A dialogue on trade and development in South Asia
Vol. 19, No. 3-4, 2023

TRADE insight

NEPAL'S EXPORTS

Between potential and attainment

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TRADE insight

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editors' note

Unlocking Nepal's export potential

Nepal's exports appear to be in terminal decline. Twenty-five years ago, the value of exports of goods and services comprised more than one-fourth of Nepal's GDP, a figure that has now dwindled to less than one-tenth. The performance of merchandise exports has been especially dismal. Nepal stands as the only country among non-high-income nations in South and Southeast Asia to have witnessed a decline in merchandise exports in real terms between 2000 and 2019. Although services exports outpaced merchandise exports in the 2010s, the slowdown in tourism induced by the COVID-19 pandemic reversed these gains. Further, service export receipts have not been substantial enough to offset the decline in goods exports. Concurrently, imports have been on the rise, resulting in a significant, and growing, combined goods and services trade deficit.

The shares of both agriculture and manufacturing in GDP have been falling. While services have expanded, this expansion has largely been in non-tradable sectors. Enhancing productivity in agriculture and manufacturing is crucial to generating exportable surplus and providing substantial employment opportunities on a mass scale. Within the services sector, tourism holds the potential to create employment opportunities on a large scale and generate foreign exchange earnings. IT and IT-enabled services are a promising source of foreign exchange for the economy, and decent jobs to those on the relatively higher end of the education and skill spectrum. Nepal's future lies in boosting productivity and output, and creating employment opportunities across all sectors—agriculture, manufacturing, and services—that cater to citizens with diverse educational and skill profiles.

Research shows that the decline in real merchandise exports is largely explained by a failure to preserve and grow preexisting product-destination flows, and to some extent, a failure to adequately find new destinations for preexisting products. Export growth due to the emergence of new products, however, has been just enough to offset the loss of exports due to the disappearance of products. Nepal has the highest merchandise under-exporting rate among 105 countries. The World Bank estimates Nepal's merchandise export potential at 12 times actual exports. The unrealized export potential is spread across products and destinations. Estimates suggest that Nepal under-exports to China by over US$2.2 billion, constituting the largest value of "missing" exports by destination, followed by India, the US, and Japan.

Nepal's international trade is heavily concentrated in India, with over two thirds of its total exports directed towards the country. With such limited market diversification, coupled with Nepal's graduation from the least developed country (LDC) status scheduled for 2026, Nepal must explore alternative potential export destinations. Merchandise export losses due to loss of trade preferences upon LDC graduation are projected to be between 2.5 percent and 4 percent.

This issue of *Trade Insight* aims to elucidate Nepal's current international trade situation and explores potential avenues for improving its export performance. The two articles on Nepal's bilateral trade relations with China and the US highlight Nepal's limited ability to capitalize on export opportunities, including preferential treatment, in these two countries. The article on Nepal-Bangladesh trade shows how para-tariffs are inhibiting exports despite significant potential. Another article analyses the impacts of Nepal's short-lived import restrictions aimed at stemming foreign exchange reserve depletion. Two other articles examine Nepal's trade, formal and informal, with its largest trade partner, India. ■

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Content

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IMF board green-lights long-awaited US$3bn loan

THE International Monetary Fund (IMF)'s executive board had approved a US$3 billion loan agreement for Pakistan, unlocking crucial funding for the troubled economy.

In a statement, the IMF said its executive board green-lit the nine-month standby arrangement (SBA) in order "to support the authorities' economic stabilisation programme".

This follows a staff-level agreement between the Fund and Pakistan announced last month, and the latest approval allows an immediate disbursement of around US$1.2bn.

The board approved the bail-out package for the country for an amount of 2.25bn Special Drawing Rights (SDRs) — reserve funds that the institution credits to the accounts of its member nations, the IMF said in a statement. This amounts to about US$3bn, or 111 percent of Pakistan's quota, it said.

The IMF said that the programme would focus on four key points, including the implementation of the 2023-24 budget to facilitate Pakistan's fiscal adjustment and ensure debt sustainability, while protecting critical social spending; a return to a market-determined exchange rate and proper foreign exchange market functioning to absorb external shocks and eliminate forex shortages; an appropriately tight monetary policy aimed at disinflation; and progress on structural reforms, particularly with regard to energy sector viability, governance of state-owned enterprises, and climate resilience. *(https://www.dawn.com/, 13.07.2023)* ■

Sri Lanka relaxes capital controls for first time in 3 years

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THE Sri Lankan government eased certain restrictions hitherto slapped on outward remittances since April 2020, amid improvements seen in the country's domestic foreign exchange market.

Accordingly, under the new Order, which will be effective for six months from June 28, 2023, the first-time claim of migration allowance has been increased to a maximum of US$50,000 from US$30,000 under the previous order. Subsequent claims after the initial claim of migration allowance have been increased to US$20,000 from US$10,000.

Repatriation of current income or accumulated current income of emigrants will no longer be subject to any limitations. Earlier, it was subject to a maximum of US$30,000.

Meanwhile, resident investors through Outward Investment Accounts (OIAs) can now make additional investments up to US$ 30,000 in already established subsidiaries or branch offices registered or incorporated overseas, for the purpose of working capital requirements. Earlier, the limit was US$15,000.

Companies listed on the Colombo Stock Exchange (CSE) are now allowed to invest up to US$200,000 in ordinary shares of a company outside Sri Lanka, for the purpose of expanding their core business activities overseas. The limit for companies not listed on the CSE is up to US$100,000.

Also, to set up overseas offices, local companies are allowed to take out up to US$100, 000.

The restrictions were first introduced during the height of COVID-19 lockdowns to minimize the pressure on the exchange rate and to preserve foreign currency reserves of the country under Section 22 of the Foreign Exchange Act. *(https://www.dailymirror.lk/, 26.07.2023)* ■

India imposes 40 percent duty on onion exports

INDIA imposed an export duty of 40 percent on onions with immediate effect to check price rise and improve supplies in the domestic market. This export duty is valid till December 31, 2023.

As per the data by the consumer affairs ministry, the all-India average retail price of onion was ruling at INR 30.72 per kg on 19 August, with a maximum price at INR 63 per kg and a minimum at INR 10 per kg. Rating agency Crisil in its report on August 4, had warned that onion could be next tomato and the retail price might touch INR 60/70 per kg by month-end.

Beating past records, the Centre has procured 25 billion tons of onion for the buffer in 2022-23. However, despite the ample stock of onions in the country, a high proportion of bad quality onions due to a prolonged period of excessive summer heat this year has made good quality onions expensive.

At the same time onion exports jumped 64 percent in volumes to hit a six-year high at 2.5 million tonnes during 2022-23. *(https://economictimes.indiatimes.com/, 20.08.2023)* ■

Bangladesh's average import tariffs higher than in most countries

BANGLADESH'S average nominal tariffs are higher than in low-income, middle-income and high-income countries, as well as most of its comparators.

Such a high tariff on imported items raises relative profitability for domestic market-oriented industries compared to exports, discourages production for overseas markets, and acts as a major barrier to export diversification, said Mr. Zaidi Sattar, chairman of the Policy Research Institute of Bangladesh (PRI).

The nominal tariff is 27.6 percent in Bangladesh.

It is 22.4 percent in Sri Lanka, 18.1 percent in India, 9.7 percent in Thailand, 9.6 percent in Vietnam, 5.6 percent in Malaysia, and 8 percent in Indonesia. The effective rates of protection for most import-substitute industries could range from 100 percent to 400 percent or more.

Anti-export bias is also one of the bottlenecks for export diversification, according to Mr. Sattar.

He said Bangladesh exports 1,377 non-readymade garment products. Of them, 174 products are highly competitive, 408 items are moderately competitive and 795 are marginally competitive.

The country ships 346 types of non-RMG products that earn around US$1 million annually, but the segments do not get the bonded warehouse facility, which allows exporters to import raw materials duty-free. *(https://www.thedailystar.net/, 14.09.2023)* ■

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India extends curbs on exports of sugar, eased for rice

THE Indian government has extended restrictions on export of all varieties of sugar — raw, white, refined and organic — beyond 31 October owing to domestic production concerns on weak-monsoon worries. At present sugar is on the restricted list till October-end. However, the food ministry has been allowing the industry to export certain quantities depending upon availability.

However, these restrictions will not be applicable to sugar being exported to the European Union and the US under CXL and tariff rate quota (TRQ) concessions. A specified amount of sugar is exported to these regions at lower tariffs.

India on 18 October permitted the exports of 1.03 million tonnes of non-basmati white rice to seven countries, including Nepal, Cameroon and Malaysia. The export is permitted through National Cooperative Exports Limited (NCEL), the Directorate General of Foreign Trade (DGFT) said in a notification. *(https://economictimes.indiatimes.com/, 19.10.2023)* ■

Pakistan tightens transit trade import regime

PAKISTAN banned the import of goods prone to smuggling to Afghanistan through its territory, as it made the import regime stringent in a decisive move to stop the damage inflicted on the national economy and the external sector because of the misuse of the Afghan Transit Trade Agreement (ATTA).

The government took a host of measures, including a complete ban, imposition of 10 percent fee on some other imports, and a new condition of bank guarantees equal to duties and taxes in order to ensure that Afghanistan's import cargo reached its final destination. These guarantees could be forfeited in case the imported goods did not reach Kabul.

Essentially, Islamabad has used its economic leverage against Kabul, marking a major policy shift amid rising terror attacks on its soil.

In addition to banning certain smuggling-prone goods, Pakistan also slapped a 10 percent processing fee on import of chocolates, footwear, machinery, blankets and garments by Afghanistan through its territory.

Being a landlocked country, Afghanistan has the right to import goods for its consumption through Pakistani sea and land ports. However, various government studies and intelligence reports had proven the misuse of the transit agreement. *(https://tribune.com.pk/, 04.10.2023)* ■

Richest 1 percent account for more carbon emissions than poorest 66 percent


Goodfon

THE richest 1 percent of humanity is responsible for more carbon emissions than the poorest 66 percent, with dire consequences for vulnerable communities and global efforts to tackle the climate emergency, a report says.

The most comprehensive study of global climate inequality ever undertaken shows that this elite group, made up of 77 million people including billionaires, millionaires and those paid more than US$140,000 (£112,500) a year, accounted for 16 percent of all CO2 emissions in 2019 — enough to cause more than a million excess deaths due to heat, according to the report.

The Oxfam report shows that while the wealthiest 1 percent tend to live climate-insulated, air-conditioned lives, their emissions — 5.9bn tonnes of CO2 in 2019 — are responsible for immense suffering.

Using a "mortality cost" formula — used by the US Environmental Protection Agency, among others — of 226 excess deaths worldwide for every million tonnes of carbon, the report calculates that the emissions from the 1 percent alone would be enough to cause the heat-related deaths of 1.3 million people over the coming decades.

Over the period from 1990 to 2019, the accumulated emissions of the 1 percent were equivalent to wiping out last year's harvests of EU corn, US wheat, Bangladeshi rice and Chinese soya beans.

The suffering falls disproportionately upon people living in poverty, marginalized ethnic communities, migrants and women and girls, who live and work outside or in homes vulnerable to extreme weather, according to the research. These groups are less likely to have savings, insurance or social protection, which leaves them more economically, as well as physically, at risk from floods, drought, heatwaves and forest fires. The UN says developing countries account for 91 percent of deaths related to extreme weather.

The report finds that it would take about 1,500 years for someone in the bottom 99 percent to produce as much carbon as the richest billionaires do in a year. *(https://www.theguardian.com/, 20.11.2023)* ■

Global 2024 staple food supplies to be strained by dry weather, export curbs

HIGH food prices in recent years have prompted farmers worldwide to plant more cereals and oilseeds, but consumers are set to face tighter supplies well into 2024, amid adverse El Nino weather, export restrictions and higher biofuel mandates.

Global wheat , corn and soybean prices — after several years of strong gains — are headed for losses in 2023 on easing Black Sea bottlenecks and fears of a global recession, although prices remain vulnerable to supply shocks and food inflation in the New Year, analysts and traders said.

The El Nino weather phenomenon, which brought dryness to large parts of Asia this year, is forecast to continue in the first half of 2024, putting at risk supplies of rice, wheat, palm oil and other farm products in some of the world's top agricultural exporters and importers.

Traders and officials expect Asian rice production in the first half of 2024 to drop as dry planting conditions and shrinking reservoirs are likely to cut yields.

World rice supplies tightened this year already after the El Nino weather phenomenon cut into production, prompting India, by far the world's biggest exporter, to restrict shipments.*(https://www.thedailystar.net/, 26.12.2023)* ■

Cost of the Red Sea attacks on global trade

THE Red Sea is crucial to shipping more than 12 percent of the global maritime trade, yet recent attacks on commercial vessels in the area by Iran-backed Yemen's Houthi rebels have scared off some of the world's top shipping companies and oil giants.

The severe consequences due to trade disruptions will certainly have an impact on the economy and potentially push the recently easing inflation up again in Europe as well as across the globe.

The Houthis allegedly target Israeli-linked vessels, but missile, drone, or pirate attacks have been escalating over the past month against commercial vessels too.

Therefore, major shipping companies MSC, Maersk, CMA CGM Group and Hapag-Lloyd, as well as British oil giant BP, said they would suspend their operations in the Red Sea.

Shipments of oil, liquid natural gas, and other energy supplies, as well as food products like palm oil and grain and most of the world's manufactured products, are all impacted.

Among the economies most affected by the trade disruptions would be Greece, Jordan, Sri Lanka and Bulgaria, according to Bloomberg, which cited analysts. *(https://www.euronews.com/, 20.12.2023)* ■

Ocean heat record broken, with grim implications for the planet

THE oceans have hit their hottest ever recorded temperature as they soak up warmth from climate change, with dire implications for our planet's health.

The average daily global sea surface temperature beat a 2016 record this week, according to the EU's climate change service Copernicus.

It reached 20.96˚C (69.73˚F) — far above the average for this time of year.

Oceans are a vital climate regulator. They soak up heat, produce half Earth's oxygen and drive weather patterns.

Warmer waters have less ability to absorb carbon dioxide, meaning more of that planet-warming gas will stay in the atmosphere. And it can also accelerate the melting of glaciers that flow into the ocean, leading to more sea level rise.

Hotter oceans and heatwaves disturb marine species like fish and whales as they move in search of cooler waters, upsetting the food chain. Experts warn that fish stocks could be affected. *(https://www.bbc.com/, 04.08.2023)* ■

Crisis-resilient development finance

Shrinking fiscal space of the least developed countries (LDCs) limits their ability to implement development policies and forces tough choices, such as choosing between paying their external debt or investing in health, education and climate action. United Nations Conference on Trade and Development (UNCTAD)'s Least Developed Countries Report 2023 calls on the global community to urgently address the critical financial challenges faced by the world's 46 most vulnerable nations.

Multiple global crises, the climate emergency, growing debt burdens, dependence on commodities and declining foreign investments into LDCs have strained their finances, jeopardizing their progress towards the Sustainable Development Goals (SDGs), including a low-carbon transition.

LDCs' fiscal space has been squeezed by global crises like the COVID-19 pandemic, the climate emergency and the war in Ukraine, which triggered food and energy price hikes worldwide. To cushion the blow, LDCs have borrowed and spent more to strengthen social safety nets and economic support, as at least 15 million more people in LDCs have fallen into extreme poverty since the pandemic.

Urgent, bold action from the international community is critical to ensure LDCs have better access to affordable, long-term international financing, especially from public sources.

