

# US-Nepal trade in uncertain times

## Context: “Reciprocal tariffs”

21 April 2025

A large part of this presentation is based on Kharel, Paras, and Kshitiz Dahal. 2025. “Decoding US' reciprocal tariffs: A Nepali perspective.” Issue Note 2025/01 (18 April 2025). Kathmandu: South Asia Watch on Trade, Economics and Environment (SAWTEE).

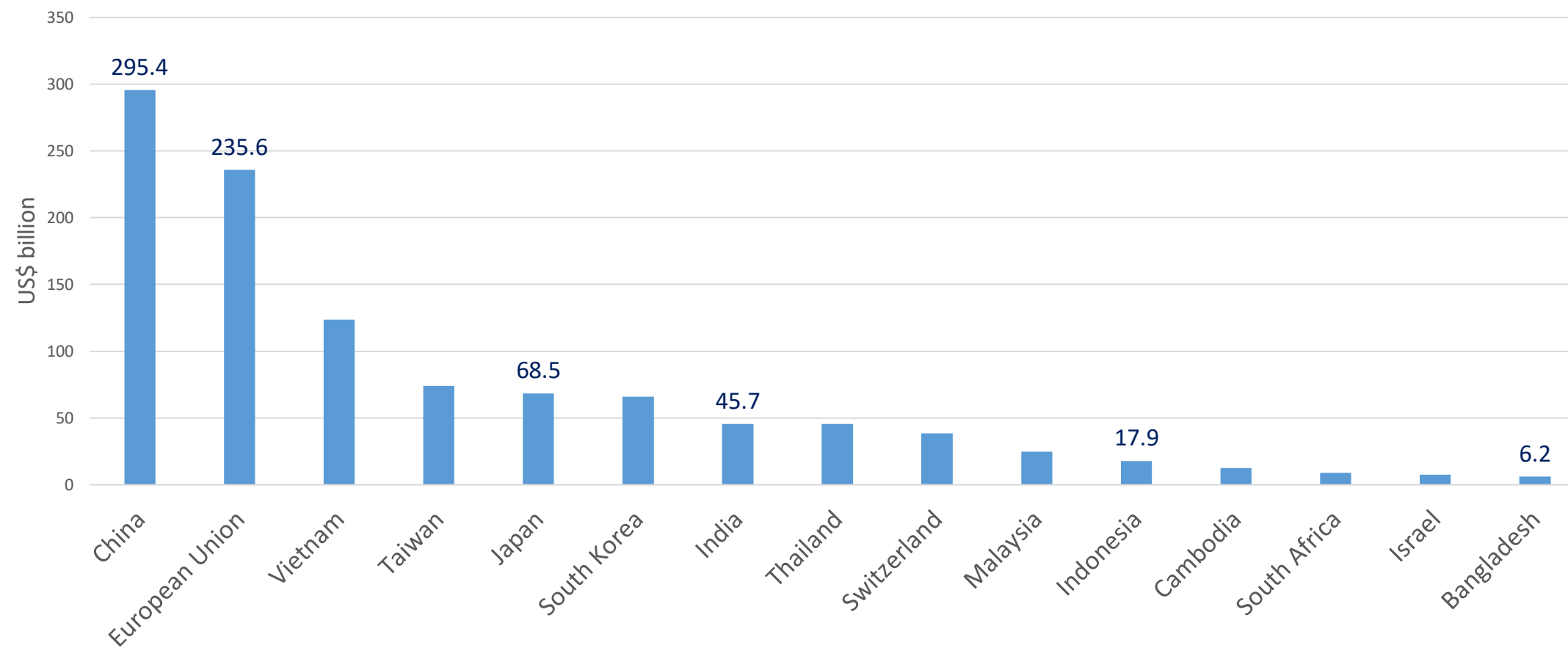
# The Executive Order, 2 April 2025

“Liberation Day” – US President Donald Trump

## **Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits**

- US\$1.2 trillion goods trade deficit in 2024
- “...large and persistent annual U.S. goods trade deficits, constitute an unusual and extraordinary threat to the national security and economy of the United States.”
- “I hereby declare a national emergency with respect to this threat.”
- “A nation’s ability to produce domestically is the bedrock of its national and economic security.”
- “...increasing domestic manufacturing is critical to U.S. national security.”
- “Just as a nation that does not produce manufactured products cannot maintain the industrial base it needs for national security, neither can a nation long survive if it cannot produce its own food.”
- Invocation of International Emergency Economic Powers Act and National Emergencies Act

# US' largest bilateral goods trade deficits



# Stated reason for the deficit:

## Tariffs and non-tariff barriers in trade partner

- Deficits said to arise from: non-reciprocal differences in tariff rates among foreign trading partners; extensive use of non-tariff barriers
- In a “fact sheet” released the same day, seven mentions each of India and China
  - “India imposes their own uniquely burdensome and/or duplicative testing and certification requirements in sectors such as chemicals, telecom products, and medical devices that make it difficult or costly for American companies to sell their products in India.”

“Reciprocal” here is different from the concept of “reciprocity” used in the multilateral trading system, the WTO.

Belief: Tariffs and hence access to US market, the world’s largest consumer market and import market, are a potent leverage.

# “Reciprocal” tariffs: What are they? (I)

- Imposed over and above existing tariffs.
- A baseline 10% additional tariff on almost all products from almost all countries; went into effect 5 April.
- From 9 April, 57 countries were to be hit with additional ad valorem duties: from 11 percent to 50 percent, with a median of 30 percent.
- Exceptions (governed by separate arrangements/orders)
  - Canada and Mexico: 25 percent tariffs on non-USMCA-compliant goods
  - A few countries that do not have normal trade relations with the US
  - 25% aluminum, steel, automobiles (announced earlier) [+ tariff on car parts on 3 May]
- Stock-markets plunged; yields on Treasury bonds spiked; US\$ fell

# “Reciprocal” tariffs: What are they? (II)

- A 90-day pause announced on 9 April (pending negotiations), except for China
  - But baseline additional tariff of 10% remains
- Tariffs on China
  - + 20% imposed after Trump 2.0 inauguration (but before 2 April)
  - + 34% announced on 2 April
  - + tit-for-tat hikes ... = at least 145% in total additional tariffs
- A caveat: the increased tariffs apply only to the non-US content of a product, provided at least 20 percent of the value of the product originates in the US.

