreach clinics, however, are provided by different donors ranging from individuals to international institutions.

Figure 6.1.1: Surgeries assisted by TEC in other countries



Note: Calculation based on Table 6.1.8.

Appendix 6.2: Questionnaire for health service consumers

1. General information about the consumer:

- 1.9 Name of the consumer:.....
- 1.10 Address : Country..... State: Village/ City.....
- 1.11 Age: years
- 1.12 Sex: a)Male b) Female c) Don't know
- 1.13 Education (years of schooling)
- 1.14 How many persons accompanied you?..... persons
- 1.15 Main occupation of individual or household (please circle any one):
- (a) Service (in government or private, NGO, INGO etc)
 - (b) Industry
 - (c) Business
 - (d) Study
 - (e) Manual labour
 - (f) Work in the field (one's own or for wage)
 - (f) Housewife
 - (g) Others (specify)
 - (h) Doing nothing (if child, <15 yrs and old age 59 yrs<)
- 1.16 Level of incomes (per capita monthly income):
IRs.....

2. Purpose of visit

2.1 What is the primary purpose of visit to Nepal?

- a) Business
- b) Religious
- c) Shopping
- d) Study
- e) Treatment
- f) Adventure
- g) Other (specify).....

2.2 What is secondary purpose of visit to Nepal?

- a) Business
- b) Religious
- c) Shopping
- d) Study
- e) Treatment
- f) Other (specify).....

3. From what channels did you receive information about education services available in Nepal? (Multiple answers possible)

- a) Family members
- b) Previous visitors
- c) Referral from local (Indian) service providers
- d) Internet/ newspapers/ magazine
- e) Random visit
- f) Other (specify).....

4. What are the reasons for visiting this service provider? (Multiple answers possible)

- (a) Quality of services (perceived quality of services)
- (b) Faith in the provider
- (c) Suggested by previous visitors
- (d) Cheaper than other providers
- (e) Lower total cost of receiving services (including price of services, transportation and cost of living)
- (f) Other (specify).....

4.1 If multiple reasons, please rank them (I, II, III, IV,.....)

- (a) Quality of services (perceived quality of services) (.....)
- (b) Faith in the provider (.....)
- (c) Suggested by previous visitors (.....)
- (d) Cheaper than other providers (.....)
- (e) Lower total cost of receiving services (including price of services, transportation and cost of living) (.....)
- (f) Other (specify)..... (.....)

5. Costs of services

Categories	Cost of services	Cost of transportation in Nepal	Food expenses in Nepal	Other costs (including expenses for secondary purpose)	Total cost
NRS					

6. Was your expectation met by the service provider?

- a) Yes
- b) no

7. How do you rate the total quality of services received?

- a) Higher
- b) moderate
- c) lower

8. How much (maximum amount of money) do you want to pay (willingness to pay) for a given quality of health services from the institution?

NRS.....

9. Did you face any problems while receiving the services in the service provider?

- a) Yes
- b) no

10. If yes, what were the problems?

- a) Language problem
- b) Discrimination between Nepalese and non-Nepalese
- c) Price discrimination between Nepalese and non-Nepalese
- d) Other (specify).....

11. Did you face any problems while receiving the services outside the service provider?

- a) Yes
- b) no

12. If yes, what were the problems?

- a) Security problems
- b) Discrimination between Nepalese and non-Nepalese in transportation facilities
- c) Other (specify).....

13. Do you want to come again to receive this service?

- a) Yes
- b) No

14. Do you suggest other people to visit Nepal to receive this service?

- a) Yes
- b) No

15. Do you have any suggestions to improve the services for non-Nepalese consumers?

.....
.....
.....

Appendix 6.3: In-depth interview with service providers

Name of the interviewer:

Name of supervisor:

Serial No. of questionnaire:

Name of service provider:

1. General information about the service provider:

1.5 Name of the respondent:.....

1.6 Numbers of years the service provider has been providing services:.....

1.7 For how long have you been providing services to non-Nepalese people?
.....years

1.8 How many professional staffs are there in your institution?
..... Persons

2. Trend of non-Nepalese receiving services in your institution (please provide at least last three years' data; if it is possible to get more than three years' data, please provide them in separate sheets)

Year	2005	2006	2007	
No. of visitors				

3. What are your special qualities that attracted non-Nepalese people to receive services in your institution? (Multiple answers possible)

- (a) Quality of services (perceived quality of services)
- (b) Faith in the provider
- (c) Suggested by previous visitors
- (d) Cheaper than other providers
- (e) Lower total cost of receiving services (including price of services, transportation and cost of living)
- (f) Other factors (other than those related to this institution such as shopping, travel, climate etc)
- (g) Other (specify).....