The international financial architecture lacks appropriate, tailored and targeted financial mechanisms for LDCs, and post-COVID-19 reforms have fallen short of expectations. Promises and commitments on international climate finance and official development assistance (ODA) have gone unfulfilled. The external financing that LDCs can access is expensive, insufficient and comes with economic and political strings.

Almost all debt sustainability indicators have deteriorated for LDCs. Their total external debt hit US$570 billion in 2022, with the public and publicly guaranteed portion reaching US$353 billion – more than three times higher than in 2006.

As a result, they're spending five times more on debt interest payments than a decade ago. Even worse, since 2018 LDCs as a group have spent more on debt than on education – with 11 of them spending more on repayments than on education and health combined.

LDCs' shift towards private lenders, combined with a diverse mix of short and long-term obligations to creditors of different risk levels, has added complexity to their debt profiles.

While external financial support is important, LDCs must also enhance domestic resource mobilization. For example, their median tax-to-GDP ratio stood at 11.6 percent in 2020, compared with 16.3 percent in other developing countries and 23.2 percent in developed countries.

Most LDCs' debt problems are structural, due to their persistent current account deficits and dependence on volatile commodity exports. Sudden price drops can drastically cut government revenue, making external debt repayments more challenging.

The report calls for more climate-specific finance for LDCs, which suffer the most from climate change but contribute the least to its causes. As of 2021, 17 of the 20 most climate-vulnerable and least climate-prepared countries were LDCs, which have suffered 69 percent of global climate-related deaths over the last 50 years.

The report highlights the need for not only more climate finance but also a bigger share of grants and a stronger focus on adaptation. LDCs, along with small island developing states, should be given priority in new climate financing mechanisms, such as the upcoming Loss and Damage Fund.

The Loss and Damage Fund, set to debut at the 28th UN climate change conference (COP28), could be a game changer if LDCs are among the main beneficiaries, enough resources are available, and disbursements are swift.

The report outlines conditions to maximize the fund's impact, such as addressing both the immediate costs of extreme weather events and longer-term, accumulated climate damage, and avoiding additional costs like insurance premiums.

Because most climate finance comes from non-climate-specific mechanisms, the report stresses the need to set climate-specific targets in addition to those for official development assistance and to keep climate and development funding separate in accounting.

The report also underlines the pivotal role domestic agents can play, particularly central banks, in enhancing the mobilization of national resources and steering financial flows towards a green structural transformation in these countries. ■

This is excerpted from The Least Development Countries Report 2023 published by UNCTAD.

Inadequate investment and planning on climate adaptation

Despite the clear signs of accelerating climate risks and impacts worldwide, the adaptation finance gap is widening and now stands at between US$194 billion and US$366 billion per year. Adaptation finance needs are 10–18 times as great as current international public adaptation finance flows — at least 50 percent higher than previously estimated.

This is the main conclusion of 'Adaptation Gap Report 2023: Underfinanced. Underprepared.' published by United Nations Environment Programme.

In view of ever-increasing weather extremes such as a multi-year drought in East Africa, flooding in China and Europe, and extreme heat and wildfires in the United States of America and Canada, among others, narrowing the adaptation finance gap is of particular importance because of the high benefits that investments in adaptation can offer in terms of reducing climate risks and improving equity and climate justice.

Left unchecked however, increasing climate risks will inevitably lead to more climate-related losses and damages. Therefore, the Adaptation Gap Report 2023 (AGR 2023) also focuses on loss and damage to support Parties in the negotiations following the decision at the twenty-seventh session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 27) in Sharm El-Sheikh to establish a loss and damage fund and funding arrangements for vulnerable developing countries.

Current climate action is woefully inadequate to meet the temperature and adaptation goals of the Paris Agreement. While global average temperatures are already exceeding 1.1°C above pre-industrial levels, current plans reflected in the nationally determined contributions (NDCs) are putting us on a path towards 2.4°C–2.6°C by the end of the century.

Even if the rise in temperature eventually slows as a result of more ambitious collective climate change mitigation efforts, climate risks will accelerate with every fraction of a degree because of the compounding and cascading nature of climate-related impacts.

Residual climate risks, in turn, will inevitably lead to both economic and non-economic losses and damages. This demonstrates the importance of accelerating and scaling up both mitigation and adaptation action, to respectively avert catastrophic climate change and minimize the climate impacts that remain. In addition, more focus must be placed on anticipatory, just and effective adaptation action and support.

Twenty five percent of countries have put in place legal instruments that require national governments to plan for adaptation. There has also been significant improvement in certain aspects of the potential adequacy and effectiveness of adaptation planning1 since 2021. Meanwhile, 15 percent of Parties still do not have a national adaptation planning instrument, and the rate of increase dropped from 4 percent to 1 percent in 2022. While half of the 29 countries without any such instrument are in the process of developing one, most of them are particularly vulnerable to climate impacts, and more must be done to support them to close the remaining gap faster.

Based on modelling analysis, the AGR 2023 estimates the costs of adaptation for developing countries in this decade at approximately US$215 billion per year (range: US$130 billion to US$415 billion). These adaptation costs are projected to rise significantly by 2050 because of growing climate risks. The AGR 2023 has also assessed the adaptation finance needed to implement domestic adaptation priorities, based on extrapolation of costed NDCs and national adaptation plans (NAPs) to all developing countries. These are estimated to be US$387 billion per year (range: US$101 billion to US$975 billion) in this decade. The estimated new range of US$215 billion to US$387 billion per year is significantly higher than earlier AGR estimates and is equivalent to between 0.6 percent and 1.0 percent of all developing countries' gross domestic product (GDP) combined.

Since the financial needs for addressing loss and damage are likely to grow significantly in the future, exploring innovative sources of finance (such as marine shipping levies, aviation levies, taxation, debt relief, debt swaps and special drawing rights) besides grants, insurance and concessional loans will be essential to reach the necessary scale. As well as assisting developing countries particularly vulnerable to climate risks in coping with loss and damage, the finance must also be used for capacity-building, institutional strengthening, data collection and analysis, disaster preparedness, and management of the consequences while respecting the principles of equity, justice, inclusiveness and ownership. ■

This is excerpted from the Adaptation Gap Report 2023.

NEPAL'S EXPORTS Between Potential and attainment

Despite receiving preferential market access, Nepal's export performance has been dismal over the last couple of decades.

Aayush Poudel

Nepal's export performance for both goods and services is sub-par. Nepal's exports (of goods and services) as a share of GDP stood at 6.8 percent of GDP in 2022, which is much lower than that of the peers—low income, lower middle income, least developed and South Asian countries (Figure 1). Furthermore, the ratio has seen a consistent decline in the last couple of decades (Figure 1) despite enhancing exports being a major government policy.

Nepal's merchandise trade is heavily dominated by imports. The average export to import ratio in the past three fiscal years (FY 2020/21 to FY 2022/23) had been 9.8, indicating that Nepal has been importing 10 times the value of its exports. Nepal has not experienced positive merchandise trade balance since 1990[1]. The trade deficit of the country, which stood at a mammoth US$12.44 billion in 2022 (31.6 percent of GDP), has been on a consistent exponential rise.

Services exports, while showing an impressive rise for a few years, have seen a decline after reaching a peak in 2018 (Figure 2). The share of services exports in the total exports of the country gradually increased in the period 2010-2018, but has declined since, notwithstanding a sharp rise in 2022. The services exports of Nepal driven by travel, tourism, and hospitality, were heavily impacted by the covid-19 pandemic. However, these sectors are now showing signs of recovery. Concurrently, the export of information technology services has emerged as a valuable addition to Nepal's overall services exports.

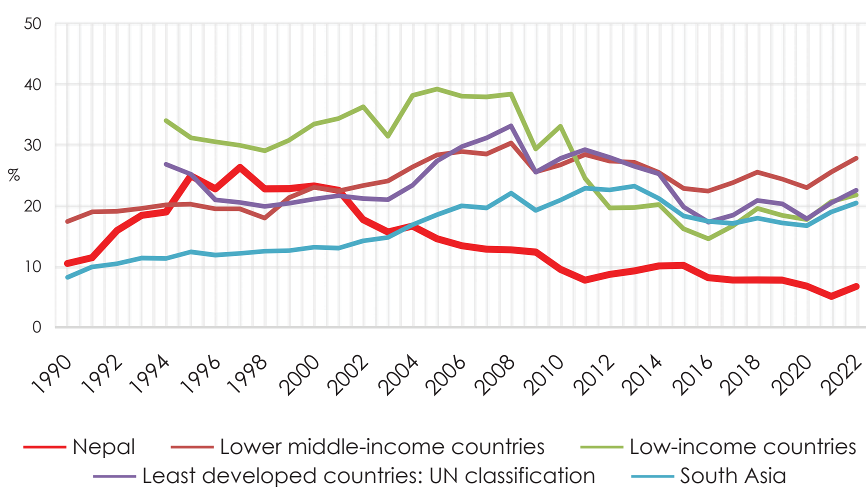
Another feature of Nepal's export is that a single destination (India) absorbs a large share of Nepal's production destined for foreign markets. About 72 percent of the country's total exports in the period 2018 to 2022 was destined for India (Figure 3). The other major trading partners include the United States, European Union (EU), United Kingdom (UK), Turkey, China, Indonesia and the United Arab Emirates (UAE), but they occupy a relatively insignificant position in Nepal's export volume.

Nepal's export is dominated by a few products. Based on HS-6 classification and apart from palm and soyabean oil, Nepal's major exports in 2022 included carpets and other textile floor coverings, cardamoms neither crushed nor ground, felt, yarn, mixture of fruit juices, black tea, jute, etc. among others. The combined exports of these top 10 products represented more than 54 percent of the total export revenue for the country, bringing in a total of US$704.7 million out of nearly US$1.3 billion in exports.Top of Form In terms of product categories, Nepal's primary export is composed of product groups: vegetable fats and oils; coffee, tea, mate and spices; man-made staple fibers; carpets; textiles and apparel products; plant products; iron and steel; (Figure 4). Emergence of palm and soybean oil at the top of Nepal's export basket is owed to some oil processors s taking advantage of difference in tariffs caused by India hiking the import duties on crude import while granting preferential rate access to final outputs from Nepal due to Agreement on South Asia Free Trade Agreement (SAFTA)Agricultural products, textiles, and clothing form a significant portion of Nepal's export portfolio, which accounted for around 82.7 percent of Nepal's total exports basket, which was 89.7 percent in the previous year.

Nepal's export of goods falls significantly short of its potential. World Bank estimates Nepal's merchandise export potential at 12 times of its actual exports[2]. The under-exporting to China exceeds US$2.2 billion, marking the largest gap in exports by destination. This is followed by India (US$1.2 billion), the United States (US$800 million), and Japan (US$700 million).[3] The performance of merchandise exports is bleak, falling from 13.1 percent of GDP in 1999/2000 to 2.9 percent in 2022/23.

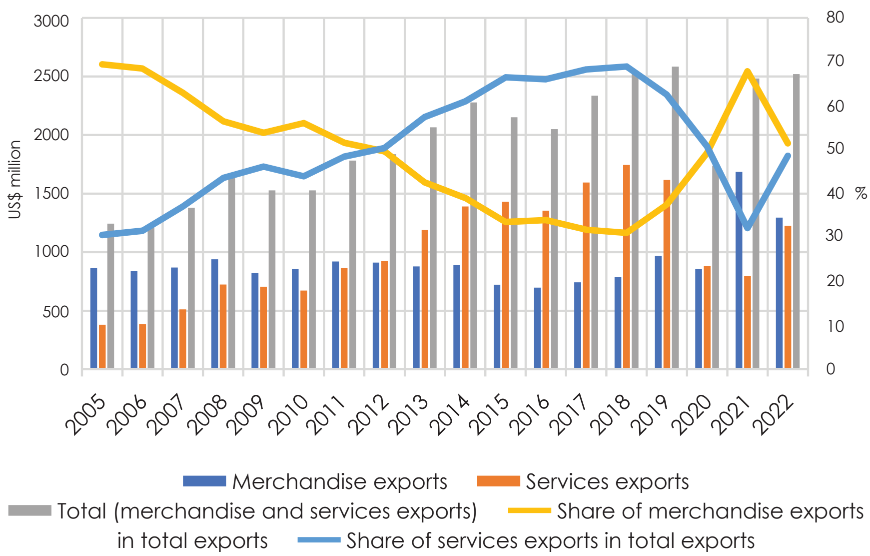
Similarly, the services exports are also not up to the mark, and significantly lags behind those of comparable countries, such as the South Asian counterparts—Bangladesh, Maldives, Pakistan, Sri Lanka, and the Southeast Asian country like Cambodia. However, there are potential to enhance services exports of the country especially in informa-

Figure 1 Export of goods and services (% of GDP)



Note: The data for the least developed countries and low-income countries are available from 1994 onwards
Source: World Development Indicators (WDI), World Bank

Figure 2 Merchandise and services exports and share (%) in total exports



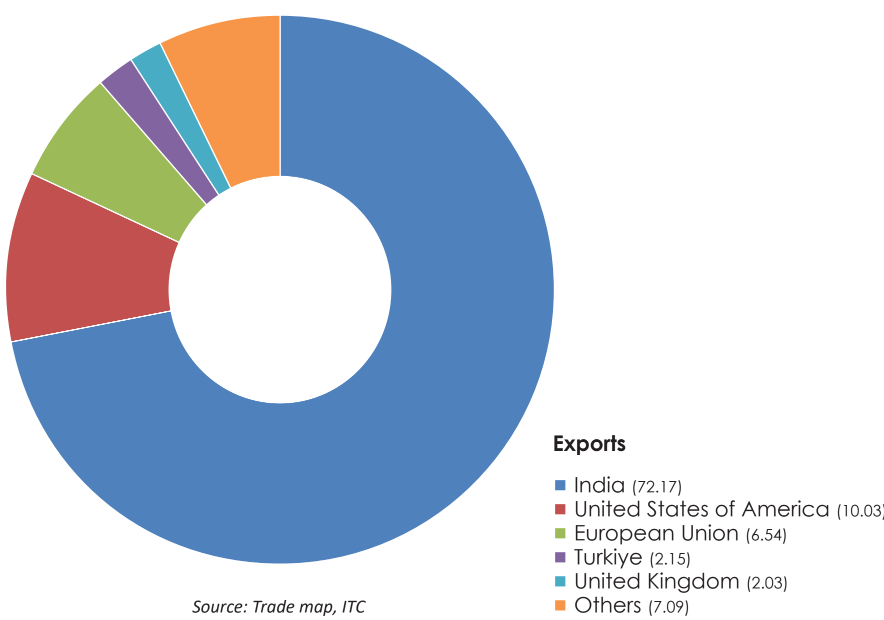
Source: UNCTAD stat

tion technology (IT) and tourism and travel sectors. According to a recent report from IIDS, IT services, which generated approximately US$500 million in exports in 2022 and employed at least 66,000 workers, offer a hopeful opportunity for both export growth and employment opportunities[4]. Further, based on the Nepal Tourism Board's data, Nepal welcomed record one million tourists in the year 2023, showing a strong potential in tourism and hospitality sectors.

In an effort to boost the country's exports, the government has recently introduced the Nepal Trade Integration Strategy (NTIS) 2023. This strategy has identified potential products primarily under four main categories—agricultural products, forest-based products, products of big industries, and products of small and cottage industries. Agricultural products include cardamom, ginger, jute, lentils, and tea. Forest-based products encompass medicinal and aromatic plants, rosin and turpentine, and hand-made paper. Products of big industries prioritized by NTIS 2023 include iron and steel, textiles and clothing, shoes, and readymade garments. Products of small and cottage industries prioritized include carpets, jewelry, pashmina, pasta, and woolen products (including felt). The NTIS 2023 identifies several strategies to enhance exports, and action plans to implement these strategies.