# Reciprocal tariffs: Underlying formula

$$\Delta\tau_i = \frac{x_i - m_i}{\varepsilon * \varphi * m_i}$$

where,

$\Delta\tau_i$  represents the additional tariff (reciprocal tariff) needed to balance trade

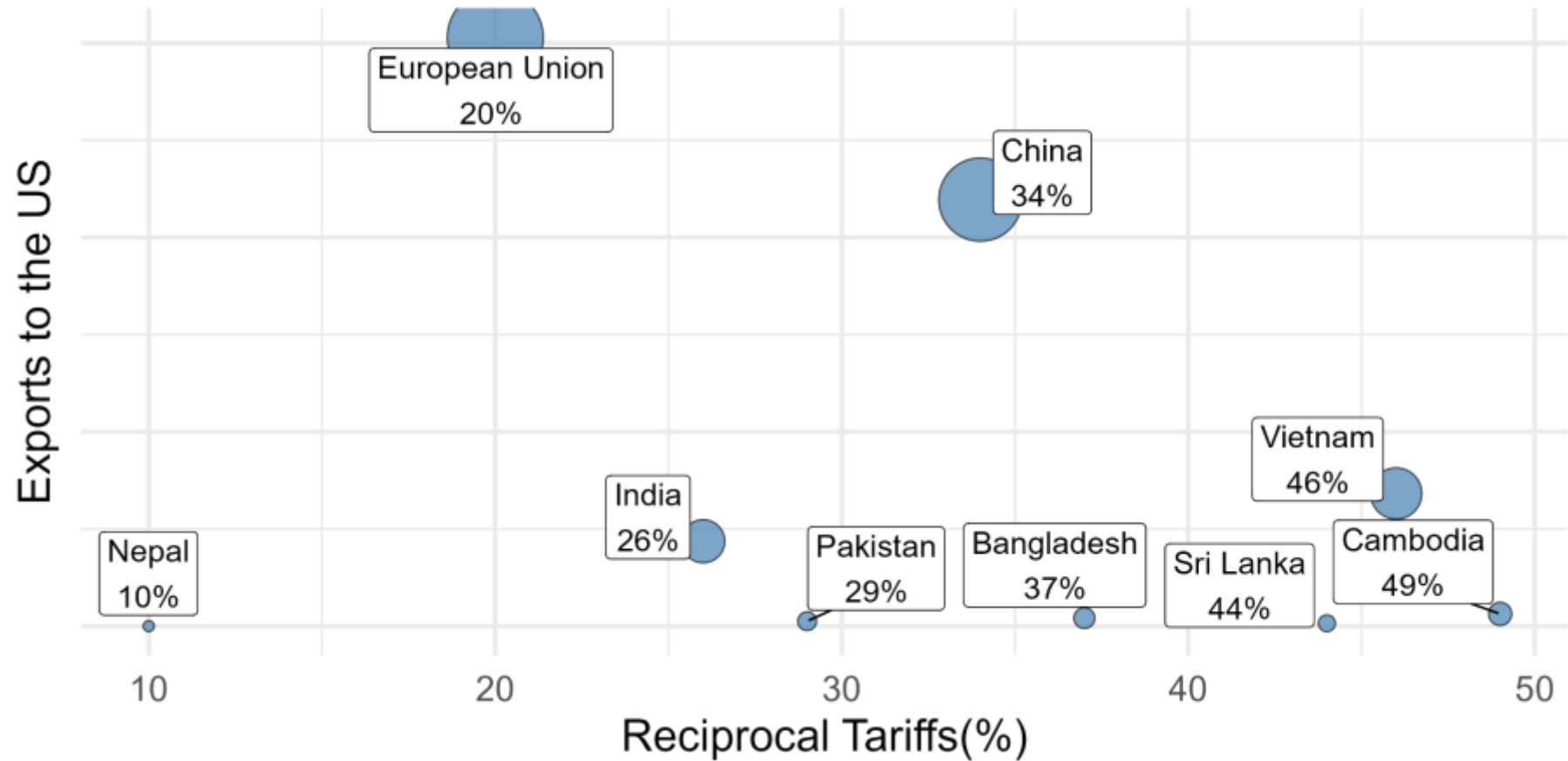
$x_i$  represents total annual US exports to the country i