3.1 If multiple reasons, please rank them (I, II, III, IV,.....)

- (a) Quality of services (perceived quality of services) (.....)
- (b) Faith in the provider (.....)
- (c) Suggested by previous visitors (.....)
- (d) Cheaper than other providers (.....)

.....

Please discuss with service providers to obtain further information related to export potentiality of the services

.....

.....

.....

Appendix 6.4: List of interviewees

In-depth interview was conducted with the following:

SN	Institutions	Name	Position
1	BPKIHS	Dr Prof. B D Das	Hospital director
		Dr Dharanidhar Baral	Chief, Medical record section
2	Birat Nursing home	Mr. Ganesh Man Singh Karki	Hospital manager
3	Life Guard Hospital	Mr. Rajesh Pokhrel	Hospital manager
4	Koshi Zonal Hospital	Mr. Devi Prasad Paudel	Senior medical recorder
5	Ramlal Golchha Eye hospital	Mr Bhawani Chaudhari	Officer
6	Biratnagar Eye hospital	Mr Mukesh Sah	Manager

Appendix: 6.5 FGD on health service export potential

An FGD on health service export potential was conducted on 29 April 2008. It was aimed to explore different ideas on the export potential of health services through four modes of service trade. To make the discussion focused and effective, background information of the study including objectives and methodology of the FGD was presented at the beginning of the programme. The modus operandi of the FGD was to present an issue and have each of the discussants in turn give his/her feedback and express his/her views on the issue. The list of the participants in the discussion is presented in the following table.

SN	Name	Institution/Designation
1.	Ghan Shyam Gautam	CSED
2.	Shiva Adhikari	Tribhuvan University
3.	Nephil Matangi Maskay	Study Coordinator
4.	Bina Pradhan	Independent Researcher
5.	Sharad Onta	NHRC
6.	Hari Bhakta Sharma	Deurali-Janta Pharma
7.	Rishi Ram Koirala	NHRC
8.	Bodh Raj Niroula	Ministry of Industry, Commerce and Supplies
9.	Dinesh Shrestha	Federation of Nepalese Chamber of Commerce and Industry Nepalgunj Medical College
10.	Shiv Raj Bhatt	ENTReC
11.	Jib R Koirala	Ministry of Industry, Commerce and Supplies
12.	Navin Dahal	SAWTEE
13.	Babu Ram Marashini	Ministry of Health and Population

The discussion focused on the following four important issues.

- What is the feasibility of export of health services in the present context?
- What are the channels of potential benefits of health trade?
- What are the major disincentives to trade in health services?
- What sorts of challenges and opportunities exist with regard to export of health services?

During the discussion, discussants expressed different views, some even being contradictory with each other. The summary of the views expressed by the discussants is presented in the following box.

Views expressed by FGD participants

- Despite the lack of favourable policies, health services providers are rapidly increasing in the private sector.
- Knowingly or unknowingly, export of health services is occurring at present so the important question is how to manage it to maximize the benefits.
- Health services should not be dealt like other merchandise goods.
- For facilitating health services export, this sector can be simultaneously developed with tourism and education sectors.
- Diagnostic, nursing and ophthalmology services have high potential for exports than other areas.
- On the one hand, health services are gradually becoming expensive in the international market, and on the other hand, Nepal is incorporating increasing number of health services. In this context, scope of export potentiality of health services is widening in Nepal.
- Though the potentiality for export of health services exists, the long-term effect on the country should be considered while promoting the export of services.
- The infrastructural setting in the country being, government needs to play an effective facilitating role for the institutional development of the health service providers in the private sector so that export potential could be realized.
- At the policy level, it is important to recognize service sector from trade perspective.
- Government policy discriminates between public and private sector, though there are also problems with regard to the functioning of the private sector.
- From export perspective, quality of the services should be monitored with prime importance.
- Restrictive policies should be adopted to retain the government-subsidized products (doctors, nurses, etc) for service delivery in the country.
- Medical colleges are connected with both health and education sectors, so there should be integration and coordination between these two sectors at the policy level.
- The private sector is flourishing at the cost of the public sector; however, as a remedy, the public sector should be made efficient rather than restricting the private sector.
- Nepal needs to attract FDI in the tertiary sector and aid in general in the health sector.
- No foreign corporate business house has entered the Nepalese health service market until now, and there is little chance they will come in the near future given the existing policy provisions.
- Instability and insecurity are important disincentives in general, and policy-level factors are hampering the development of capacity of the private sector.
- The policies of the upcoming government will have an important influence on the health sector.