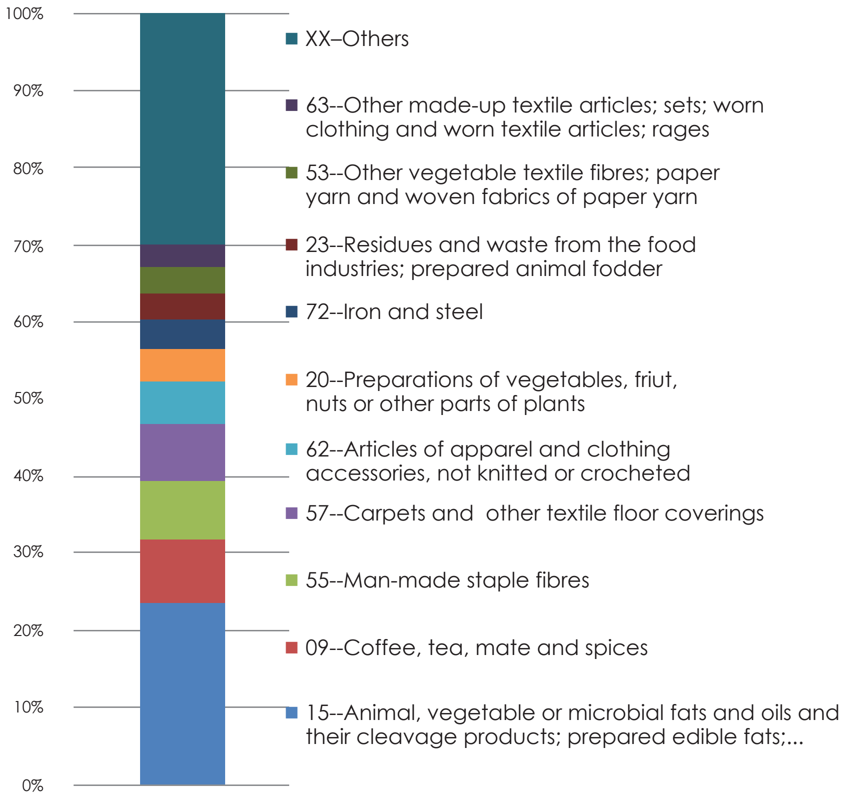
Nepal is set to graduate from the Least Developed Country (LDC) category in 2026. Its already weak export sector is expected to suffer further due to this transition—LDC graduation imply a loss of preferential market access in many destinations and loss of special and differential treatment that were applicable to LDCs. Based on the various studies using partial equilibrium models, the projected decrease in goods exports is expected to range from 2.5 percent to 4 percent. The most pronounced declines are anticipated in the European Union, the United Kingdom, Turkey, and China.[6] Moreover, with the stricter rules of origin following graduation, Nepal's exports of ready-made garments, particularly to the EU and the UK, are expected to be further affected. The impact on exports, however, is expected to be modest compared to other countries nearing graduation. This is primarily because India accounts for two-thirds of Nepal's exports, and Nepal's bilateral trade agreement with India means that its LDC status does not affect goods

Figure 3 Share (%) in Nepal's exports, top 5 destinations (average of five years 2018-2022)



Source: Trade map, ITC

Figure 4 Exports, Top 10 product categories, HS chapter wise (average 2015-22)[5]



Source: Trade map, ITC

exported to India. Furthermore, major export destinations like the EU and the UK will provide an additional three-year transition period post-graduation, providing Nepal with the same benefits it currently receives under the various LDC schemes. Nepal appears to lack specific strategies for making the most of this transition period as well as the period until it graduates. In this regard, a new strategy for promoting exports (NTIS 2023) is a welcome step. However, Nepal has had a history of weak implementation of its strategies. Furthermore, the target set by NTIS 2023 appears too ambitious. The strategy has set a target to increase the share of exports of goods and services to GDP to 20 percent within next five years (by FY 2027/28), which compared to the current rate of 7.2 percent in 2022/23, appears little ambitious, especially considering that the average share in GDP over the last five years stood at 6.7 percent[7].

Nepal is beneficiary to ample opportunities provided by enhanced market access and special and differential treatment accorded to members of the LDC category. Moreover, promoting exports has been a major policy framework of the government. However, Nepal's export performance has been dismal over the last couple of decades. Against this background, a serious assessment is needed to understand the specific reasons for Nepal's lacklustre export performance. Accordingly, plans have to be charted to utilize a host of trade opportunities provided to Nepal, and innovative policies have to be put in place to gradually enhance exports. Ultimately, Nepal needs to diversify both the products and markets in order to enhance the export sector of the country, especially on the verge of LDC graduation, where the tariff preferences Nepal is currently getting will be lost or minimized after graduation. The products identified by the NTIS can be prioritized and promoted. To improve and enhance exports, initiatives and measures such as attracting FDI inflows, support and incentives targeted for the micro, small and medium enterprises (MSMEs), enhancing trade facilitation measures and streamlining customs procedures, encouraging both domestic and foreign investors to invest in infrastructure projects and transportation networks that could reduce trade costs as well as cost of manufacturing could be done. However, efforts have to be made to ensure that these initiatives and measures are implemented faithfully.

Mr. Poudel is Programme Associate at SAWTEE.

Notes

1. Based on UNCTAD stat data.
2. World Bank. 2021. *Nepal development update: Harnessing export potential for a green, inclusive, and resilient recovery*. Washington, D.C.: The World Bank Group.
3. *ibid*.
4. IIDS. 2023. *Unleashing IT: Advancing Nepal's Digital Economy—Expanding jobs and exports*. Kathmandu: Institute for Integrated Development Studies.
5. Exports from Nepal have been inflated since 2018 due to the inclusion of palm and soybean oil. To offset this, the average exports from 2015 to 2022 have been considered to provide a more accurate depiction.
6. Pandey, Posh R., Paras Kharel, Kshitiz Dahal, Dikshya Singh, and Swastik Aryal. 2022. *Nepal's graduation from the LDC category: Implications for international trade and development cooperation*. Kathmandu: South Asia Watch on Trade, Economics and Environment (SAWTEE).
7. Based on data of Nepal Rastra Bank.

Dikshya Singh

Double edged sword of import restrictions

Although import restrictions imposed by Nepal government might have helped in arresting the slide of foreign exchange reserves, the policy had an unintended consequence in the form of a singificant adverse impact on revenue collection.

Bipin Khadka

As Nepal emerged from the two bouts of COVID-19 pandemic waves, the country's import-dependent economy faced an alarming plunge in foreign exchange reserves brought by about in its worsening balance of payments (BoP).

The ballooning trade deficit, slowdown in remittance receipts and depreciation of the Nepali rupee vis-à-vis the US dollars, challenged the foreign exchange reserve position. The extent of contraction in the reserves was so much by the end of December 2021 that they were only sufficient to meet imports of goods and services for the next six and a half months. The target set by the central bank, Nepal Rastra Bank (NRB), for the fiscal year 2021/22 was to maintain reserves enough to meet funds to meet import requirements of at least seven months.

The government and NRB intervened directly to discourage imports by introducing a cash margin requirement and an outright import ban. Nepal opted to discourage the import of select items to mitigate pressures in the external sector instead of relying on measures such as tariff and tax hikes.

Cash margin requirement is a provision requiring importers to maintain at least 50 to 100 percent of the cash equivalent in their bank accounts while getting the Letter of Credit (LC) for the imports of certain commodities. It was introduced in December 2021. In the initial phase, the policy covered 364 products — 50 percent cash margin in 26 products and 100 percent cash margin in 338 products. Two months later, NRB added 1,206 products — 50 percent and 100 percent cash margin requirements in 315 and 891 products, respectively. For example, if an importer was importing a commodity worth NPR 1 million and that commodity required 100 percent cash margin, the importer needed to have NPR 1 million in the bank account as a condition to get LC issued for the import. NRB also prohibited importers from obtaining any loan for the purpose. This increased the cost for importers and discouraged import of goods to maintain in stocks.

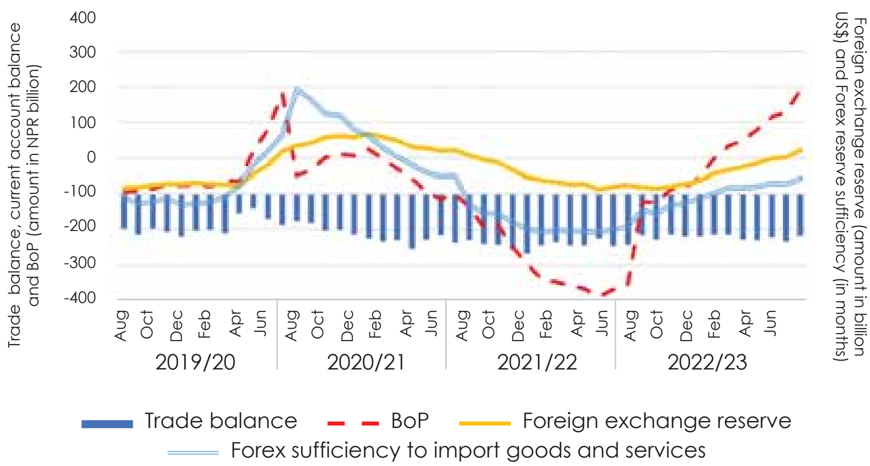
Following the cash margin requirement, the government of Nepal introduced a complete import ban on 105 goods starting from 26 April 2022. The import ban was also imposed in two stages. The first stage covered 92 goods starting from 26 April 2022 and the second stage, introduced in 17 July 2022, covered 23 goods.

Targeted items

The focus of the restriction was to deter ballooning imports, especially the goods that the policy makers deemed unnecessary or luxurious and a drain on the country's reserves. To align with this objective, the import ban covered luxury products like readymade alcohol (except raw material), smartphones (costing more than US$600 from 26 April 2022 and US$300 from 17 July 2022), automobiles (including motorcycles more than 250 cc from 26 April 2022 and 150 cc from 17 July 2022), potato chips, cigarettes and tobacco, diamonds (except raw materials), televisions, toys and playing cards.

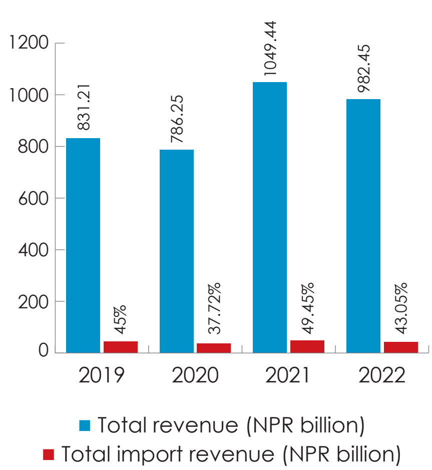
The total number of products listed under the cash margin requirement for LC and import ban made up about 25 percent and 2 percent of the total number of imported items annually. Raw materials were treated as distinct products in both kinds of restriction and were beyond the radar of restrictive policies in order to shield domestic manufacturing from the impacts. However, small manufacturers, mostly micro and small enterprises, which buy their raw materials from the domestic suppliers, are likely to have been affected.

Figure 1 Nepal's external balances



Source: Author's calculation based on data published by Nepal Rastra Bank

Figure 2 Share of import revenue in total revenue



Source: Author's calculation based on data published by Ministry of Finance

Impact

Nepal experienced pressure in BoP from the first quarter of FY 2021/22 until the first quarter of FY 2022/23. Along with it, the foreign exchange reserve also started to decline. Since Current Account dominates the BoP in Nepal, either a decline in remittances inflows or an increase in trade deficit largely puts pressure on the external balances.[1] In the post-COVID period, remittances did not increase to a similar degree as imports, leading to increased pressure on import payments. On the other hand, imports that were halted during the lockdown started to rise after the lockdowns while exports remained low as before. At the same time, foreign direct investment, a component of financial account, performed poorly.

By January 2023, both the BoP and foreign exchange reserve reached a comfortable level, prompting the government to lift both import restriction measures. The import ban cannot be credited for the improved foreign reserve position without undertaking a

Flickr

proper economic analysis to establish a causal relationship between the two phenomenon. Even if the causality is established, the import restrictions were not free of problems, besides loss of consumer welfare loss.

Besides the import ban, the use of monetary tools such as increasing the policy rate (repo rate) from 5.5 percent to 7 percent, which heralded tighter monetary stance, helped increase the interest rates and curb demand—rhelping stem the depletion of foreign exchange reserve as suggested by the IMF.[2]

Using tariffs could have reduced imports besides generating revenue for the government treasury. Surprisingly, Nepal adopted measures to check imports, impacting revenue, inflation and the welfare of consumers.

Double-edged sword

Although the import restrictions might have helped in arresting the slide of foreign exchange reserves into unsustainable territory[3], the policy adversely impacted revenue collection. The treasury seemed to be the likely impact on revenue collection of import ban but was left with no appropriate alternative.[4] Improved external balances through import restrictions generated fiscal imbalances.

Imports are one of the major sources of government revenue for Nepal (Figure 2). In 2019, import-based revenue accounted for 45 percent of the total government revenue.[5] This declined to 37.72 percent in 2020, primarily due to multiple rounds of COVID-19 lockdowns, before rebounding to 49.45 percent in 2021. This again declined to 43.05 percent in 2022, putting pressure on the fiscal balance in the aftermath of COVID-19. As the import bans were implemented, the first half of FY 2022/23 experienced a decline in revenue collection. This was the first instance in more than five decades where revenue collection declined during the first half of the fiscal year.[4] The share of exports in total foreign trade stagnated throughout the period, standing below 10 percent of total foreign trade between FY 2017/18 and 2022/23.

Between 2017/18 and 2020/21, the merchandise covered by the import ban and cash margin constituted about 5.26 percent and 21.79 percent of the total import value, respectively. Additionally, these products contributed 19.18 percent and 37.45 percent to the import revenue. This indicates that the products covered by the restrictions formed a substantial part of Nepal's imports before the introduction of restrictions.

Imports are not limited to revenue figures and volume of imports, they also have forward and backward linkages. The import policy barriers disrupted economic activities in many ways. For example, Nepal experienced its highest consumer price inflation in the last seven years, government revenue shrunk, a conducive environment for informal trade was formed. Despite the prohibition on certain goods, many items were available in the market except for vehicles. It not only reduced government revenue but also compelled consumers to pay higher prices.[6]

Mixed picture

The Nepali economy appears to be on the path of recovery after the lifting of the restrictions, but the long-term sustainability of the economy has been questioned by several quarters.[7] After the restriction, the external position is in a comfortable stage but there are concerns about its sustainability.

Resorting to import restrictions whenever foreign exchange reserve depletes will be unsustainable without considering other moves to strengthen the export base and increase foreign direct investment.