$m_i$  represents total annual US imports from the country i

$\varepsilon < 0$  represents the price elasticity of imports

$\varphi > 0$  represents pass-through from tariffs to import prices

# Reciprocal tariff rates (as announced 2 April)



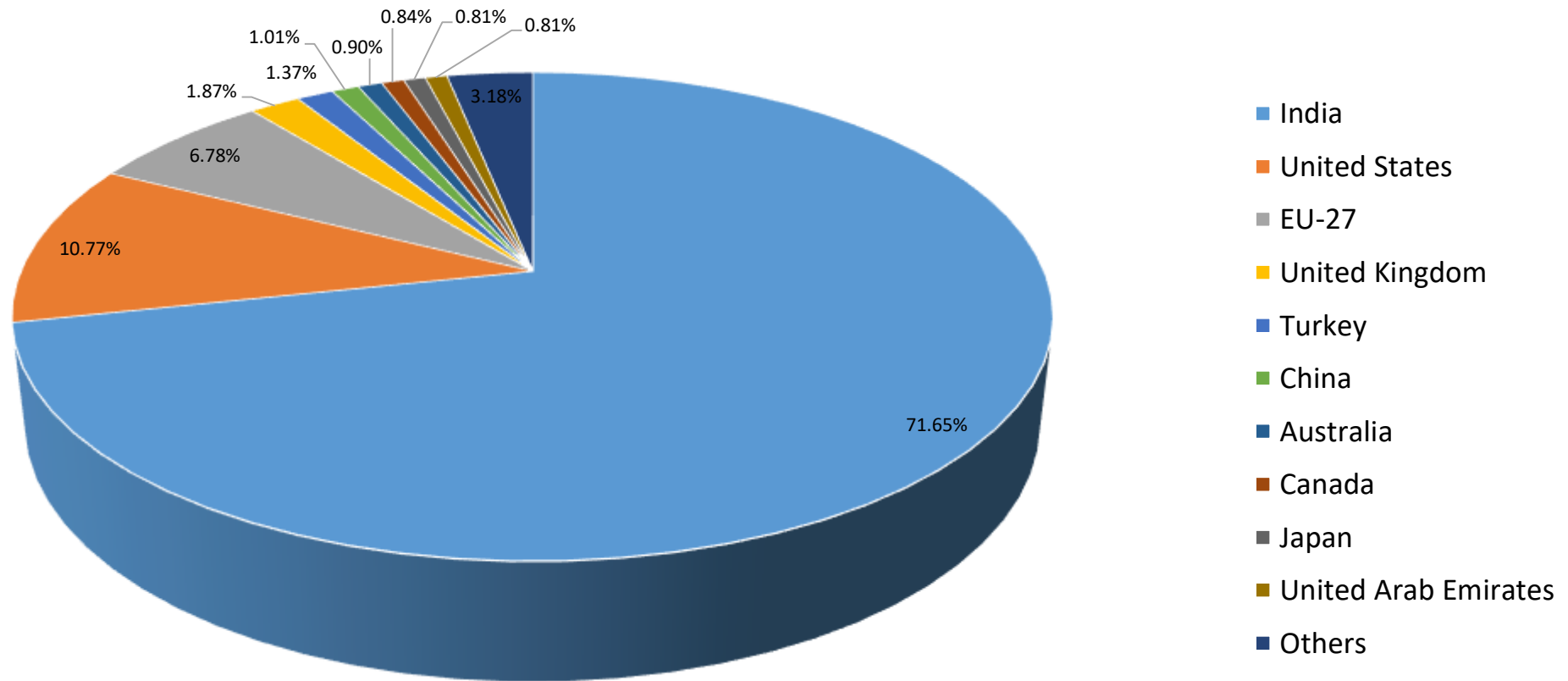
Nepal got 10% as it had a deficit in 2024.



# Why these tariffs matter for the world

- US average tariffs have increased by 15-20% points.
  - Smoot-Hawley Act of 1930 led to increase in effective tariffs by 6% points during 1929-1932.
- US: a quarter of world GDP.
- US: world's largest importer.
- US: world's largest consumer market.

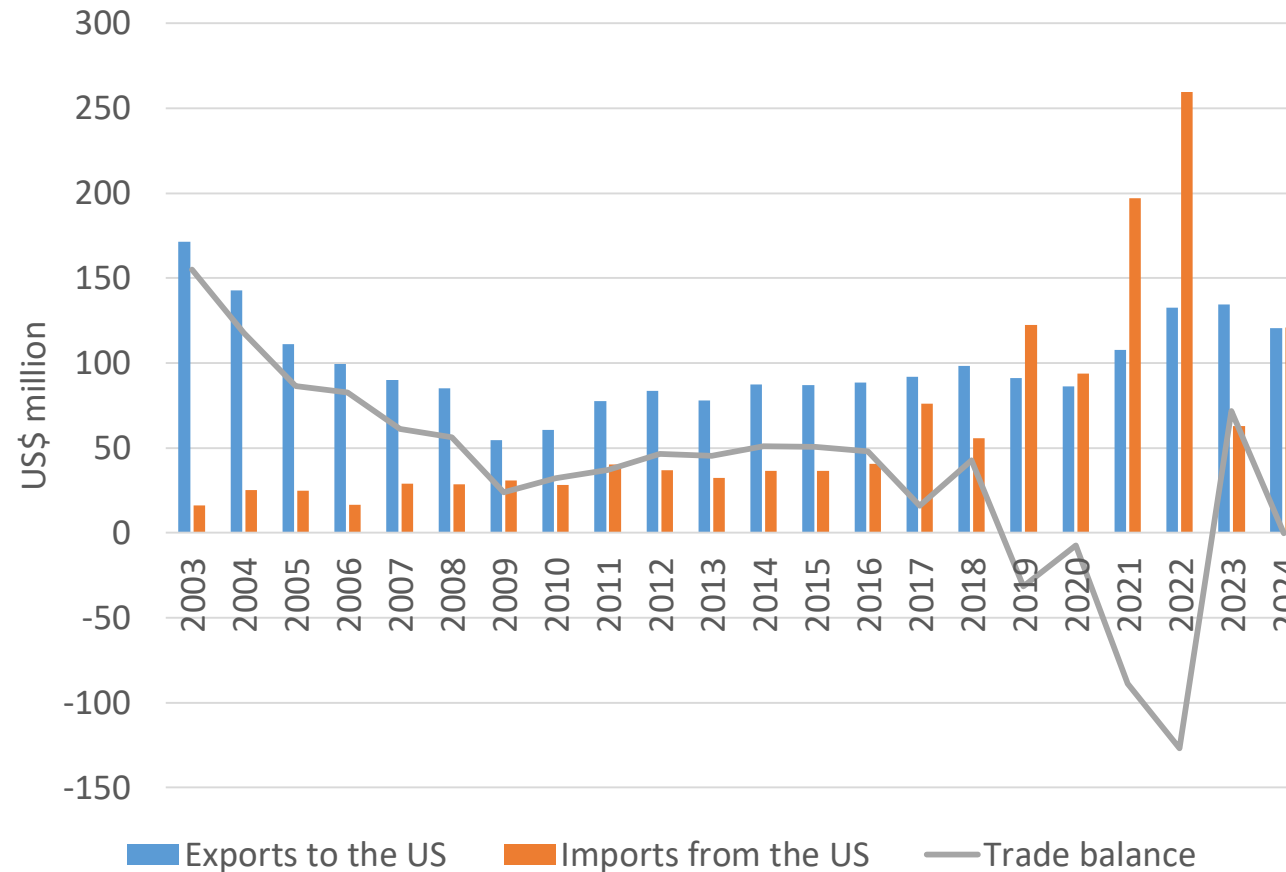
# US is Nepal's second largest goods export market



Shares of top 10 export destinations of Nepal, avg of 2021/22 to 2023/24, Customs Department