Summary of findings of the FGD

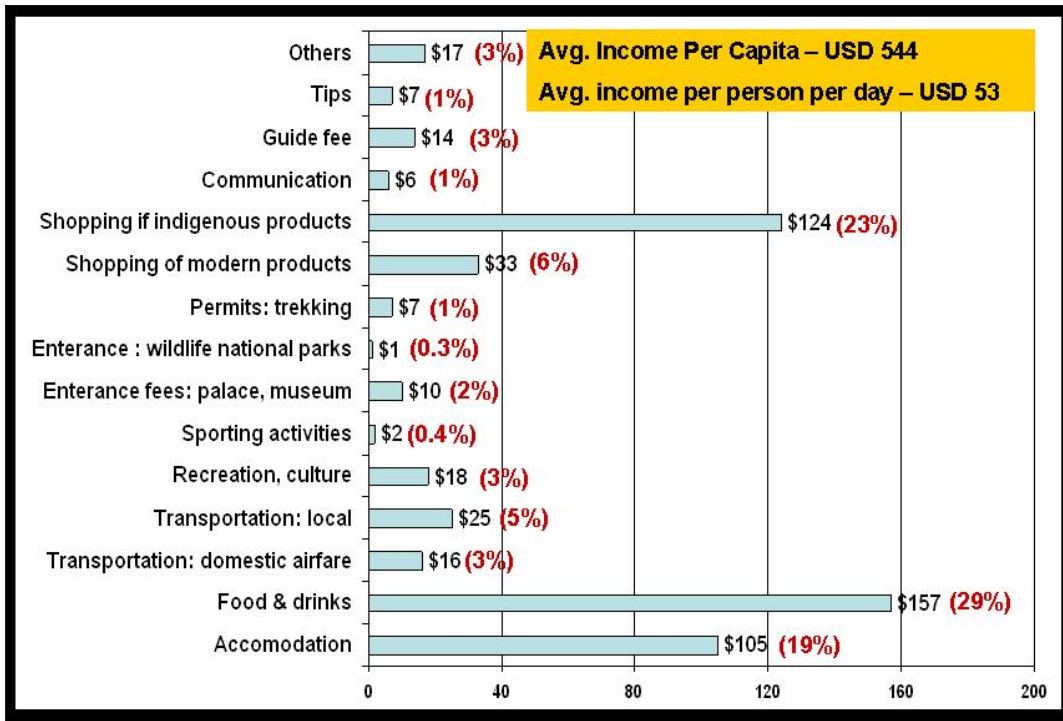
While examining export feasibility, two aspects require consideration. The first is the capacity (potentiality to export) aspect and the second is the benefit/cost (to the home country) aspect. On the capacity aspect, all the discussants had the same view that the country has high potentiality for the export of health services. Besides the foreign exchange earnings from the export of services, positive long-term returns and the trickle-down effects that the market mechanism yields to the exporting country were recognized in the discussion. However, some of the discussants highlighted the probable cost of the health services exports in the service delivery mechanism and equity aspects in the home country. In this context, particular concern was on the primary healthcare services which are usually considered as the services of basic rights. The discussion yielded the conclusion that tertiary services should be primarily targeted for export so that access to primary health services in the country, particularly by the lower income strata, is not adversely affected.