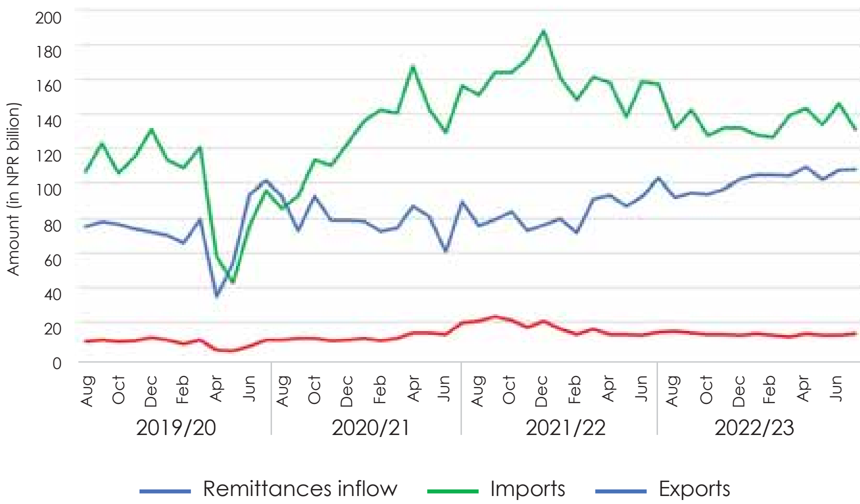
One possible way to bridge the trade imbalance could be net foreign direct investment (NDI). NPR 19.68 billion was realized as NDI in FY 2019/20, which saw a nominal dip to NPR 19.51 billion in FY 2020/21. This figure further declined to NPR 18.6 billion in FY 2021/22, which

Table 1 Restricted commodities' share in total import and import revenue

Products subjected to	Import revenue (FY 2017/18 – 2020/21)	Imports (FY 2017/18 – 2020/21)
Import ban	19.18 %	5.26 %
Cash margin	37.45 %	21.79 %

Source: Author's calculation based on data from the Department of Customs

Figure 3 **Comparison between remittance inflow and import and export values**



Source: Source: Author's calculation based on data published by Nepal Rastra Bank

significantly dropped to NPR 5.96 billion in FY 2022/23. Despite recent policy changes aimed at facilitating foreign investment[7], the actual realization has remained very low.

Recently, the government has enacted multiple policies to bolster the inflow of foreign exchange reserves and improve the external sector indicators. In November 2022, the Security Exchange Board of Nepal (SEBON) fixed a 10 percent quota on Initial Public Offering (IPO) to legal migrant workers working abroad. Nepali citizens working legally abroad with a valid work permit issued by the government are now eligible to apply for the IPO from their remittance savings accounts. Similarly, in March 2023, the government expanded the contribution-based Social Security Fund (SSF) to Nepali migrant workers and self-employed abroad. Through the federal budget of FY 2022/23, the minimum foreign investment limit has been revised and fixed at NPR 20 million and approval of up to NPR 100 million has been provisioned via an automated system, and investment in IT sector does not have any minimum threshold.[8] These programmes were anticipated to increase foreign exchange earnings and promote the remittances inflows through legal channels, but the realization of these policies impact could take time.

Way forward

Nepal was heading to a dire state induced by external sector imbalances, so it adopted two policies to check imports. Nepal needs to find several other sources to fill the widening resource gap created by ballooning imports and stagnating exports. To tackle this challenge, it is possible to manage aggregate demand through monetary mechanisms without jeopardizing the external sector, the stability of the fiscal sector and the welfare of the nation.[9]

Since Nepal government realizes nearly half of its total revenue from import-driven sources, trade restrictions are counterproductive for the economy unless it becomes self-reliant and diversification of revenue is prioritized beforehand. Trade barriers put pressure on the Nepali economy by raising the price level, reducing the welfare of the consumer and amplifying informal trade. On the flip side, import barriers uplifted the position of the external balances and helped to redefine notions of food security, energy security and a self-reliant economy. To make an economy resilient to future disturbances, Nepal has the opportunity to use its demographic dividend to mitigate supply-side constraints before it's too late. ■

Notes

1 Current Account includes both the trade balance and remittances flows, making it largest contributor in BoP position.

2 In 4 May 2022, IMF emphasized to curb depleting foreign reserve by using monetary mechanisms rather than fiscal mechanism. https://www.imf.org/en/News/Articles/2022/05/03/pr22139-nepal-statement-at-the-conclusion-of-imf-mission

3 Nepal imposed import restriction measures citing Export and Import (Control) Act, 2013 (1957), section 3 (j) and Foreign Exchange (Regulation) Act, 2019 (1962), section 12. Both have objective to maintain healthy BoP.

4 Prasain, Sangam. 2023. "Nepal downsizes budget as revenue collection plunges". *The Kathmandu Post*, 12 February 2023. Accessed April 2023 https://kathmandupost.com/money/2023/02/12/nepal-downsizes-budget-as-revenue-collection-plunges

5 Import-based revenue includes: custom sduty, VAT on imports and excise duty on imports.

6 Prasain, Sangam and Krishana Prasain. 2023. Import ban nearly suffocated Nepali economy, expert say. *The Kathmandu Post*, 25 July 2023.

https://kathmandupost.com/money/2023/07/25/import-ban-nearly-suffocated-nepali-economy-experts-say

7 Federal budget of FY 2022/23 has changed several policies to attract foreign investment. Such policy includes lowering the minimum limit to NPR 20 million, granting automatic approval for investments of up to NPR 100 million and ensuring electronic approval within seven days, among other modifications.

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https://mof.gov.np/uploads/document/file/1656476715_Budget%20Translation%20031379%20cv.pdf

9 World Bank Group. 2023. *Nepal Development Update*. Key Economic Developments. Washington DC: The World Bank, 36.

Rupesh Tha

Nepal-China trade: **disentangling the knots**

While Nepal has been benefiting from China's zero-tariff treatment, Nepal's exports to China are not only modest but also declining.

Rupesh Tha

The trading relationship between Nepal and China predates recorded history. After formal diplomatic ties were established in 1955, Nepal and China signed their inaugural trade agreement in 1956, marking the beginning of an official bilateral trade relationship. In Nepali fiscal year 2022/23, Nepal's trade with China constituted 14 percent of its overall trade, as per data from Nepal's Trade and Export Promotion Centre (TEPC).[1]

Despite China holding the position of Nepal's second-largest trading partner, the scales of trade tilt markedly in China's favour. Nepal grapples with a substantial trade deficit with China. A salient and consistent theme throughout this period is Nepal's persistent trade deficit with China.

The extent of this imbalance is strikingly evident when we examine the data. In the year 2017, the value of Nepal's imports from China was about 73 times that of Nepal's exports to China. By 2022, imports from China about 346 times that of Nepal's export to China (Figure 1). Nepal's primary exports to China are low-value items such as carpets, handicrafts, and agricultural products. Nepal mainly imports, high-value capital goods, such as electronics and communication items from China.

Zero-tariff treatment to Nepal

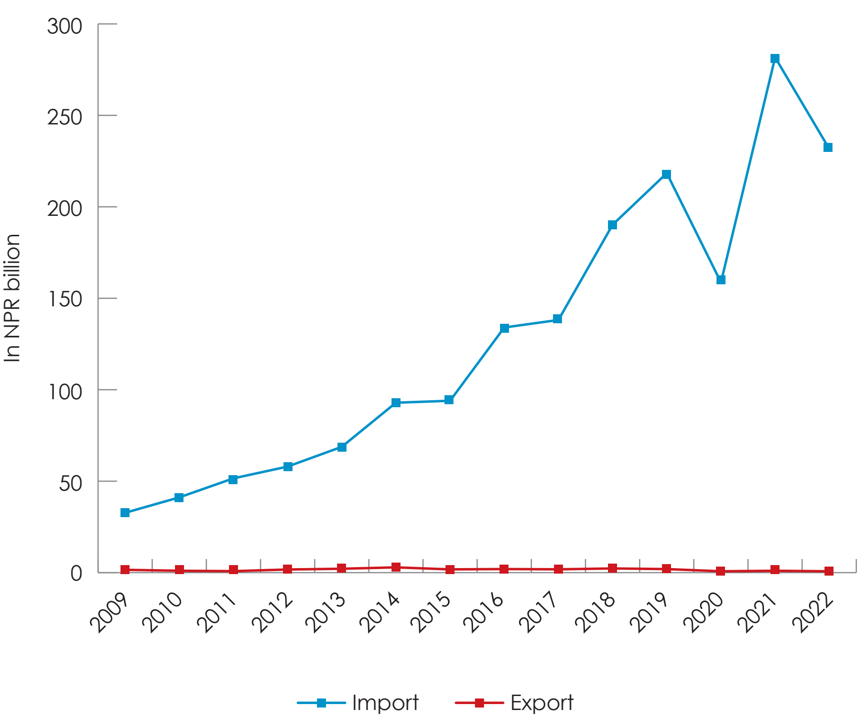
Since 2001, China has been progressively granting zero-tariff treatment to products from least developed countries (LDCs).[2] In response to the World Trade Organization's decision to provide duty-free-quota-free (DFQF) access to LDCs, in 2005, China pledged to extend 'special and preferential tariff treatment' to cover up to 98 percent of its total tariff lines. By 2015, China was offering LDCs duty-free access to 97 percent of the tariff lines to support the growth of LDC exports to China.

As an LDC, Nepal was also granted the DFQF access to China. Further, the Nepal-China relationship reached a significant milestone in May 2010 with the formal signing of a letter of exchange.[3] This agreement granted zero-tariff treatment to Nepal as an LDC. Currently, Nepal gets duty-free access in more than 8,000 tariff lines at the HS Code 8-digit level, encompassing all of Nepal's major exports for trade with China. Regrettably, Nepal has thus far been unable to leverage these opportunities and expand its export footprint within the Chinese market.

In 2017, China imported 241 goods from Nepal, including 187 products that are eligible for the zero-tariff treatment. The trend has continued as the eligible goods have increased steadily (see Figure 2). By the year 2022, China imported 218 goods from Nepal, with 188 of them on the zero-tariff list, making up approximately 86.23 percent of the total imports. In 2017, China imported goods worth US$17.85 million from Nepal, with US$15.31 million benefiting from zero tariffs. In 2022, China imported goods worth US$21.77 million from Nepal, with 86.23 percent of the items (188 out of 218), valued at US$20.24 million, enjoying zero-tariff treatment (see Figure 3). According to the World Trade Organization, Nepal's preference utilization rate of the DFQF facility offered by China was only 61.1 percent in 2020.[4]

While Nepal has been benefiting from China's zero-tariff treatment, a notable issue emerges. Nepal's exports to China have not only been modest but have, in fact, exhibited a declining trend.

Figure 1 Nepal's trend of exports to and imports from China



Source: TEPC

Nepal's challenges

Nepal's limited production base—both in terms of product variety and volume—has also caused exports to China to remain low despite the zero-tariff policy. According to the International Trade Center's Export Potential Map, Nepal has the capacity to export up to US$20 million to China. However, the current export figures indicate that Nepal is exporting goods worth US$11 million only.[5]

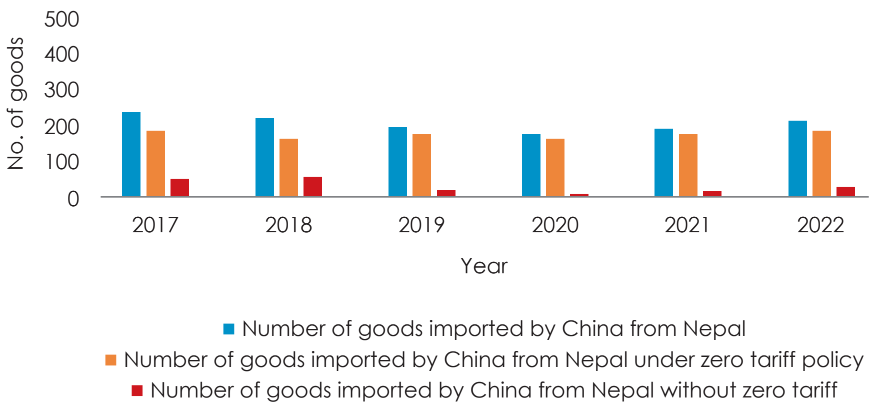
Despite Nepal's access to zero-tariff treatment for exports to China, it has struggled to fully leverage this opportunity. Instead of reaping the benefits of preferential trade with China, Nepal has witnessed a consistent decline in exports to its neighbouring economic giant since the 2015 earthquakes. The intermittent closure of the land borders due to natural disasters and the pandemic has affected exports.

The decline in exports to China can also be attributed to factors such as inadequate production capacity, a shortage of laboratory facilities for edible products, and shortcomings in quality control and standardization. Nepal's capacity to manufacture and provide goods and/or services to the available market in a competitive way is constrained by supply-side limitations.[6] Due to limited production capabilities, Nepal is not in a position to take advantage of even the most generous market access prospects. Insufficient human resources, poor trade facilitation measures and inability to manufacture quality products further limit the possibilities.

Nepal struggles to align its goods production with those eligible for China's zero-tariff treatment, rendering it unable to capitalize on the benefits. The goods wholly produced in Nepal or the goods that have undergone a substantial transformation in Nepal are eligible to receive the DFQF facility, according to the Chinese Rules of Origin (RoO) criteria. The goods that use foreign raw materials satisfy the transformation criteria if there is at least 40 percent value addition or there is a change in tariff heading. Some products are subject to product-specific rules and not the value addition of change of tariff classification criteria. Since Nepal's exportable products require imported raw materials, this origin rule may be difficult for some exporters to comply with.

Moreover, Nepali traders lack information and awareness about eligibility requirements to avail themselves of the zero-tariff treatment. Despite 80 to 90 percent of goods being eligible for zero-tariff treatment, they often do not receive the associated benefits due to a lack of awareness among traders.

Figure 2 China's import of duty-free goods from Nepal



Source: ITC Trade Map and Market Access Map

Disruption to land trade

Following the COVID-19 pandemic, China's border closure with Nepal led to diminished exports through land ports. While air transportation for exports is costly, the sea route entails prolonged transit times and increased expenses. Trade through land routes had already been affected following the flooding of Sunkoshi River in 2014 and the 2015 earthquake that led to a complete shutdown of the land port at Tatopani. The outbreak of the COVID-19 pandemic in 2019 further compounded Nepal's export woes due to severe restrictions on cross-border movement.

These impediments culminated in a halt to Nepal's exports to China from these major land ports. In 2017, land routes accounted for 52.49 percent of exports. During the pandemic, in 2020, this figure dropped significantly to 11.58 percent. In 2021, there were no exports via land routes, and in 2022, they made a partial recovery, accounting for 1.93 percent of total exports.

During the COVID-19 pandemic, although land route exports to China were halted in 2021, imports continued. In 2020, the share of air route exports surged from 13.75 percent (2019) to 93.88 percent, but dropped to 79.59 percent in 2022. Land exports fell from 84.62 percent (2019) to zero (2021) but rebounded to 14.29 percent in 2022. Sea exports increased from 1.63 percent (2019) to 6.12 percent (2022). High-demand items like furniture, carpets, shawls, and statuettes shifted to air routes. However, there is a glimmer of hope on the horizon. China recently reopened the Rasuwa border on 1 May 2023[7], and the Tatopani border on 1 September 2023.[8] This development holds the promise of rejuvenating trade between the two nations through smoother transport of goods.

At the land borders between the two countries, issues such as lack of infrastructure and difficulty in communication also emerge as challenges. Traders using the land ports say that the language barrier between Nepali traders, who often do not speak Mandarin, and Chinese customs officials, who may not understand English or Nepali, poses significant challenges when transporting goods at the land customs points.

Moreover, poor infrastructure in Nepal hinders efficient and seamless exports to China through land ports. Both the Rasuwa and Tatopani border areas have poor road infrastructure as well as other port-related infrastructures such as parking areas for trucks.