# Nepal's annual goods trade with the US

From consistent surplus to deficit



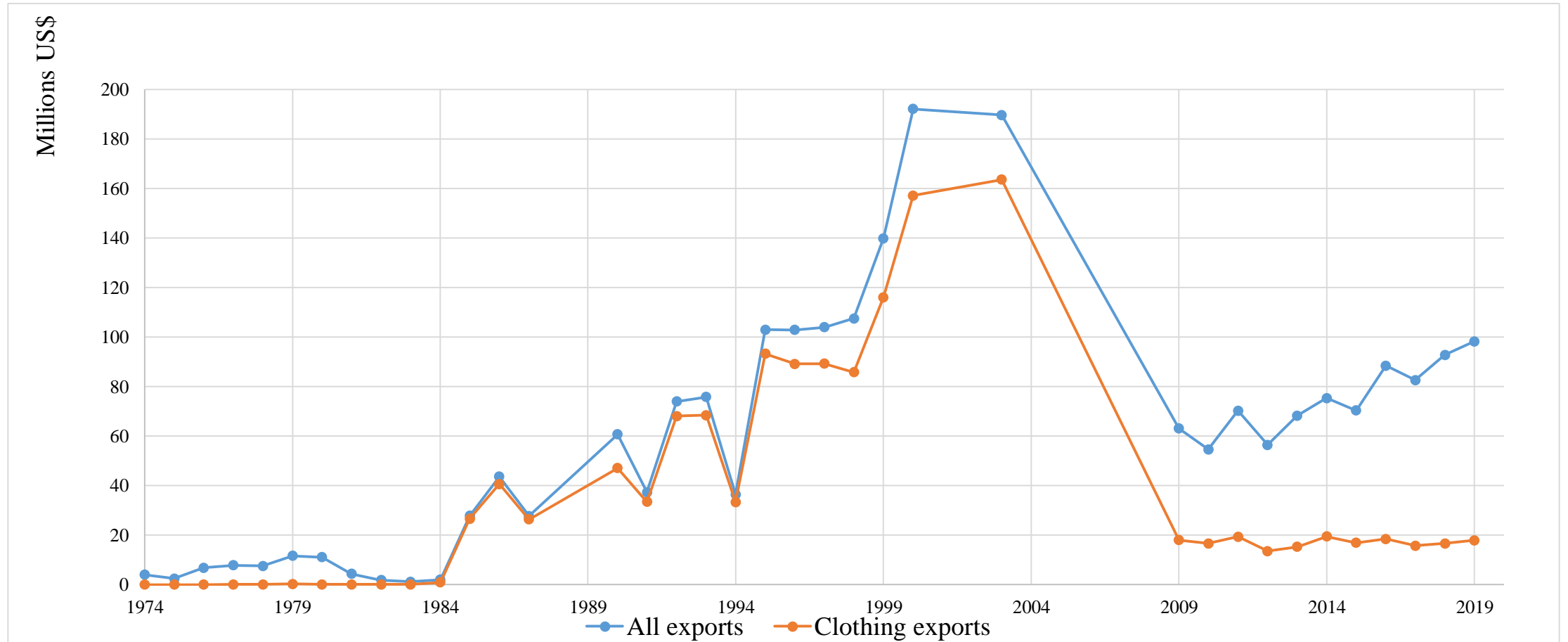
Reminder: services trade

At least three quarters of the IT and IT-enabled services exports of at least US\$500 million could be destined for the US.

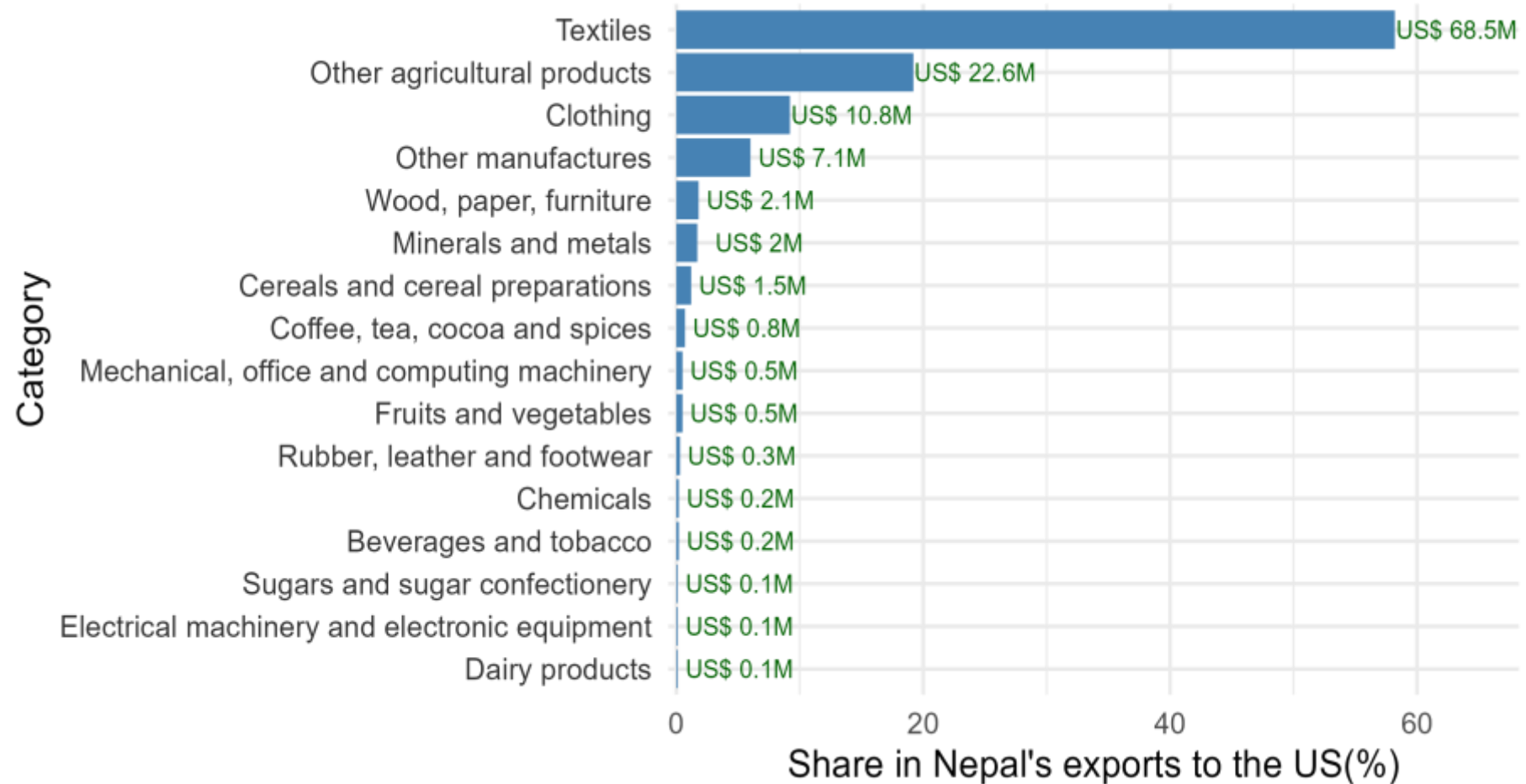
Tourism?