With regard to channels for realizing export potential, the discussion suggested:

- Developing and promoting alternative treatment systems, particularly *ayurvedic* treatment system,
- Making the quality control mechanism effective to attract foreigners to consume health services,
- Timely updating policies and enhancing supervision and monitoring capacity of the regulatory bodies for smooth development of the health sector and promoting exports,
- Revising the existing policies and making it private sector-friendly,
- Allowing the private sector, on a gradual basis, to invest in foreign markets to extend their services,
- Attracting FDI on a selective basis, particularly in the tertiary sector so that quality improvement and technology transfer will occur.

Poor security situation was recognized as a major disincentive at present in Nepal. However, from the institutional perspective, discriminatory government policy in the health sector and poor infrastructural set-up were identified as additional disincentives to the promotion of export of health services. On the downside, if not properly managed, facilitation of health service export could negatively impact the service accessibility of the lower income groups of the country, which is a challenge for this sector. However, health service is one of the most important service sectors which has ample potential to yield substantial long-term benefits to the country provided exports are promoted in a cautious but progressive manner.

Appendix 7.1 Expenditure summary



Source: NTB (2005)

Appendix 7.2

Tourism expenditure by region and countries

Region / Country	All	% Share	Per day	Total	Amt. in mill.	% Share
North America						
Canada	4783	1%	\$49	554	\$3	1%
U.S.A.	20584	5%	\$48	547	\$11	6%
Sub- total	25367	7%	\$48	547	\$14	7%
South & Central America						
Argentina	595	0%	\$63	596	\$0.4	0%
Brazil	1304	0%	\$59	566	\$0.7	0%
Mexico	1037	0%	\$54	517	\$0.5	0%
Others	1488	0%	\$62	586	\$0.9	0%
Sub- total	4424	1%	\$62	586	\$3	1%
Western -Europe						
Austria	4649	1%	\$92	890	\$4.1	2%
Belgium	3652	1%	\$85	824	\$3.0	1%
Denmark	2614	1%	\$46	441	\$1.2	1%
Finland	664	0%	\$66	635	\$0.4	0%
France	18992	5%	\$49	618	\$11.7	6%
Germany	16031	4%	\$52	646	\$10.4	5%
Greece & Cyprus	886	0%	\$45	431	\$0.4	0%
Ireland	813	0%	\$40	386	\$0.3	0%
Italy	12121	3%	\$61	591	\$7.2	4%
Netherlands	11064	3%	\$44	471	\$5.2	3%
Norway	1513	0%	\$94	905	\$1.4	1%
Spain	11792	3%	\$75	536	\$6.3	3%
Sweden	1069	0%	\$50	487	\$0.5	0%
Switzerland	3876	1%	\$82	795	\$3.1	2%
U.K.	24644	7%	\$50	658	\$16.2	8%
Others	2159	1%	\$55	611	\$1.3	1%
Sub- total	116539	31%	\$55	611	\$73	36%
Eastern- Europe						
Czech Rep.	836	0%	\$81	877	\$0.7	0%
Poland	1609	0%	\$45	486	\$0.8	0%
Russian Fed.	2447	1%	\$73	790	\$1.9	1%
Hungary	821	0%	\$34	366	\$0.3	0%
Others	2057	1%	\$41	445	\$0.9	0%
Sub- total	7770	2%	\$41	445	\$5	2%

Cont'd

Region / Country	All	% Share	Per day	Total	Amt. in mill.	% Share
Asia						
Bangladesh	14640	4%	\$67	492	\$7.2	4%
Bhutan	2045	1%	\$37	268	\$0.5	0%
India	86587	23%	\$83	446	\$38.6	19%
Maldives	150	0%	\$65	473	\$0.1	0%
Pakistan	1952	1%	\$72	526	\$1.0	1%
Sri-lanka	16045	4%	\$69	507	\$8.1	4%
SAARC Total	121419	32%	\$65	473	\$56	27%
Hongkong Macao	1123	0%	\$49	492	\$0.6	0%
Indonesia	659	0%	\$30	301	\$0.2	0%
Iran	111	0%	\$50	502	\$0.1	0%
Israel	7690	2%	\$31	310	\$2.4	1%
Japan	24196	6%	\$41	404	\$9.8	5%
Malaysia	7214	2%	\$79	653	\$4.7	2%
P.R. of China	12733	3%	\$61	442	\$5.6	3%
Philippines	393	0%	\$27	267	\$0.1	0%
Rep. of Korea	10654	3%	\$65	498	\$5.3	3%
Singapore	3205	1%	\$59	449	\$1.4	1%
Thailand	14680	4%	\$57	436	\$6.4	3%
Others	6781	2%	\$61	502	\$3.4	2%
Sub- total	89439	24%	\$50	502	\$40	20%
Australia & Pacific		56%				47%
Australia	9839	3%	\$45	546	\$5	3%
New Zealand	1210	0%	\$52	630	\$1	0%
Others	60	0%	\$45	546	\$0	0%
Sub- total	11109	3%	\$45	546	\$6	3%
Africa	1346	0%			\$0	
Not Specified	792	0%			\$0	
Grand - Total	378205		\$53	544	\$205	