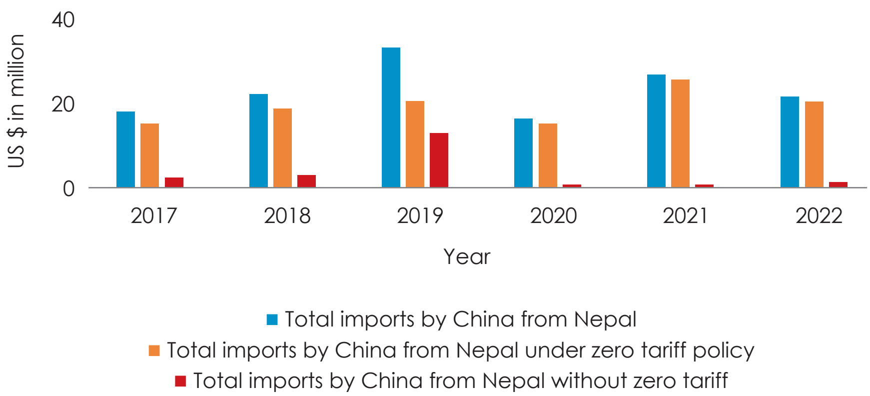
Additional issues

China provides zero tariffs using its own 8-digit HS codes. Nepali traders face confusion when trying to interpret or match these HS codes into Nepali HS codes when exporting goods to China.

In addition, Nepal faces a challenge in exporting food products to China due to the absence of accredited Chinese-trusted laboratories within its borders. Nepal struggles to meet the stringent Chinese requirements for edible products, hindering its exports of food items like meat and plant-based fruits to the Chinese market.[9]

Nepal-China trade encounters payment challenges, with the sole option of Letter of Credit (LC) for exporters while importers have options: LC, Telegraphic Transfer (TT) and bank drafts. In addition, Nepali traders point out that when participating in Chinese trade fairs and exhibitions they face challenges in bringing back

Figure 3 **China's imports from Nepal**



Source: ITC Trade Map and Market Access Map

earnings to Nepal after sales due to a lack of a proper financial channel.

Furthermore, rampant under-invoicing, driven by high tariffs and arbitrary customs assessments in Nepal, hampers the use of the LC system and obscures transparency within the private sector.[10] The land transport for bilateral trade is controlled by certain groups that wield significant influence, resulting in monopoly in pricing and other decisions.

Future prospects

A comprehensive reevaluation of the existing trading system is necessary to stimulate more seamless bilateral trade between the two nations.

The current duty-free access afforded to Nepal presents a significant opportunity for Nepal to boost its exports to the Chinese market. However, realizing this potential will require concerted and sustained efforts, particularly in promoting the export of specific high-potential Nepali products. Enhancing the production capabilities of products with recognized export potential in China is a critical endeavour.

To fully harness this export potential in China, it is imperative for the Government of Nepal and the private sector to collaborate closely and establish the requisite infrastructure within a cooperative, coordinated, strategic, and time-bound framework. Some of the necessary measures are as follows:

- Nepal should diversify its export portfolio to include products that have higher demand in the Chinese market and are eligible for zero-tariff treatment.
- For exporting goods to China, additional modes of payments besides LC should be considered.
- Enhance the production capabilities of goods with export potential. Investing in technology, quality control, and standardization will help meet China's stringent requirements.
- The capacity of traders and customs agents needs to be enhanced so that they could fulfill the documentary requirements of the Chinese customs procedures.
- More efforts should be invested in economic diplomacy to boosting bilateral trade and economic ties. Strengthening ties between the private sectors of the countries could be helpful in creating trade and investment linkages.
- Nepal needs to develop infrastructure, such as accredited laboratories for quality testing and storage facilities, to meet Chinese standards and ease the export process at land ports. ■

Mr. Tha is Research Officer at SAWTEE. This article draws on a research conducted by SAWTEE as part of a project supported by The Asia Foundation. Views are personal.

Notes

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4 World Trade Organization. Preferential Trade Agreement Database (PTADB). http://ptadb.wto.org/ptaTradeInfo.aspx.

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Unpacking the United States' trade preferences for Nepal

While there is significant room to increase the utilization of available preferences, expanding the list to include more products of export interest to Nepal would enhance its benefits.

Paras Kharel

Nepal's merchandise exports to the United States (US) in 2021, at US$108.3 million, were lower than what they were at their peak in the late 1990s. This is not a result of the adverse shocks in the wake of the Covid-19 pandemic, but driven by a plunge in exports of clothing since the early 2000s in the wake of the phase-out of global quotas in the textiles and clothing sector. Imports, on the other hand, have risen steadily, and the trade balance, consistently positive during the export boom phase, has worsened over the past two decades to turn negative in the four of the five years during 2015-2019. The importance of the US market for Nepali exports has declined, with the US' share of Nepali exports plunging from 27 percent in 1999–2000 to 11 percent in 2018–2019. The US' share of Nepal's imports has also declined, from 4

percent in 1994–1995 to 1 percent in 2018–2019.

The Nepal Trade Preference Programme (NTPP) entered into force on 30 December 2016, providing duty-free market access to a set of 66 products (at the HS 8-digit level, or tariff line level) exported from Nepal until 31 December 2025. This preferential market access was aimed at promoting Nepal's trade and economic development in the wake of the devastating earthquake of April 2015 and its aftershocks. Due to changes in the tariff classification system beginning in 2017, the number of products increased to 77. While the Trade Facilitation and Trade Enforcement Act of 2015 (Sec. 915) that was the legal basis for the scheme included products that were otherwise ineligible for duty-free access under the Generalized System of Preferences (GSP) programme, duty-free treatment for 31 of the 77 products was extended to other developing countries under the GSP programme before the NTPP came into force at the end of 2016.

The 77 NTPP products (also referred to as NP products in this article) encompass a limited range of product categories, spanning six HS chapters: 40 tariff lines in Chapter 42 (Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)); 13 tariff lines in Chapter 57 (Carpets and other textile floor coverings); 2 tariff lines in Chapter 61 (Apparel and clothing accessories; knitted or crocheted); 7 tariff lines in Chapter 62 (Apparel and clothing accessories; not knitted or crocheted); 2 tariff lines in Chapter 63 (Textiles, made up articles; sets; worn clothing and worn textile articles; rags); and 13 tariff lines in Chapter 65 (Headgear and parts thereof).

While total goods exports to the US have been on an upward trend since 2012, exports of NP products have been on a downward trend. Nepal's aggregate exports of products under NTPP to the US averaged over 2017-2021 were 26.5 percent lower than during 2012-2015, compared to a positive growth of 18 percent recorded by total exports of other products. Exports of NP products in 2021 were U$8.47 million and had a share of 7.8 percent in total exports to the US (compared to 14 percent in 2012).

The NP products are close to Nepal's current export capabilities. They represented an import market of US$13 billion in the US in 2021.

During 2017-2021, Nepal exported 1,082 products to the US. Of these, a total of 297 products were potentially eligible for duty-free access under GSP (both generic and LDC-specific) and 75 were potentially eligible for duty-free access under NTPP. A total of 75 of the 77 NP products were exported at least once during 2017-2021. Thirty of them were also on the GSP list. The US' GSP programme expired on 1 January 2021, but imports into the US from Nepal continue to claim GSP, on the assumption that it will be retroactively reinstated as in the previous instances of expiry.

> Preference utilization is much higher for GSP-eligible products than for Nepal Trade Preference Programme-eligible products.

The eligibility for preferential schemes—a product is considered potentially eligible if it is on the list of preferential schemes—has increased, from 18 percent of exports in 2017 to about 29 percent in 2021. In the final year, 21 percent of exports were eligible for GSP-only preferences, 5 percent for NP-only preferences and about 3 percent for both preferences. The rest were subject to MFN tariffs. Nepal's GSP-eligible exports to the US were almost entirely of products on which preferential access is available to a wider set of developing countries rather than to just least developed countries. About 35 percent of exports of NP products were of products that were also on the GSP list.

The percentage of exports claiming GSP or NP preferences increased from 12 percent in 2017 to 20 percent in 2021. The share of exports claiming GSP increased from 9.4 percent to 16.6 percent, while the share of exports claiming NP preferences increased from 2.6 percent to 3.6 percent. The share of exports that were preference-eligible but for which no preferences were claimed increased, from 6 percent to 8.4 percent.

The top 10 of the 75 NP products that were exported at least once during 2017-2021 accounted for 78 percent of exports generated by NP products. Six of them were also on the GSP list. The mean and median exports of these 75 products were, respectively, about U$87,000 and US$14,000.

Preference utilization (defined as exports entering the US claiming preferences as a percentage of total preference-eligible exports), in the aggregate, is much higher for GSP-eligible products than for NP-eligible products, averaging 67 percent and 47 percent, respectively, during 2017-2021.

The aggregate utilization rate for exports of NP products during 2017-2021 was 59 percent when considering utilization of both available preferences (NP and GSP), as some NP products are also on the GSP list.

In the aggregate, averaging over 2017-2021, preference utilization is higher among products that are common to NP and GSP lists (85.7 percent) than among NP-only products (46.2 percent) and even GSP-only products (71.6 percent). Preference utilization among products common to NP and GSP lists has been falling. Preference utilization among NP-only products has seen an increase over its 2017 level but declined sharply in 2021. Among products common to both lists, the share of exports that claimed duty-free preferential access attributable to GSP preferences witnessed a sharp decline, from 61 percent to 11 percent. A sharp fall in the share of NP exports claiming GSP in 2021 might be due to the suspension of the GSP programme, prompting traders to claim NP instead of GSP when a product is on both lists.

Computing preference utilization rate (combining available NP and GSP preferences) at the product level and taking their average, the utilization rate has a mean of 59 percent and a median of 61 percent for NP products. The mean and median utilization rates for products also covered by GSP were 71 percent and 74 percent, respectively, much higher than 51 and 46 percent for products not covered by GSP.

The mean and median utilization rates fall to 43 percent and 38.5 percent, respectively, when considering just utilization of NP preferences. Among the top 10 export products on the NP list, the total utilization rate ranged from 28 percent (for a type of carpet, ranked fourth in NP exports and not covered by GSP) to 97 percent (sports bags, ranked second in NP exports and covered by GSP).

Nepali products exported to the US that were not eligible for any preferential scheme faced a median tariff of 5.6 percent and a maximum tariff of 55 percent in 2020. Ready-made garments and footwear are among products of export interest to Nepal that face high tariffs and do not get any tariff preferences. NP products faced a median MFN tariff of 7.5 percent, implying that they enjoyed a median potential preferential margin of 7.5 percentage points. NP products not on the GSP list faced a median MFN tariff of 7 percent while NP products also on the GSP list faced a slightly higher median MFN tariff of 8.8 percent. Products on the GSP list but not on the NP list faced a lower median MFN tariff of 4.2 percent. Therefore, on average, the preference margin under NP is higher than that under GSP. The higher preference margin for products common to NP and GSP lists is a possible explanation for the higher preference utilization among these products.

About two thirds of total exports to the US during 2018-2021, on average, faced zero MFN tariffs. About 84 percent of exports ineligible for preferences faced zero MFN tariffs.

From difference-in-differences and triple-difference estimations, we do not find conclusive evidence that the introduction of the NTPP led to an increase in Nepal's exports of the products it granted duty-free market access to. Leaving aside causal interpretation, a takeaway is that preferences granted under the NTPP were not able to increase exports of NP products relative to exports of non-NP products net of other effects on the two sets of products.

In a roundtable discussion on Nepal-US trade relations, focusing on the NTPP, organized on 20 July 2023 in Kathmandu, private sector representatives pointed out that information on the opportunities available under the NTPP had not been effectively disseminated, the exclusion of key products of export interest to Nepal from the scheme had reduced the value of the scheme to the nation's overall export sector, and the capacity building components under the NTPP and the Nepal-US Trade and Investment Framework Agreement had not been operationalized in a manner that responded to the export sector's and exporting firms' needs.

Private sector says that information on the opportunities available under the NTPP had not been effectively disseminated.

Implications and way forward

- There is considerable room to increase the utilization of existing preferences (whether GSP or NP, but especially products that are only on the NP list).
- The reasons behind the relatively low utilization rates for products only on the NP list should be investigated and addressed, as should be the decline in utilization rates for products common to the NP list and the GSP list.
- The reasons behind exports of NP products growing much slower than exports of other products need to be ascertained.
- Scaling up exports of preference-granted products by addressing productive capacity and supply-side constraints is also needed, as even a cent percent utilization of the available preferences is unlikely to translate into a substantial increase in the exports of these products without addressing those constraints.
- Reinstatement of GSP is important for Nepal as GSP accounts for 80 percent of Nepal's preference-claimed exports.
- Restoration of GSP will also preserve preferences on over a third of exports of NP products even if the NTPP is not extended after expiration.
- NTPP was introduced through an Act and had received WTO waiver. A strong justification will be needed for extending the Programme, and the process will be time consuming.
- Extending the NTPP beyond 2025 is likely necessary to build the capacity to export. Effectively operationalizing the capacity building and technical assistance window under the Nepal-US Trade and Investment Framework Agreement would be crucial. However, lessons must be drawn from the implementation of the window so far.
- Extending the NTPP beyond 2025 would provide an opportunity to include other items of export interest to Nepal. Any list of products to be proposed by Nepal should be backed up by thorough research and extensive stakeholder consultations.
- About 84 percent of the value of Nepal's exports to the US that are ineligible for preferences in the US facing zero MFN tariffs implies an opportunity to exploit the export potential in these products further. ■

Dr. Kharel is Executive Director, SAWTEE. This article is based on a study done by the author as part of a project supported by The Asia Foundation.

Dikshya Singh

Nepal-India Treaty of Trade: **Avenues for amendments**

Although Nepal gains duty-free access in India for almost all of its products, some provisions of the treaty constrain Nepal's exports to India. Hence, amendments to the current version of the treaty could make bilateral trade more mutually beneficial.

Posh Raj Pandey, Paras Kharel and Kshitiz Dahal

The Nepal-India Treaty of Trade governs formal trade between Nepal and its largest trade partner. From the most liberal treaty of 1996 in terms of market access conditions for Nepal to the 2002 revision notable for its introduction of trade restrictions to the 2009 revision that included a provision potentially paving the way for the mutual recognition of standards-related certificates, Nepal-India trade agreements have witnessed considerable changes since the first such agreement with independent India was signed in 1950. A constant feature of the bilateral trade relationship in the last two decades has been a galloping trade deficit facing Nepal. Nepal's merchandise exports to India are under 30 percent of their potential.[1]

Although Nepal gains duty-free access in India for almost all of its products, some provisions of the treaty constrain Nepal's exports to India. Furthermore, some of the reciprocal provisions of the treaty do not pay heed to the huge asymmetry in the size of the economies and their levels of development. What follow are suggested amendments that could mitigate the main deficiencies in the current version of the treaty, as well as implementation and miscellaneous issues that need to be addressed to make bilateral trade more mutually beneficial.

Ensure duty-free quota-free access to all Nepali exports

India has imposed quotas (Tariff Rate Quotas) on four products (Para 1(d) of the Protocol to Article V), that are of export interest to Nepal—vegetable fats, acrylic yarn, copper products, and zinc oxide. The administration of these quotas is riddled with hassles, designed to discourage imports even within the quota. Since the treaty allows safeguard measures (which are temporary in nature and need to be backed by a detailed investigation) to be taken against imports that cause or threaten to cause serious injury to domestic industry, there is no need for quotas, which are far more restrictive.