Imports of services?

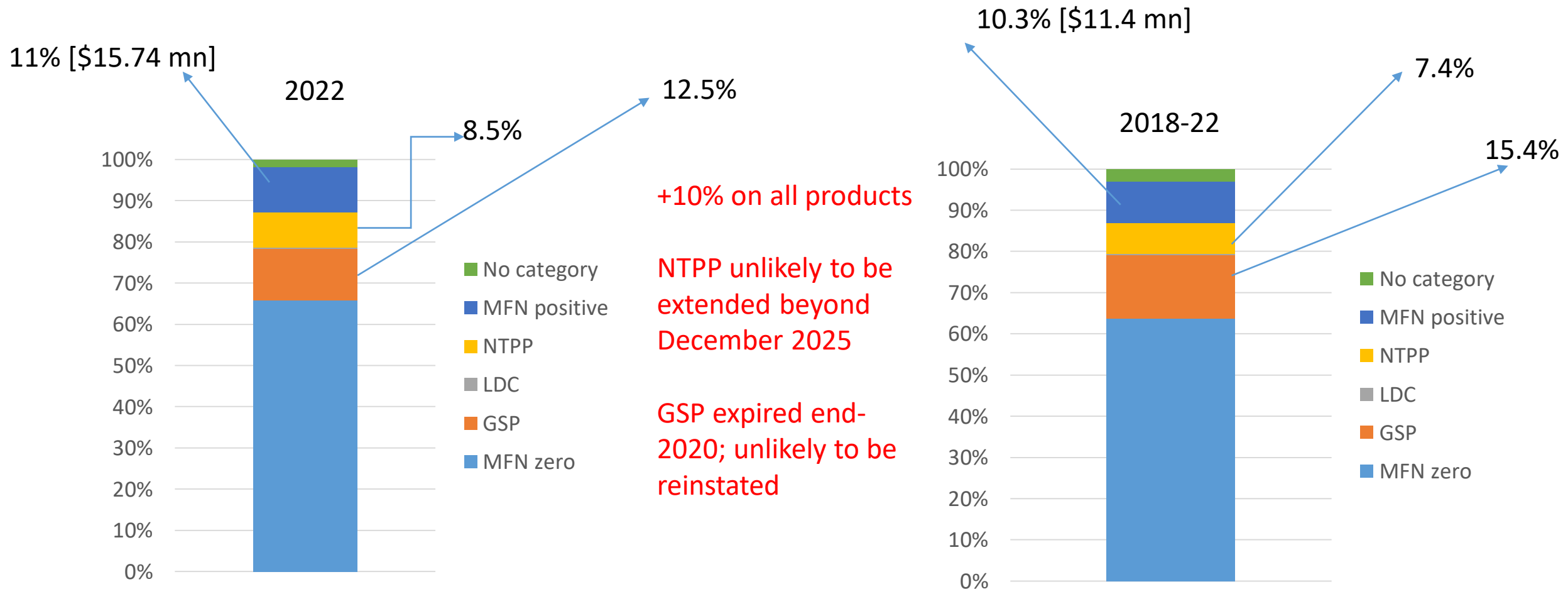
# Clothing exports mirror the rise and fall of exports to the US