Source: NTB (2005)

Appendix 7.3

Shopping expenditure details

	Type of visit			Age			Region								Purpose of visit					
	All	IPT	PT	Yout h	MA	OA	N A	WE	Asia	Auss	E E	India	S A	SARC	VFR	LRH	ADV	RP	BO	Oth
Base : All resp	1504	1113	391	686	659	159	139	609	380	72	76	128	31	69	114	1089	96	30	163	12
Base : Those spent on Shopping	1176	886	290	546	512	118	108	478	296	64	62	91	24	53	84	864	77	27	115	9
% shopping electronic durables	6	6	5	6	6	2	2	4	5	6	5	16	3	14	7	5	6	10	6	17
Mean exp. on electronic durables in USD	107	85	182	64	161	19	39	51	82	67	69	158	20	233	162	105	70	141	106	20
% shopping modern clothes & acc	19	19	17	21	18	13	14	14	14	22	17	51	16	30	25	17	13	27	25	50
Mean exp. on modern clothes & acc in USD	108	106	115	127	89	94	67	67	211	50	55	132	48	67	60	81	481	149	87	539
% shopping local clothes & acc	40	42	35	48	35	30	41	42	40	54	47	22	52	32	40	42	49	33	29	17
Mean exp. on modern clothes & acc in USD	49	44	67	41	56	75	54	57	37	46	36	48	43	59	47	50	37	130	42	13
% shopping stone craft																				
Mean exp. on stone craft in USD	45	46	42	47	32	99	68	51	38	23	28	39	39	37	40	42	96	49	24	-
% shopping paper craft	22	23	19	23	21	21	28	24	22	31	20	6	35	6	25	23	24	20	15	-
Mean exp. on paper craft in USD	21	19	29	21	20	23	15	22	15	10	81	19	21	6	14	22	15	31	20	-
% shopping wooden handicrafts	29	30	26	30	28	30	37	32	26	35	41	7	45	16	25	31	41	13	16	17
Mean exp. on wooden craft in USD	52	41	87	38	64	63	41	64	39	26	33	24	39	135	36	54	53	54	39	35
% shopping metal handicrafts	26	26	25	28	24	28	27	30	28	29	26	5	32	12	15	28	30	50	15	25

Mean exp. on metal craft in USD	47	40	67	44	46	60	46	45	51	25	76	34	37	30	56	44	41	102	43	15
% shopping silver jewelry	27	27	27	26	26	33	30	28	26	28	25	14	45	26	27	28	23	23	21	25
Mean exp. on silver jewelry in USD	59	56	69	42	73	78	61	69	51	49	37	34	85	49	40	66	37	109	24	54
% shopping pashmina	33	33	30	32	34	31	24	35	33	42	37	19	29	35	27	33	38	23	30	33
Mean exp. on pashmina in USD	60	58	67	61	58	67	53	67	65	35	47	38	63	51	61	60	62	74	57	59
% shopping carpet	8	9	6	7	10	8	9	10	8	10	9	1	10	3	5	8	11	3	10	-
Mean exp. on carpet in USD	102	93	142	83	119	78	111	96	124	89	68	3	106	77	66	98	108	54	133	-
% shopping thanka	16	17	14	17	15	14	12	22	16	21	14	-	19	4	11	18	23	20	6	8
Mean exp. on thanka in USD	45	41	60	42	49	43	43	43	51	37	31	-	32	122	31	46	53	39	29	10
% shopping trekking items	4	4	4	5	4	1	1	5	4	14	9	1	6	-	2	2	36	3	-	-
Mean exp. on trekking items in USD	73	74	68	74	71	75	17	81	78	33	85	14	168	-	48	50	93	30	-	-