There are no such quotas in India's scheme of trade preferences to products originating in least developed countries (LDCs) at the global level and in India's scheme of preferential tariffs to products originating in LDC members of the Agreement on South Asian Free Trade Area (SAFTA).

Given the fact that the margin of preference enjoyed by Nepal has been eroding because of tariff preferences also accorded to other LDCs' exports[2], India's free trade agreements (FTAs) with other nations, and decreasing applied tariff rates, there are grounds for the current exceptions to duty-free access for Nepali products to be lifted.

Waive the provision of unconditional MFN treatment

As per Article III of the Trade Treaty, if Nepal were to sign any bilateral or regional trade agreements, the preferences accorded in such agreements will automatically be granted to India as well, even if India were not a party to the agreement. This provision significantly curtails Nepal's ability to enter into free trade agreements or customs union agreements as potential trade partners will not have much of an incentive to do so given that India stands to free-ride on the tariff concessions offered by Nepal. Similarly, there could be products on which Nepal is in a position to grant preferential tariffs to some other trade partners (for example, the likely adverse impact on domestic producers is limited) but not to India.

This provision, in short, constricts Nepal's trade negotiation space. Thus, this provision must be waived considering the negative impact it has on Nepal's ability to enter into trade agreements with other nations. The following should be added to Article III: "The provision shall not apply to any preferences and advantages accorded to any customs union, a free trade area or similar arrangements which either of the two Governments has concluded or may conclude in the future."

Revisit the provision of reciprocal duty-free access

Article IV grants reciprocal duty-free and quota-free treatment to a mutually agreed list of primary products, including primary agricultural products. This provision constrains Nepal government's ability to protect its agriculture sector from imports from India, where farmers receive a significant amount of subsidies, by imposing tariffs on these products. It was with the aim of having the flexibility of protecting agriculture through tariffs that the Nepal government had managed to set fairly high bound rates (relative to applied rates) for many primary agriculture products in the deal it negotiated for its accession to the World Trade Organization (WTO). Yet it is unable to utilize this policy space on account of Article IV of the treaty. Thus, the treaty must incorporate an exception to the provision for reciprocal duty-free access for primary products from India to Nepal by excluding primary agriculture products.

Even as it negotiates for this amendment, Nepal government should also initiate negotiations with members of the Agreement on SAFTA with a request that it be allowed to bring back select primary agricultural products into its sensitive lists, goods which can be shielded from tariff liberalization. Otherwise, even if the Treaty were amended as suggested here, Indian exporters would still have the option of exporting primary agricultural products to Nepal through the SAFTA route.

Once this amendment is through, it does not mean that Nepal government should start jacking up tariffs on primary agriculture products immediately. But negotiating such an amendment certainly means the government wants to have the option of raising tariffs if and when necessary.

The list of primary products eligible for duty-free access in Article IV must be accompanied by Harmonized System (HS) codes to avoid ambiguities.

Simplify rules of origin criteria

India imposes twin criteria to determine eligibility for Nepali manufactured products to qualify for duty-free entry: (i) a change in tariff classification (CTH): a change in tariff classification, at the four-digit level, of the HS is required; and (ii) substantial transformation criterion: third-country content must not exceed 70 percent of free-on-board (FOB) price (equivalent to 30 percent domestic value addition). It is to be noted that India's rules of origin for some products originating in LDCs under the SAFTA Agreement are more lenient than in the Nepal-India Trade Treaty.

In view of Nepal's weak industrial base, low productive capacity and supply-side constraints and the preference erosion experienced by Nepali exporters in the Indian market, the multiple rules of origin should be replaced with a single rule based solely on a domestic value-added criterion. Further, relaxation of the substantial transformation criterion, by increasing maximum third country content requirement from 70 percent to 75-80 percent (equivalent to reducing domestic value addition from the current 30 percent to 20-25 percent), will also be an important amendment.

Remove all other duties and charges (ODC)

To ensure predictability and a more conducive environment for trade, all the duties and charges that are levied in addition to customs duties should be removed[3]. The ODCs include Education Cess, Higher Education Cess, additional duty of customs (CVD), and Additional Duty (SAD) in the case of India and Agriculture Reform Fee in the case of Nepal[4].

Operationalize the provision for mutual recognition

In Para 6 of Protocol to Article II of the treaty, both countries have agreed to grant recognition to the sanitary and phytosanitary (SPS) certificates (including health certificates) issued by the competent authority of the exporting country with regard to agricultural and food products. Implementing this provision to grant recognition to testing and certification done by the competent authority of Nepal regarding safety and quality parameters in, to begin with, the products of key interest to Nepal would greatly benefit Nepali exporters. This is important because SPS and technical barriers to trade (TBT) issues, particularly testing and certification, are considered to be major barriers to Nepali exports of items like tea, cardamom, ginger, and other agricultural and food products.

Address some procedural irritants in exports

In order to address procedural irritants in the export of, for example, pharmaceutical products, vegetables, medicinal and aromatic plants, there is a need to amend Para 4 of Protocol to Article 1 as: "Both Contracting Parties will facilitate cross-border flow of trade through simplification, standardization and harmonization of customs, transport and other trade related procedures, *including inspection, import licensing, certification, registration*, and development of border infrastructure." (key suggested amendments italicized.)

Adapt the provision for relief in excise duty

Para 3 of the Protocol to Article V provides for India granting relief in the application of excise duty on manufactures produced in small-scale units in Nepal to the extent such a relief is provided to such products produced in small-scale units in India. Now that the excise duty has been subsumed under the Goods and Services Tax (GST), introduced in 2017, the provision should be amended to reflect the GST regime. Moreover, the extent to which the existing provision was utilized by Nepali manufacturers should be investigated and measures taken to increase the utilization rate if it is found low.

Review of anti-dumping duty

Nepali jute products have been subject to anti-dumping duties in India since 2017—the anti-dumping investigation conducted by the Directorate General of Anti-Dumping & Allied Duties in 2016 recommended the imposition of anti-dumping duties of varying amounts on exports of certain jute products (Jute Yarn/Twine, Hessian Fabric, and Sacking Bags) from Nepal, which was extended for another five years as per another recommendation made in 2022. However, the view in Nepal is that the anti-dumping duty has been applied unjustly on Nepali exports. Nepali jute product manufacturers vehemently deny that they are dumping their products in the Indian market. The government of India has failed to clearly communicate the validity of the imposition of anti-dumping duties to the jute producers/exporters in Nepal, who express strong reservations about the fairness of the imposition of those duties, as well as to the government of Nepal. Hence, this matter has to be amicably resolved in the upcoming negotiations.

Remove the time-bound nature of the trade treaty

The treaty has a seven-year period of validity. As amendments can be achieved upon the mutual consent of contracting parties through the Inter-Governmental Committee (IGC), having a perpetual validity could reduce the environment of uncertainty emanating from a limited period of validity. A case in point is the Indo-Sri Lanka FTA which specifies that "This Agreement shall remain in force until either Contracting Party terminates this Agreement by giving six months written notice to the other of its intention to terminate the Agreement."[5]

Review the implementation status of Paragraphs 5 and 6 of the Protocol to Article V

These provisions are about providing relief in the application of additional duties other than basic customs duties by India to manufactures produced in large- and medium-scale units in Nepal. The status of implementation of these provisions (e.g., utilization rate by eligible Nepali manufacturers) before and after the introduction of GST should be assessed, and they should be adapted to the GST regime.

Other issues

The Indian government should allow Nepali pharmaceutical manufacturers to appoint an agent in India to enable them to export their products. Procedures for the return of defective and damaged products should be simplified. Procedures for temporary exports and imports should be simplified. A provision or an arrangement is needed to address defaults on payments. There is a need to effectively operationalize the provision for joint meetings of local authorities. It is also essential to institute a dispute settlement mechanism/grievance redressal mechanism in the treaty. ■

Dr. Pandey is Chairman, SAWTEE, Dr. Kharel is Executive Director, SAWTEE and Mr. Dahal is Senior Research Officer, SAWTEE. This article is based on a study supported by The Asia Foundation. Views are personal.

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2. As agreed under WTO Hong Kong Ministerial Meeting held in December 2005, India extended duty-free access to all LDCs across 85 percent of its total tariff lines in 2008 and further extended duty free/preferential market access to 98.2% of its total tariff lines in 2014.
3. Equivalent internal taxes, anti-dumping duties, countervailing duties, and service fees and charges do not fall under "other duties and charges."
4. Nepal was eligible for exemption of SAD pre-Goods and Services Tax (GST) regime; however, after the introduction of GST in 2017, SAD that was previously applicable to a lot of products got nullified as it was subsumed by the GST rates. However, some products still attract CVD and SAD. Education Cess and Higher Education Cess are levied on the value of basic customs duty and hence are applicable to only those Nepali exports that attract customs duty. Nepal applies 5 percent or 9 percent agricultural reform fee on agricultural imports from India (as of fiscal year 2022/23).
5. Article XIV.

UNLOCKING TRADE DIVERSIFICATION POTENTIAL:
Nepal's trade with Bangladesh

Bangladesh's rapidly growing economy and imports point to significant market potential for Nepali exports in Bangladesh, but high tariffs and para-tariffs pose significant barriers.

Aayush Poudel

Nepal has made several noteworthy socio-economic developments in its recent history. However, it has so far failed to enhance its export performance. Nepal has failed to realize its export prospects even in its immediate neighbourhood. Nepal heavily relies on India for its trade, with limited engagement with other countries. As Nepal is poised to graduate from the least developed country (LDC) status in 2026, it is vital to seek out new markets to offset the potential tariff increment in some of its key trading partners. In this regard, there can be a significant opportunity to enhance bilateral trade relations with Bangladesh. Against this background, SAWTEE conducted a study on Nepal-Bangladesh trade, with an objective to identify export potential, assess barriers to exports, and propose measures to enhance Nepal's exports to Bangladesh.[1] This article summarizes the findings of the study.

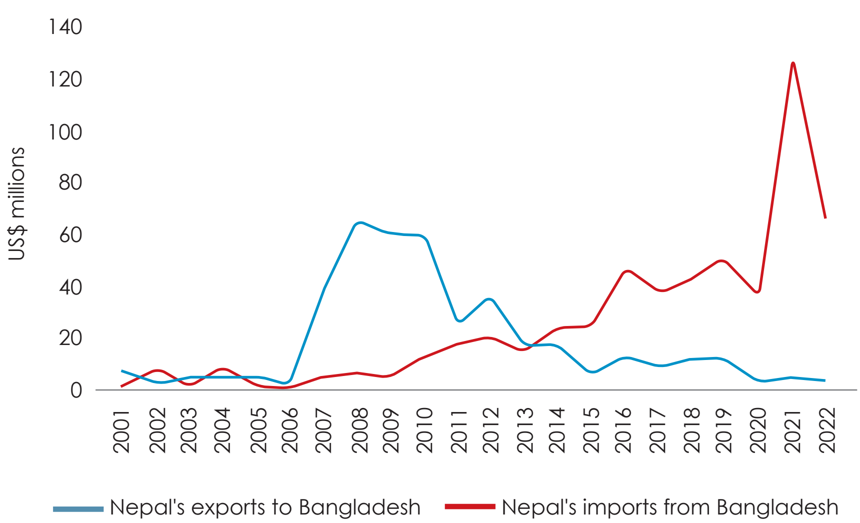
Nepal and Bangladesh have a long history of diplomatic and economic relations. In 1972, Nepal and Bangladesh established diplomatic relations, making Nepal the seventh country to extend recognition to Bangladesh as an independent country.[2] In pursuit of strengthening trade, connectivity, and bilateral ties, Nepal entered into Trade and Payments as well as Transit Agreements with Bangladesh in 1976.[3] Particularly, through the trade agreement, the two countries accorded each other the most-favoured-nation (MFN) treatment in the "issue of licenses, customs formalities, customs duties and other taxes, storage and handling charges, fees and charges of any kind levied on export and import of goods to be exchanged between the two countries". Similarly, the transit agreement provided both countries the freedom of transit across their respective territories through mutually agreed upon routes for their third-country trades. Furthermore, while membership of the World Trade Organization (WTO) made these agreements redundant, the trading relationship was further bolstered by the establishment of South Asian Free Trade Area (SAFTA), which came into effect in 2006.

Bangladesh's rapidly growing economy, the substantial increase in its population's purchasing power, and the surge in its imports in recent years point to significant market potential for Nepali exports in Bangladesh. However, it is essential to note that Nepal's trade with Bangladesh is currently very limited. Nepal's exports have seen a sharp sustained decline since 2008 (Figure 1). Nepal's imports from Bangladesh, while witnessing a general rise, are still insignificant in Nepal's total global imports. Nepal's trade with Bangladesh is a trivial share of its global trade—both exports and imports account for less than one percent of Nepal's total exports and imports, since 2020 (Figure 2).

Nepal's exports are heavily concentrated in a limited range of products and lack diversity, with lentils accounting for roughly 90 percent of the total exports to Bangladesh over the past five years. Although Nepali exports to Bangladesh are highly concentrated on agricultural products, there is a substantial potential to diversify and export a variety of other goods. For instance, as indicated by SAWTEE's study of Nepal-Bangladesh trade, several products where Nepal shows competitiveness in exporting at the global level are not exported to Bangladesh despite Bangladesh importing these products significantly.[4] These include items in product categories, such as metals and minerals, textiles, chemicals, apparel, oilseeds, fats and oils, wood, paper, leather, footwear, as well as fruits and vegetables, and other categories. Identifying trade barriers that these products would be subjected to in Bangladesh and finding ways to reduce or eliminate these barriers are crucial in enhancing Nepal's exports to Bangladesh.

Despite the substantial potential stemming from their close geographical proximity and robust bilateral relations, economic and trade activities between Nepal and Bangladesh have not lived up to the expectations over the years. There are several factors contributing to this untapped export potential, including tariffs, para-tariffs, and non-tariff barriers being. High tariffs represent a significant obstacle to exports to Bangladesh. For instance, tariff analysis of the preliminary list of potential exports to Bangladesh identified by the SAWTEE study

Figure 1 Nepal-Bangladesh trade trends



Source: IMF Direction of Trade Statistics (IMF DOTS).

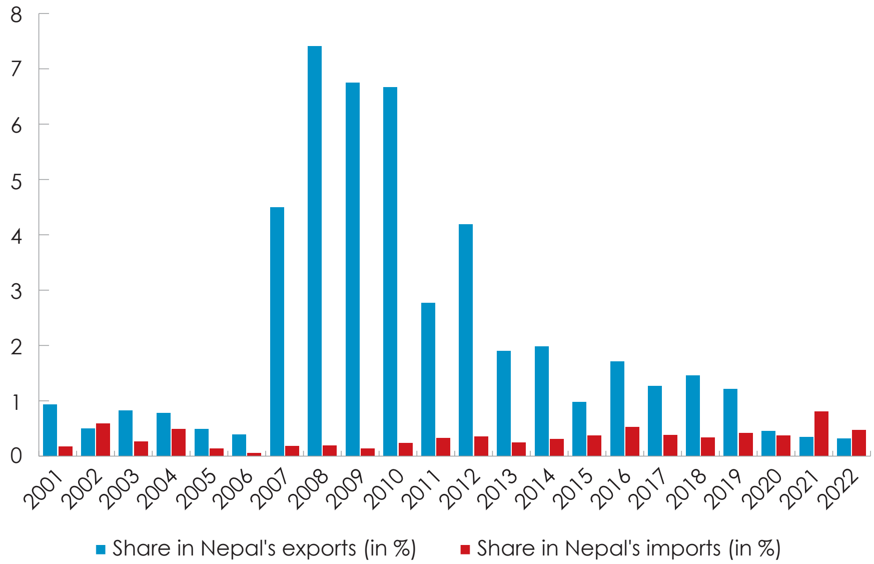
shows that the average customs duty levied on these products (accounting for SAFTA's preference) is 9.6 percent compared to an average most-favoured nation (MFN) duty of 16.6 percent. Nonetheless, a large number of products still attract customs duty of 25 percent, even after accounting for SAFTA's preferential tariffs.