# *Nepal's exports to the US in 2024, by product categories*



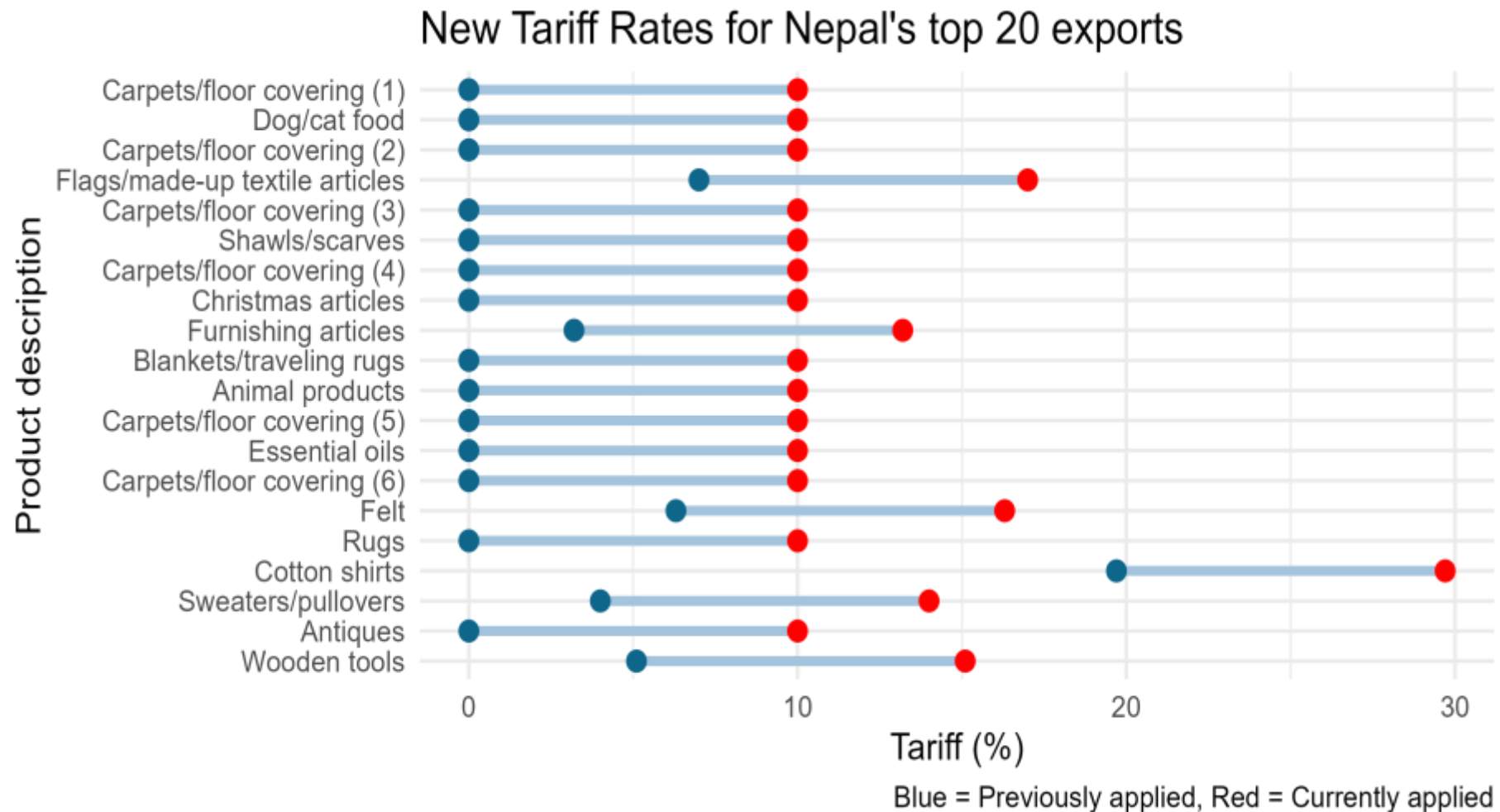
## Two thirds of Nepal's goods exports to the US faced zero MFN tariffs



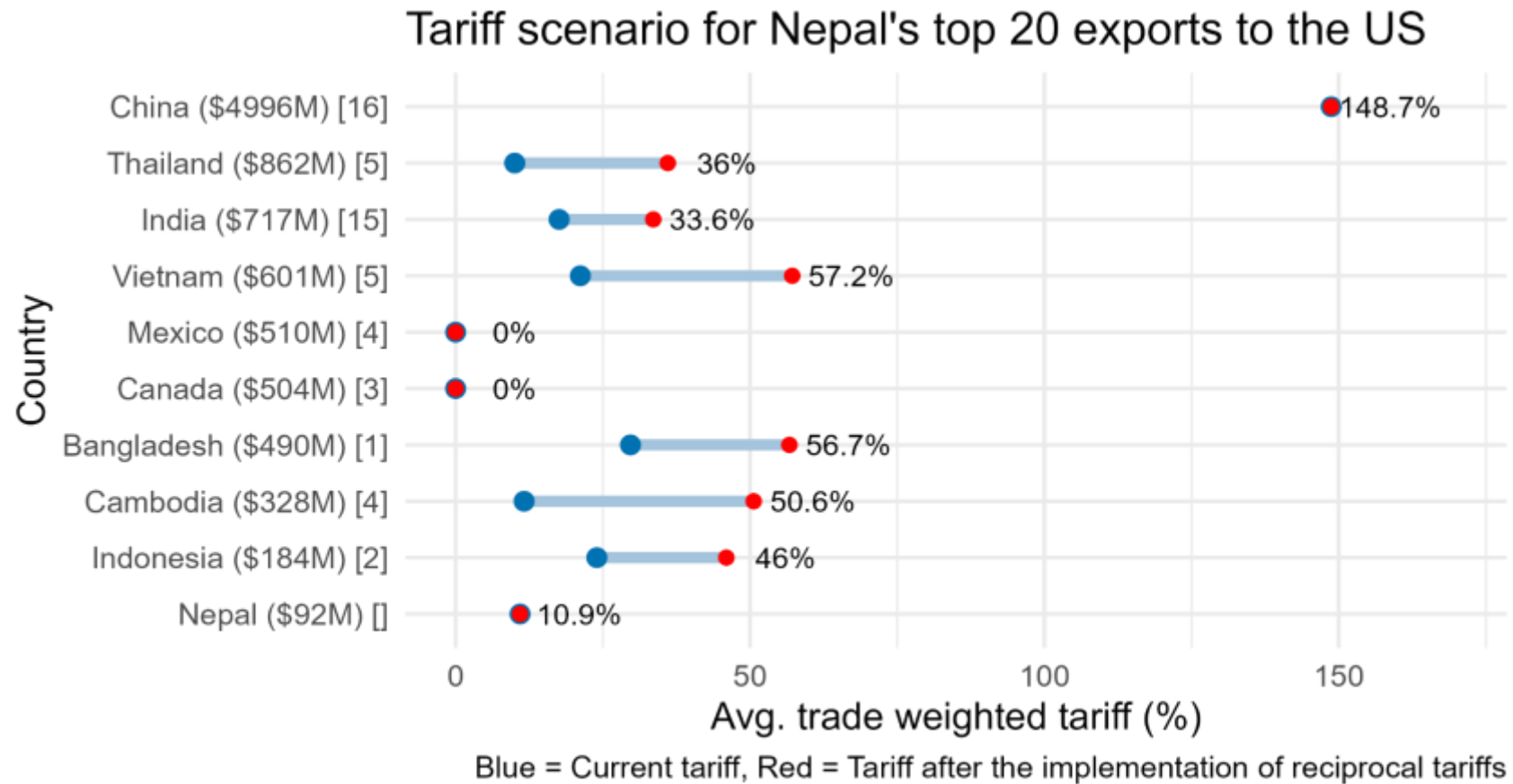
Note: GSP, as used here, excludes products also covered by NTPP. 'No category' includes products that do not have tariff information.