Source: NTB (2005)

Appendix 7.4 (I)

Survey questionnaire for tourists visiting Nepal

Name:

Age :

Sex:

Occupation :

Date:

- 1) What is the main purpose of your travel to Nepal?
 - a) Business
 - b) Leisure
 - c) Shopping
 - d) Others, please specify

- 2) What are the factors that you keep in mind in choosing your destination?
 - a) Cost of travel
 - b) Touristic importance
 - c) Nearness to your home country
 - d) Others, if any

- 3) Would you mention who are your other travel partners?
 - a) Family members
 - b) Working colleagues
 - c) Friends
 - d) Others

- 4) Where did you go for shopping?
 - a) Departmental stores
 - b) Super markets/plazas
 - c) Malls
 - d) Other retail shops

- 5) What were the reasons behind choosing the following?
 - a) Departmental stores
 - b) Super markets/plazas
 - c) Malls
 - d) Other retail shops

- 6) Did you find all the categories in the market which you planned for?

- 7) If you were engaged in shopping, please tell us about the major products you purchased during your stay in Nepal?

	<u>Quantity</u>	<u>Price</u>
a) Electronics		
b) Cosmetics		
c) Sports shoes		
d) Sunglasses		

- e) Modern clothes
- f) Pashmina
- g) Wooden handicrafts
- h) Metal handicrafts
- i) Carpets
- J) Silver jewellery
- K) Others, if any

8) In order to for us to understand spending behavior of tourists in Nepal, would you please inform us about your expenses on shopping out of the total expenditure (exclusive of the air fares and other transport services) incurred inside the country. This shall be used for research purposes only and kept confidential.

9) If you have had an opportunity to visit more than one outlet mentioned above, what were your general feeling with regard to the prevailing price, quality and genuineness of the products/services in the various outlets?

- 10) What were the strong reasons behind your shopping in Nepal?
- a) Prices are relatively cheaper
 - b) Availability of branded products
 - c) Uniqueness of local products
 - d) Others

11) Do you set aside some extra amount to purchase gift items to your loved ones while you were shopping? If yes, what would be the share of such expenses out of your total budget for shopping?

- 12) What type of money did you use during your journey to Nepal?
- a) Credit card
 - b) Travelers' cheque
 - c) Hard currency

13) Did you face any specific problem while shopping in Nepal? If yes, which were the areas of difficulty? Please mention.

- a) Price differentiation in retail shops and departmental stores
- b) Duplicate products sold as branded items
- c) Lack of discounts, commissions
- d) Others (please specify)

14) Would you recommend your friends/relatives to go for shopping in Nepal upon your return to your home country?

15) Do you have any comments/suggestions with respect to the promotion of shopping tourism in Nepal?

Appendix 7.4 (II)

Checklists for in-depth interview with HERS providers

Name:
Organization:
Designation :
Established year:
Date:

I. Wholesalers, Retail Association, Departmental Store Association, Supermarket and Malls, Hotels, Tour Operators, etc

1. Awareness and perception regarding high-end products in Nepal.
2. What are the major high-end products/ services for foreign shoppers in Nepal?
3. Trends of the market for such items in Nepal.
4. End users of high end products in Nepal. Local and tourist market
5. Do you have such tourists in your store? Their contribution in your total sales.
6. What are the attractions you have offered to tourists in your store?
7. What are the favourite items for shopping tourists in Nepal?
8. Do you have any idea why they were involved in shopping in Nepal? Their choices and concern during shopping?
9. Where and why do they wish to go for shopping? (Retail shops, Super Market/plaza, Departmental stores and Malls etc)
10. Have you practised e-shopping in Nepal so that you can supply your products in foreign markets upon their request through mail or internet services? Do you see any scope for such services in Nepal in future?
11. What are the normal layers of channels in the distribution of these high-end products?
12. Estimated turnover and employment generation from high-end retail services in Nepal.
13. The role of retail association, departmental stores association and malls in facilitating the distribution of services of the above items in Nepal. Which is the most important component of distribution services in Nepal? How organized are the big and small retail outlets in influencing consumer welfare?
14. Please mention the existing disincentives in services trade with reference to shopping tourism in Nepal.
15. Please identify channels of potential benefit the country may receive from shopping tourism. Can Nepal be developed as a shopping complex in view of its strengths such as cheap service and other infrastructure?