In addition to the high tariffs, Bangladesh also levies other duties and charges (ODCs), on imports. Para-tariffs means border charges and fees, other than "tariffs", on foreign trade transactions with a tariff-like effect which are levied solely on imports, but not those indirect taxes and charges, which are levied in the same manner on like domestic products.[5] Hence, the ODCs applied by Bangladesh are mostly para-tariffs. In addition to customs duties, various duties under the headings of Regulatory Duty (RD), Supplementary Duty (SD), Value Added Tax (VAT), Advance Income Tax (AIT), and Advance Trade VAT (AVAT) are collected at the customs point for imports entering Bangladesh. Some charges such as regulatory duty (of mostly three percent) apply exclusively for imports and even apparently trade-neutral SD and VAT are para-tariffs in disguise as exemptions are granted in the case of several domestic products.[6]

With the inclusion of para-tariffs, the simple average tariff (FY 2016/17) almost doubles, from 13.3 percent to 25.6 percent,[7] which shows the gravity of the additional burden imposed by these ODCs. In the case of the potential products identified by the SAWTEE study, the average total tax incidence jumps to 46.7 percent, a significantly higher tax burden compared to the average customs duty of 9.6 percent.

In addition to high tariffs and para-tariffs, Nepal's export prospects are further constrained by the fact that Bhutan gets preferential market access on some products (including agricultural products of export interest to Nepal, for example, large cardamoms, ginger, vegetables, fruits and juice, etc.) through the Bangladesh-Bhutan preferential trade agreement (PTA).[8] Given that some of the products included in the PTA are of export interest to Nepal, and since the preference provided by PTA goes beyond that provided by SAFTA, some of the products, such as cardamoms, becomes less competitive in Bangladesh because of the tax difference.

Figure 2 **Bangladesh's share in Nepal's global trade**



Source: IMF DOTS

In addition to tariff barriers, there are also non-tariff obstacles, including a high number of non-tariff measures (NTMs) affecting agricultural products, issues related to certification of agricultural products, issues in receiving advance payments, logistical challenges arising from subpar customs infrastructure, difficulties in obtaining business visas, and issues such as harassment and informal payments along the trade route, etc. However, it has to be noted that many of the NTMs are yet to become non-tariff barriers. Issues such as radiation certification and fumigation certification that posed significant hurdles in the past have been resolved to a certain extent.[9] Furthermore, some exporters and traders appear to lack awareness of the procedure for obtaining a certificate of origin (COO) to export under SAFTA's preferential terms. Additionally, Bangladesh employs a minimum reference price for certain products, thus increasing the tax burden and reducing the competitiveness of these products.

Nepal and Bangladesh have also engaged in discussions regarding electricity trade for quite some time now. Both nations have been actively exploring this avenue as a way to strengthen their energy cooperation. The increasing significance of power and energy trade underscores the crucial importance of a tripartite agreement that involves Nepal, India, and Bangladesh. India's role in this agreement could play a pivotal role in shaping the future course of action, given its substantial influence as well as economic prowess. Before finalizing an electricity trade agreement with Bangladesh, Nepal should thoroughly examine and assess multiple factors, including electricity tariff rates, the utilization of India's transmission line infrastructure, and prioritizing meeting its own domestic energy needs over exports. Nepal should also understand that energy is a strategic commodity for any nation. The in-

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creasing energy demand in the South Asian region presents an opportunity for electricity trade. Nevertheless, Nepal should conduct a cost-benefit analysis and engage in effective negotiations with both India and Bangladesh before arriving at a final agreement.

A PTA could potentially eliminate trade barriers in merchandise trade between Nepal and Bangladesh for which discussions and negotiations have been ongoing between the two countries. To promptly address the substantial tariff and para-tariff barriers imposed by Bangladesh, a PTA that gradually reduces and eliminates these tariffs, including para-tariffs, could offer the most effective solution. As an initial step towards overcoming these barriers, until a PTA is concluded, improved information dissemination about SAFTA concessions and streamlining the issuance of the COO for SAFTA concessions would be essential. To address the non-tariff barriers, including procedural hurdles, hindering Nepal's exports to Bangladesh, it's crucial to proactively engage with Bangladeshi counterparts. This involves improving trade facilitation and eliminating non-tariff barriers (NTBs). Furthermore, the operationalization of the Motor Vehicle Agreement (MVA) that includes Bangladesh, India, and Nepal could reduce trade costs by getting away with the need for trans-loading.

However, there are several challenges linked to the successful conclusion of a PTA. One of the challenges includes the need to eliminate or reduce not only the customs duties but also ODCs, which represent a significant tax burden. Another challenge in PTA negotiations stems from the provision of the Nepal-India trade treaty which accords unconditionally to each of the contracting parties treatment no less favourable than what is accorded to any other country, including in the area of customs duties and charges (Article III). This means that if any products of Bangladesh receive duty concessions and preferences, similar privileges must also be extended to Indian goods and products coming to Nepal. Likewise, there is a need to strike a balance between lowering trade barriers as well as protecting key industries, which makes concluding the PTA challenging. Additionally, the agricultural sector is of particular importance in Nepal, and any PTA should acknowledge the unique challenges faced by Nepali farmers. Hence, moving forward, a viable path entails successfully negotiating a PTA while also ensuring the protection of Nepal's vital industries, employment opportunities, and other key interests

While both countries are on the verge of graduating from the LDC category in 2026, a PTA that would facilitate trade by removing the foremost barrier in Nepal-Bangladesh trade—the tariff barrier—could be instrumental in enhancing Nepal-Bangladesh trade. Furthermore, there is also a need to improve infrastructure and connectivity for a smooth flow of goods from and to Bangladesh. ■

Mr. Poudel is Program Associate at SAWTEE. This article draws on a research conducted by SAWTEE as part of a project supported by The Asia Foundation. Views are personal.

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Making sense of Nepal-India informal trade: A case of rice

The very nature of informal trade makes it hard to precisely estimate the magnitude of informal trade between India and Nepal. Nevertheless, evidence suggests that it is huge.

Roopali Bista

India and Nepal share a long open border. As a result, Nepal's border points see a large movement of people and goods. According to the data obtained from the Department of Customs, Nepal exported goods worth US$816 million to India and imported goods worth US$7861 million from India in the fiscal year (FY) 2022/23. While the official trade figure suggests a large trade imbalance, India remains Nepal's largest trading partner on both fronts—exports and imports. Nepal's exports to India represented 67.9 percent of its total exports in FY 2022/23, and Nepal's imports from India represented 63.8 percent of its total imports in the same fiscal year.

Besides the long porous border, a host of factors also contribute to India being Nepal's largest trade partner by

a wide margin. One such factor is a bilateral trade treaty between Nepal and India. The Nepal-India Treaty of Trade, first signed on 31 July 1950, allows duty-free access to almost all of Nepal's exports and India also enjoys reciprocal duty-free treatment on select primary products. Besides the bilateral treaty governing the two countries' trade, Nepal and India are also parties to a free trade agreement (FTA)—the Agreement of South Asian Free Trade Area (SAFTA)—that covers eight member states of the South Asian Association for Regional Cooperation (SAARC).[1] Even though SAFTA has failed to fulfil its liberalization commitment and has failed to adequately promote intra-regional trade, Nepal's trade with India has benefited from it, at least in the last few years.[2]

Informal trade

While India remains Nepal's largest official trade partner, the long and porous border makes the border areas conduits for informal trade. The very nature of informal trade makes it hard to precisely estimate the magnitude of informal trade between India and Nepal. Nevertheless evidence suggests that it is huge. For instance, a study estimated that in 2001 Nepal and India engaged in US$408 million worth of informal trade, which was almost as large as the formal trade during the period[3]. Besides the long open border making it easier to evade formal trade barriers, studies on informal trade in the region attribute the high prevalence of informal trade to domestic trade policy distortions in the region, institutional inefficiency, inadequate trade infrastructures, lack of transport and transit system, and high efficiency of informal channels[4]. While there is a bilateral recognition of large informal trade and the presence of a framework for mitigating illegal trade—the Agreement of Cooperation to Control Unauthorized Trade (2009)—informal trade remains pervasive.

There is no single internationally accepted definition of informal trade. But usually informal trade is defined as trade between countries that are unrecorded in official records and trade that fully or partially evades payment of duties and other charges for various reasons.[5] Informal trade does not necessarily mean that goods being traded are illegal or restricted; it requires that the goods evade formal trade procedures and recording. Hence, the informally traded goods may pass through unofficial routes to avoid customs or pass through the official border but be involved in practices such as misinvoicing, misclassification, and misdeclaration.

Agri commodities' informal trade

Several studies indicate that India's informal exports to the South Asian countries consist of essential agricultural goods such as paddy, rice, wheat, pulses sugar, etc.[6] This observation carries great importance in the context of Nepal. In Nepal's case too, agricultural commodities and food products top the informal import list. This includes staples such as cereals like rice, flour, and packaged snacks, among others.

Nepal is heavily reliant on India for its rice and paddy supply as domestic production is not sufficient to feed population. Rice makes up about 50 percent of the daily caloric intake for Nepal's population.[7] Anecdotal evidence suggests that due to price differences, bans and imposed quotas on the export of India's food grains, the already large informal trade of rice and paddy has risen over the past years. According to data from the Department of Customs, Nepal formally imported about NPR 42.44 billion worth of paddy and rice from India in the fiscal year 2020/21, which accounts for about 17 percent of the country's total agriculture imports. India's restriction on non-basmati rice export implemented in July 2023 and export duty applied in September 2023 had already affected formal rice imports from India. Hence, rice imports from India stood at a hefty NPR 34 billion in the year 2020/2021 which plunged to about NPR 15 billion in FY2022/23.[9]

Import of rice and paddy from India is a widely debated topic in Nepal. Many producers and domestic suppliers of rice argue that Nepal's paddy production capacity is adequate to feed Nepal's population if proper measures are taken to increase paddy production.[8] However, the difference in the varieties farmed in Nepal (coarser variety) and the varieties that are consmued by the majority (which are finer varieties) has left Nepal dependent on Indian imports for both paddy and rice. Hence any changes in India's policies considering these products affects Nepal too--in terms of availability and affordability. In terms of paddy, however, there might be unreported export happening to India as well. A study[10] cites anecdotal mentions of Nepal's paddy being informally exported to India and being processed into rice in Indian mills and re-imported as Indian rice.

The Birgunj border (Birgunj-Raxaul) in Nepal hosts the largest cross-border trade of Nepal and most of the formal and informal trade takes place through this border. A study estimated that an average of 3-5 trucks of rice per day is sent to Nepal from West Bengal (formally) along with 10 trucks of vegetables[11]. Additionally, innumerable rickshaws, bicycles, motorbikes and cargo vans take agricultural products (informally) across the border to Nepal. Most of the consumption items such as rice, sugar, and pulses are bought from the Indian side of the border informally and sold in Nepal. Up to 60 kg of consumption items are brought into Nepal in a single trip[12]. An interesting insight from a study that came forth indicated that informal trade on both sides of the border employed "human couriers"—both men and women (largely women)—in large numbers to carry items concealed as household consumption to avoid customs duties. These goods are then pooled together by the agent and sold in Nepal's commercial markets. The human couriers act on behalf of traders from both India and Nepal[13]. The locals, especially women, are hired to ferry these goods across the border on foot. These couriers are vulnerable to various risks such as getting caught by the border security forces and have the least agency. Informal trade of paddy and rice requires closer examination as rice import is linked to food security, farmers' livelihood and the overall trade balance of Nepal. Moreover, understanding the informal linkages and drivers of informal trade between Nepal and India in rice and paddy trade will help shed light on the underpinnings of informal trade between Nepal and India.

Different scenarios that emerge in formal trade policies also affect the magnitude of informal trade. For instance, the recent ban imposed by India on the export of non-basmati grade of rice has increased the informal trade in rice between India and Nepal. Even before that India had imposed 20 percent export duty on the export of rice that made importing rice formally expensive for Nepali importers. Media accounts report that 50 tons of rice are smuggled into Nepal from India daily.[14] Likewise, domestic policy discrepancies between the two countries also drive informal trade. For instance, India is known to provide generous subsidies to its farmers thus their cost of production is lower and their output price is also lower. Informal trade also takes place to evade certain trade policy requirements. For example, in certain cases, informal trade takes place to avoid complying with sanitary and phytosanitary requirements. Likewise, informal trade also takes place to avoid duties and charges levied on formal imports—for example, to avoid agricultural reform fees imposed on paddy and rice (five percent to nine percent), these products are informally traded. Other barriers such as lack of infrastructure, high transaction cost, inefficiencies of the formal channel, refusal to accept test certificates, difficulties in obtaining licences and the need for informal payments have increased informality in trade.

Conclusion

Along with formal trade, informal trade between Nepal and India is also large, especially involving agricultural products. Furthermore, informal trade has become an integral part of earning livelihood for vulnerable groups such as women and other disadvantaged groups as carriers. The border economy relies heavily on informal trade for sustenance. Hence, controlling informal trade in border cities is a challenge. Efforts should be put into researching product-specific trade and the drivers of informality, especially the most informally traded goods. This will help bring plausible trade reforms. There is a need for Nepal to be self-sufficient in major food grains in order to protect itself from external shocks, reduce informal imports and to ensure food security. Likewise, the harmonization of trade rules and regulations across neighbouring countries could mitigate informal trade. Furthermore, there is a need for institutional reform in order to lower the transaction cost, enhance the skill and capacity of customs and make trade hassle-free. Other measures such as infrastructural development for easy transit, standardization and digitalization of custom processes and improving customs security would help minimize informal trade in general. Finally, proactive bilateral engagement to reduce informal trade through cooperation is a must. ■

Informal trade has become an integral part of earning livelihood for vulnerable groups such as women and other disadvantaged groups as carriers.

Ms. Bista is Research Officer at SAWTEE. This article draws on a research conducted by SAWTEE as part of a project supported by The Asia Foundation. Views are personal.

Notes

1. Eight member states include Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.
2. For instance, Nepal's major exports since 2017—palm oil and soybean oil—are made possible by SAFTA and not the bilateral trade treaty. See: Dahal, Kshitiz. 2020. "Has Nepal broken out of its trend of export stagnation?" *Trade Insight*, Vol 16 No 4: 32-34. https://sawtee.org/publications/TI_Vol_16_No_4.pdf/
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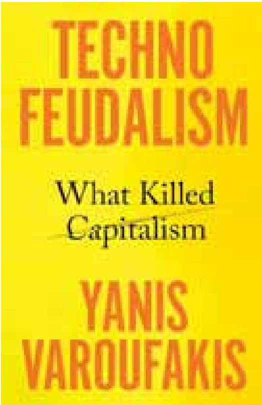

Capitalism: Back to feudalism?