Source: Authors' calculations, based on trade data from Trade Map, ITC; and tariff data from Market Access Map, ITC

# New tariff rates for Nepal's top 20 exports



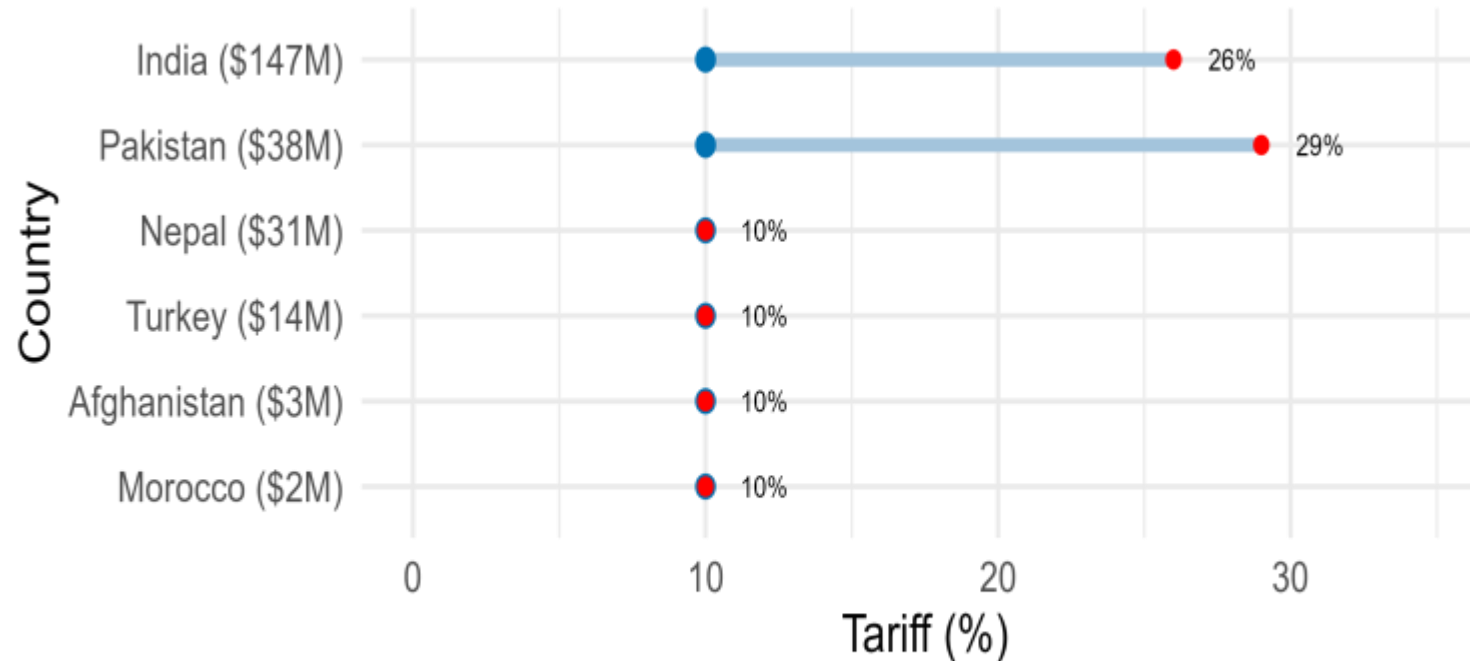
# Tariff comparisons with competitors in top products



Note: Values in ( ) indicate each country's exports of the products in US\$ millions; values in [ ] indicate the number of products in which the country is among the top six exporters to the US



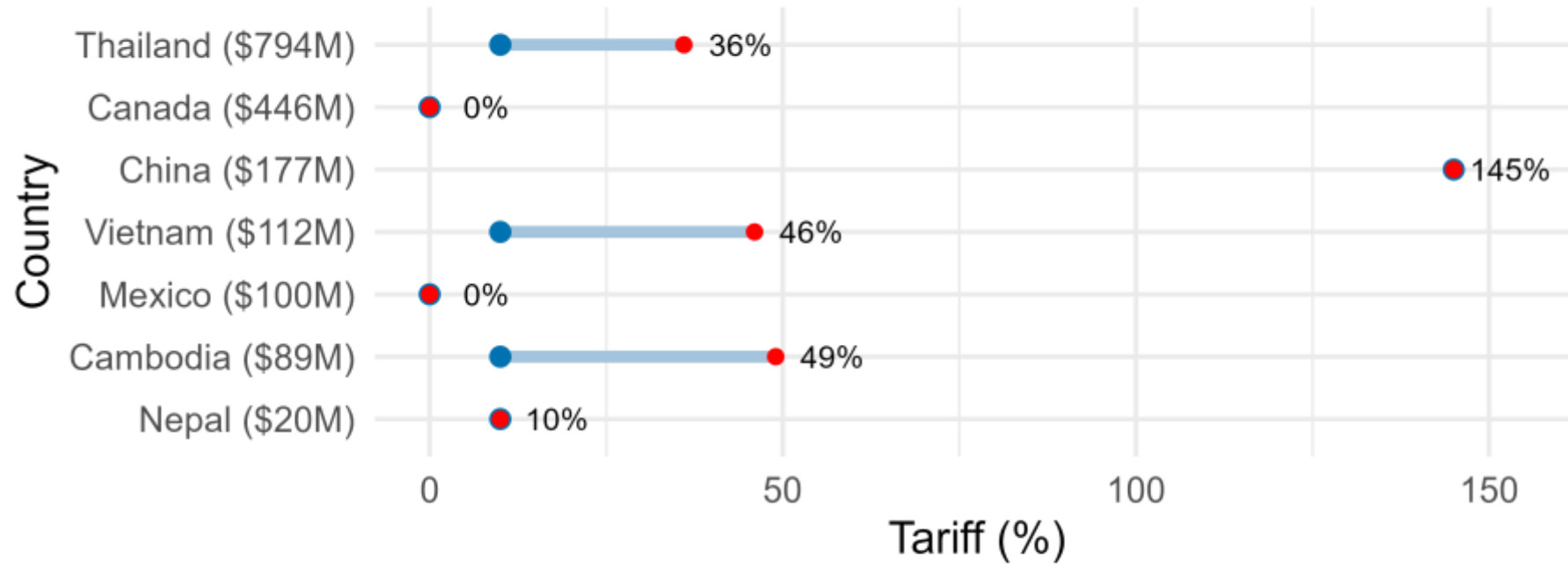
## Carpets/floor covering (HTS 57011040)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