Appendix 7.4 (III)

Lists of interviewees in the study on HERS trade

1. Mr. Shiva Basnet, Procurement Manager, Blue Bird Mall, Kathmandu
2. Mr. Raja Ratna Tuladhar, President, Nepal Departmental Store Association, Kathmandu
3. Mr. Pabitra Bajracharya, President, Retailers Association of Nepal, Kathmandu
4. Dr. Govinda Ram Agrawal, Ex-professor, Tribhuwan University Kathmandu, and expert on marketing.
5. Mr. Pankaj Pradhananga Director (Operations), Four Season Travel, Kathmandu
6. Mr. Min B. Gurung, Chairman cum Managing Director, Bhatbhateni Department Store Kathmandu.
7. Mr. Binod Tuladhar, Managing Director, Blue Bird Mall, Kathmandu.
8. Mr. Prachanda Man Shrestha , Chief Executive Officer, Nepal Tourism Board, Kathmandu

Appendix 7.5

FGD on HERS

List of FGD participants

1. Mr. Ram Kaji Kone , President , Nepal Tours and Travel Association
2. Mr. Shanker Man Singh, Nepal Chamber of Commerce
3. Mr. Pushkar Man Shakya, President, Federation of Handicraft Association Of Nepal
4. Mr. Hikmat Singh Aiyar, Nepal Tourism Board
5. Mr. Murari Gautam, Freelance consultant
6. Mr. Jyoti Adhikari, President, Tourist Association of Nepal
7. Mr. Lila Dhar Adhikari, MOICS
8. Mr. Prabodh Sagar Dhakal, MOCTCA
9. Mr. Navin Dahal, Executive Director, SAWTEE
10. Dr. Nephil M. Maskay, Co-coordinator, Diagnostic Study on Export Potential of Education, Health and high-end retail services in Nepal.
11. Mr. Rajesh C. Lamichhane, Consultant, Study on high-end retail services, SAWTEE

The FGD on HERS was centred on the problems and prospects of shopping tourism in Nepal. Nearly a dozen experts, civil servants and representatives of various private sector organizations related to the tourism industry attended the FGD. The major points raised during the discussion are as follows:

- Political instability is the most challenging factor hindering the growth of the tourism industry. India is still the largest market for the Nepalese tourism industry. There is a great possibility to attract Indian tourists since they do not require visa or passport. Besides, geographical proximity coupled with cultural and linguistic affinities between India and Nepal are an added incentive for Indian tourists to visit Nepal.
- The Nepal Tourism Board's promotional campaign, under the slogan "Naturally Nepal, once is not enough", has three major segments, namely: weekend breaks, lifetime experience and adventure holidays. 'Weekend breaks' is specially targeted at Indian tourists who want to enjoy their holidays in Nepal. This segment is related to shopping tourism. Singapore, Malaysia, Thailand and the United Arab Emirates have also accorded high priority to establishing shopping centres to lure shopping tourists from abroad. Shopping areas could be developed in walking distances from hotels in cities like Kathmandu. The shopping centres should not be confined to Kathmandu; major cities along the Nepal-India border should also be developed as shopping centres for Indian tourists.
- The conditions at TIA are poor and chaotic. There is no coordination among the over 60 different agencies which are present inside the premises. This has resulted in poor services.
- The lack of coordination between different government organizations has hindered even the registration of exportable products. Though high-value ornaments like jewellery and gems have enjoyed markets abroad, it was felt that they must now concentrate on product development. The high-end products must be promoted in line with the needs of major customers in the region.
- Cartelling in tourist shopping items, especially handicrafts, has brought unhealthy competition among the retail outlets in the market. As a result, customers have not benefited. The current vacant complex on NTB's premises could be utilized as retail outlets for authentic handicraft shops.