Title: Technofeudalism: What Killed Capitalism
Author: Yanis Varoufakis
Publisher: Vintage Publishing
ISBN: 9781847927279

Roopali Bista

For more than a century socialists have believed that capitalism will end resulting in something better. This book argues that capitalism has been ended by capital itself. Contrary to popular socialist beliefs, it has been replaced by something worse, which Yanis Varoufakis calls "techno feudalism". He states that we are entering post capitalism but with greater inequality than ever before. He claims that the society is turning back to feudalism driven by the concentrated capital and power held by big tech conglomerates referred to as "cloudiest" in the book.

The "liberal Marxist" former Greek minister of finance, Varoufakis, advances his thesis that capitalism has indeed ended as the global system is no longer sustained by the two pillars of capital—markets and profits. Market has now been replaced by platforms run by monopolist such as Google, Amazon, Meta and Tesla in the US and platforms like WeChat, Alibaba and TikTok in China. Big firms, such as Amazon and Alibaba, no longer require to generate profits as they make their money through seeking rent from the producers of goods and services. He compares the people working with such platforms as "cloud proles" and consumers as the "cloud serfs" (who generate data for the big tech to harness) like in the feudal system enriching the cloud capital with minimum or no pay.

In order to understand the shift form capital to techno feudalism Varoufakis rewinds to 1971, when the Nixon Administration abandoned the gold standard enabling the US to build its dollar hegemony. He states that dollar's dominance and the US as a trade deficit country brought in huge amounts of investment into the American financial sector, rather than to industries, enabling it to influence the global structure. He then argues that this is one of the occurrences that contributed to the global financial crisis of 2008. He states that the steps taken by the central banks to resolve the crisis by pumping money into the system and saving bankers led to unchecked financializaton. This resulted in cloud capitalism where central bank money funded the big tech.

He cites the rise of cloud capital in the US and China as the major reason for the new cold war between the two giants. This can be seen happening with the US banning China's tech giant Huawei, and the restriction on exports of semiconductor inputs to China. China has fused its banking with big tech through digital currency that might make the US dollar unnecessary for trading. The clash of the big technological fiefs will divide the world into two spheres of influence, he cautions.

However, it is quite hard to be convinced about the threat he portrays technology to be to humanity as no positive aspect of technology has been mentioned in the book. He radically states that we are now living in a technologically advanced form of feudalism but people in tech still have a freedom to choose their employer unlike in the feudal system. It is quite interesting to read about how big techs were the only firms that saw increased investment during the pandemic. Similar insights in the book do give the readers an idea of the amount of capital concentrated in the big tech companies. The readers also get insights into the implications of techno feudalism for energy, geopolitics, monetary policy and the new cold war that Varoufakis explores in great detail in his book.

The author proposes an alternative to overthrowing cloud capitalism by democratizing companies. He suggests installing workers' representation in decision making by providing one nontransferable share when they are hired, which will grant each employ a single vote in all decision making of the company. Another suggestion is to democratize money by central bank through universal basic income. He also argues that land and the internet should be provided as commons. This seems like a socialist utopia which is very hard to achieve in the given context. The author has done an excellent job at highlighting the significant economic transformations that have taken place throughout history. The emergence of techno feudalism and its implications for the world do warrant a close analysis. The author does justice to understanding the changing economic paradigm with wealth concentrated in tech elites but the solutions provided are radical, influenced by his Marxist ideology. ■

Ms Bista is Research Officer at SAWTEE.

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COP28
Fossil fuel concerns and call for climate action

COP28 concluded with groundbreaking outcomes but it fell short of delivering the decisive action on climate change that science says is needed.

Rupesh Tha

The Conference of the Parties (COP), the central decision-making body of the United Nations Framework Convention on Climate Change (UNFCCC), brings together representatives from member countries annually to assess progress in dealing with climate change, negotiate agreements, and make decisions on future actions and policies. The 28th annual (UN) climate meeting, COP28, which took place in November 2023 in the United Arab Emirates (UAE) concluded with a call on the governments to transition from fossil fuel while the countries decided on the operationalization of funding arrangements for addressing loss and damage.

The UNFCCC is an international environmental treaty adopted in 1992 with to address climate change on a global scale. The COP assesses convention implementation, adopts legal instruments, and makes decisions to enhance effectiveness. One key role is reviewing parties' national communications and emission inventories to evaluate progress toward the convention's objective. COP meetings, held annually unless decided otherwise, began in 1995 in Berlin and the venue may change among UN regions, mirroring the rotating COP Presidency.

Climate change was initially overlooked by the international community and the UN. However, in the late 1960s and early 1970s, environmental awareness grew. The first Earth Summit in 1972, organized by the UN, marked a turning point, establishing principles and creating the UN Environment Programme (UNEP). Despite slow progress, the first World Climate Conference occurred in 1979, followed by the formation of the Intergovernmental Panel on Climate Change (IPCC) in 1988. Significant action was finally taken at the 1992 Earth Summit in Rio de Janeiro, leading to the UNFCCC and subsequent climate negotiations.

The journey of international climate talks began in 1995 with COP1 in Berlin while COP2 in Geneva laid the groundwork for subsequent negotiations. In 1997, COP Kyoto marked a turning point, as Parties agreed on the historic Kyoto Protocol, introducing a legally binding limit on greenhouse gas (GHG) emissions for industrialized nations. The protocol was ratified in 2005, excluding the US. COP15 in Copenhagen (2009) brought the Copenhagen Accord, emphasizing the 2 °C target and financial commitments. COP16 in Cancún (2010) formalized the 2°C goal, while COP17 in Durban (2011) committed major economies to emissions reduction. COP21 in Paris (2015) yielded the groundbreaking Paris Agreement, aiming for a net-zero emissions future and limiting global warming to well below 2°C. COP26 in Glasgow (2021) accelerated coal phase-out and finalized the Paris Rulebook. COP27 in Egypt established a loss and damage fund, to be discussed further at COP28 in the UAE, addressing countries most affected by climate change. Climate Partner looks forward to progress at this year's conference in tackling climate change with commitment and speed.

Outcomes of COP28

COP28 concluded with groundbreaking outcomes, foremost among them being a historic Fossil Fuel Transition Agreement "transitioning away from fossil fuels" that signals the beginning of the end of the fossil fuel era. However, some nations expressed frustration over the absence of a clear fossil-fuel phase-out this decade and raised concerns about loopholes that may allow continued production and consumption. This landmark agreement underscores a commitment to a swift, just, and equitable transition, prioritizing deep emissions cuts and increased finance.

The establishment of the world's first 'global stocktake' emerged as another pivotal outcome, recognizing the urgent need for a 43 percent reduction in global greenhouse gas emissions by 2030 to limit global warming to 1.5°C.

Further commitments included a global scale tripling of renewable energy capacity and doubling energy efficiency improvements by 2030. Countries were encouraged to set ambitious, economy-wide emission reduction targets aligned with the 1.5°C limit in their upcoming climate action plans by 2025.

Another notable outcome was the agreement on targets for the Global Goal on Adaptation (GGA) and its framework, assessing countries' efforts in enhancing resilience to climate change impacts. Additionally, COP28 secured an increase in climate financing, as the Green Climate Fund received a record US$12.8 billion from 31 countries for its second replenishment. The conference laid the foundation for the 'enhanced transparency framework,' signalling a new era in implementing the Paris Agreement.

Loss and Damage Fund

The COP28 witnessed a historic agreement on the operationalization of the Loss and Damage Fund, financial pledges totalling US$12.8 billion for climate finance, and progress on adaptation goals. On the first day of the UN COP28 conference, the nations agreed to operationalize the Loss and Damage Fund to assist the world's poorest and most vulnerable nations in bearing the irreversible costs of the climate catastrophe.

The loss and damage fund's operationalization and funding arrangements were agreed upon, with commitments exceeding US$700 million. Among others, the United Arab Emirates and Germany pledged U$100 million each and Italy and France pledged US$108 million each, while the United States, which is historically the largest emitter of greenhouse gases, pledged just US$17.5 million. The total amount committed is measly relative to the needs of vulnerable developing countries. The COP28 finalized the Fund's governing document and determined that a new, independent secretariat would be in charge of managing the Fund through a Board. The Fund is accountable to and functions under the guidance of the Conference of Parties serving as the meeting of the Parties to the Paris Agreement.

Criticisms

Despite important progress, COP28 fell short of delivering the decisive action on climate change that science says is needed. Concerns were raised by environmental groups and commentators about COP28 being hosted by the UAE, a major fossil fuel producer. Critics fear weak outcomes, especially as global efforts to reduce fossil fuel use must intensify to limit warming to 2°C. The appointment of Sultan Al Jaber, CEO of a major oil company, as the COP28 president, also drew criticism for the fossil fuel industry leading global climate negotiations.

Moreover, even the most hailed draft deal on cutting fossil fuel has been criticized for being insufficient, hence, will not be enough to arrest the impact of climate change. The text does not clearly state the 'phase out' of fossil fuel while only calling for reducing both consumption and production of fossil fuels, without any explicit language on phasing out these fuels, which has been a source of frustration for many critics. ■

Mr. Tha is Research Officer at SAWTEE.

Fourteenth South Asia Economic Summit held in Dhaka

THE Fourteenth South Asia Economic Summit (SAES XIV) concluded with an emphasis on the need to strengthen regional cooperation in Dhaka, Bangladesh. The Summit organized by the Centre for Policy Dialogue (CPD) on 4-5 November 2023 brought together key stakeholders of South Asia's integration and also experts and scholars from beyond the region who worked on the issues of interest and concern to South Asia. The Summit, with its overarching theme "Reframing South Asian Regional Cooperation in the New Context National and Global Dimensions", stressed the urgent need to rethink the modalities of South Asian cooperation, taking into cognisance the new developments – both within and outside the region – which have implications for intra-regional cooperation in South Asia.

Co-organisers of the event are Research and Information System for Developing Countries (RIS), India; South Asia Watch on Trade, Economics and Environment (SAWTEE), Nepal; Sustainable Development Policy Institute (SDPI), Pakistan and Institute of Policy Studies of Sri Lanka (IPS). ■

Roundtable discussion on unpacking Nepal-US Trade

SOUTH Asia Watch on Trade, Economics and Environment (SAWTEE) organized a roundtable discussion, in association with The Asia Foundation, to discuss the prospects and challenges of exporting to the US on 20 July in Kathmandu.

Despite being granted duty free access to 77 products by the US, Nepal's export performance in those select products is dismal. Limited utilization of trade preferences necessitates a careful examination of the constraints faced by exporters if Nepal aims at improving export performance through such facilities, experts said during the discussion.

A SAWTEE study on Nepal-US trade, presented at the event, finds that Nepal's merchandise exports to the US in 2021, at US$108.3 million, were lower than what they were at their peak in the late 1990s even in nominal terms.

The US granted duty-free access to Nepal on an additional 77 products under the Nepal Trade Preference Programme (NTPP), introduced through a legislation and enforced from December-end 2016. The scheme was unveiled to help Nepal recover from the devastating earthquakes of 2015. It will last till 31 December 2025.

As per the study, while total goods exports to the US have been on an upward trend since 2012, exports of NTPP products have been on a downward trend, the study finds. Exports of NTPP products in 2021 were U$8.47 million and had a share of 7.8 percent in total exports to the US (compared to 14 percent in 2012). The utilization of NTPP remains low, at under 50 percent, compared to another duty-free scheme of the US, the Generalized System of Preferences, which Nepal also benefits from. ■

Workshop for economic journalists

SOUTH Asia Watch on Trade, Economics and Environment (SAWTEE) organized a series of workshops for economic journalists in Kathmandu, Janakpur and Ilam between July and December 2023. The journalists covering economic issues were provided training ion the issues related to Nepal's foreign trade situation, bilateral trade issues, gendered trade relations, among others.

About 65 journalists in these three locations were provided the training. ■

Unlocking Char Potential: Economic Policy and Technological Adaptations

THE Rural Development Academy (RDA) and National Char Alliance (NCA), in collaboration with Unnayan Shamannay, organized a seminal roundtable discussion on September 12th, 2023, at the Bishwo Shahitto Kendro, Banglamotor, Dhaka. This high-profile event brought together prominent figures from civil society, think tanks, and the private sector, all dedicated to addressing the unique challenges and opportunities presented by the Char areas of Bangladesh.

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The event featured distinguished speakers and experts who shared their insights and recommendations on the economic policies and technological adaptations necessary to harness the potential of Char areas for the betterment of the disadvantaged communities inhabiting them.

Keynote speaker Dr. Atiur Rahman, Chairperson of the National Char Alliance and Unnayan Shamannay, emphasized the need for increased fiscal allocation to Char areas and the alignment of national policies with the specific needs of these communities. Dr. Rahman highlighted the changing landscape of the Char areas and called for greater investment and resources to uplift the lives of Char dwellers while addressing the challenges posed by climate change. He also identified opportunities such as the adoption of solar technology for irrigation and storage facilities, as well as e-commerce platforms for marketing Char-produced goods. ■

Cross-border trade important to address food security challenges

THE Sustainable Development Policy Institute (SDPI) organized the webinar titled "Innovation for Food Security and Regional Trade for Agriculture Promotion" on 21 October.

Speakers in the seminar noted that seamless cross border trade with relaxed regulatory regime would help food security challenges in Asia. The webinar on food security and agriculture promotion through cross border trade said the Asia region has a tremendous agriculture potential which is facing adverse impacts of climate change and could help enhance resilience to environmental degradation food security challenges through cross border trade between the regional states. ■

IPS publication on import restrictions

THE Institute of Policy Studies of Sri Lanka (IPS) launched a publication to address concerns regarding Sri Lanka's implementation of stringent import control measures during the economic crisis on 11 July. The publication, titled "Import Controls in Sri Lanka: Political Preference and Incentive Distortions," authored by IPS researchers Dr Asanka Wijesinghe, Chathurrdhika Yogaraja, and Nilupulee Rathnayake, offers an in-depth analysis of Sri Lanka's import control policies during the economic crisis and sheds light on the intentions behind them.

Presenting the study's findings, Dr Asanka Wijesinghe highlighted that the research identified eight waves of import controls implemented in Sri Lanka, spanning from April 2020 to September 2022, through measures such as temporary suspensions, bans, import control licenses, and credit-based requirements. These controls significantly impacted various import categories, including consumption goods (46 percent), intermediate goods (31 percent), and capital goods (24 percent). Notably, only 9.8 percent of imported food items were exempted from import controls.

While the Sri Lankan government aimed to reduce foreign exchange leakages on "non-essential" imports through these measures, the study revealed that a considerable portion of imports consisted of essential goods such as raw materials, food, and medicine. This raised questions about whether import substitution was a motivating factor behind these policies.

The study found that the structure of import controls may have inadvertently incentivised import substitution. While some export-oriented industries experienced minimal trade restrictions, the manufacturing of food and beverages faced significant import barriers. This emphasis on promoting domestic agricultural production had implications for the availability of certain food products in the market. ■

Issue Brief: Economic case for clean energy transition in Nepal
Author: Dikshya Singh
Publisher: SAWTEE

Policy Brief: Trade policy mainstreaming in federal Nepal
Author: Neelu Thapa and Kshitiz Dahal
Publisher: SAWTEE

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South Asia Watch on Trade, Economics and Environment (SAWTEE) is a regional network that operates through its secretariat in Kathmandu and member institutions from five South Asian countries, namely Bangladesh, India, Nepal, Pakistan and Sri Lanka. The overall objective of SAWTEE is to build the capacity of concerned stakeholders in South Asia in the context of liberalization and globalization.

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