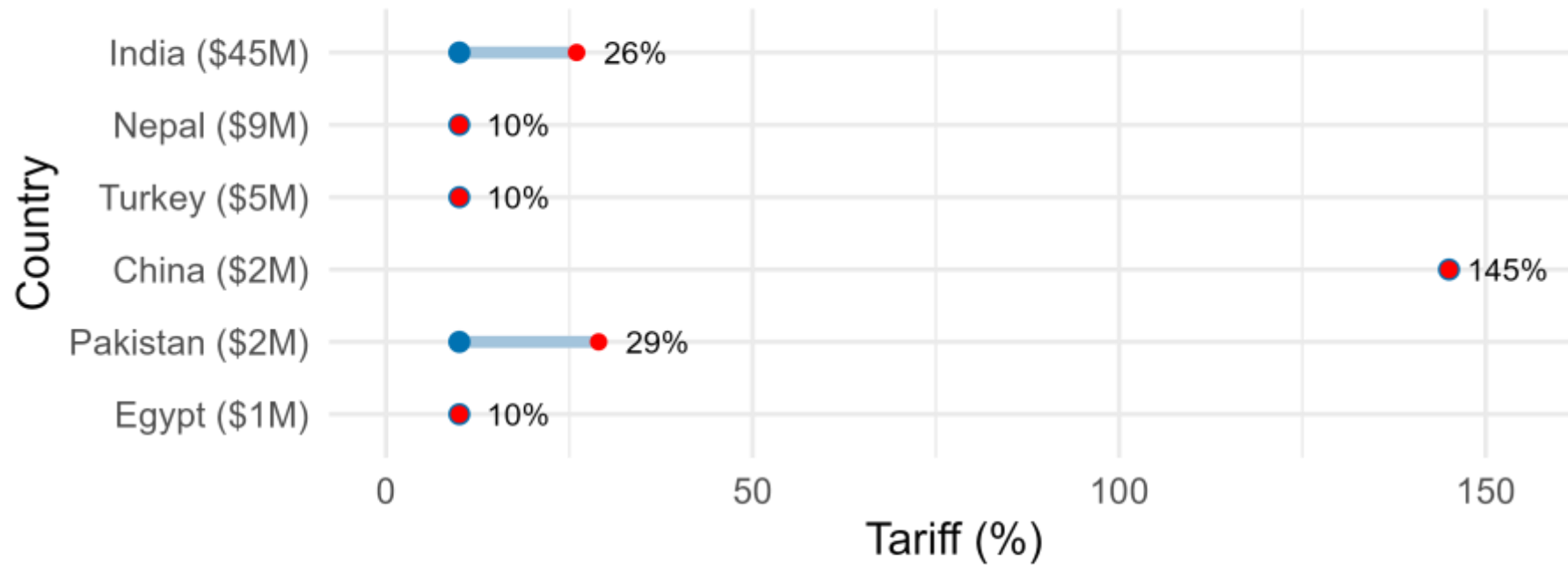
## Dog/cat food (HTS 23091000)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

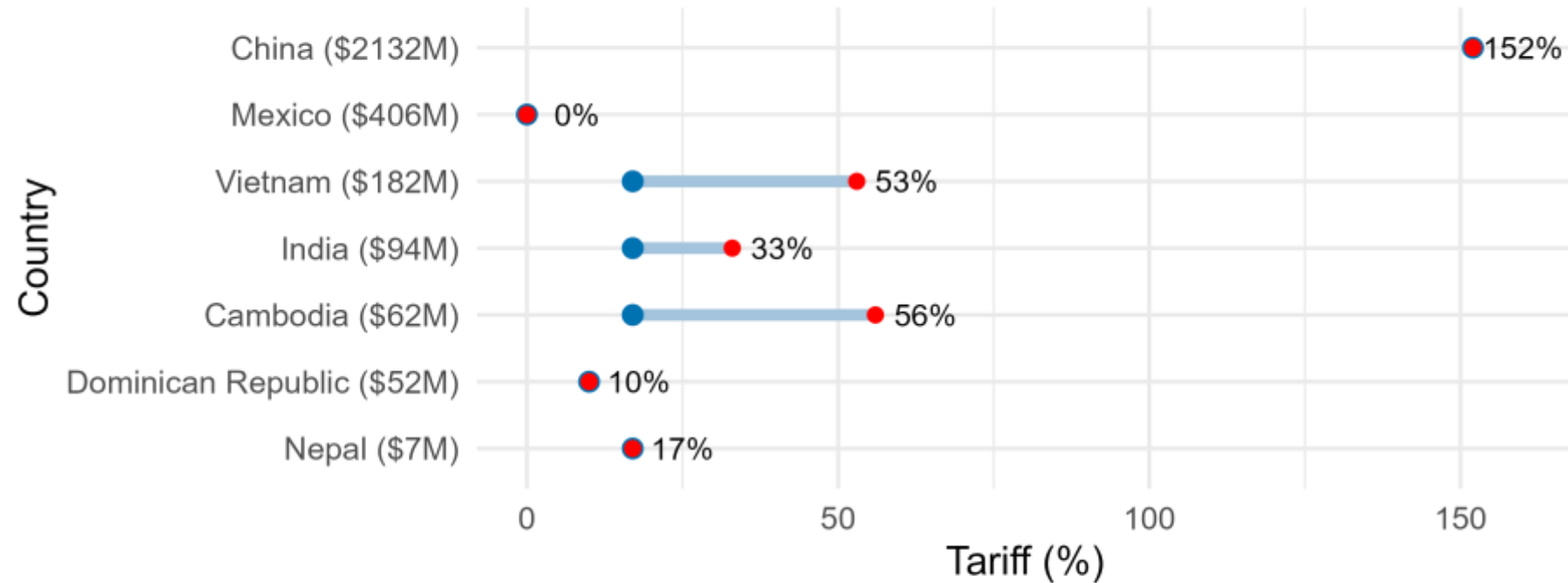
## Carpets/floor covering (HTS 57019010)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

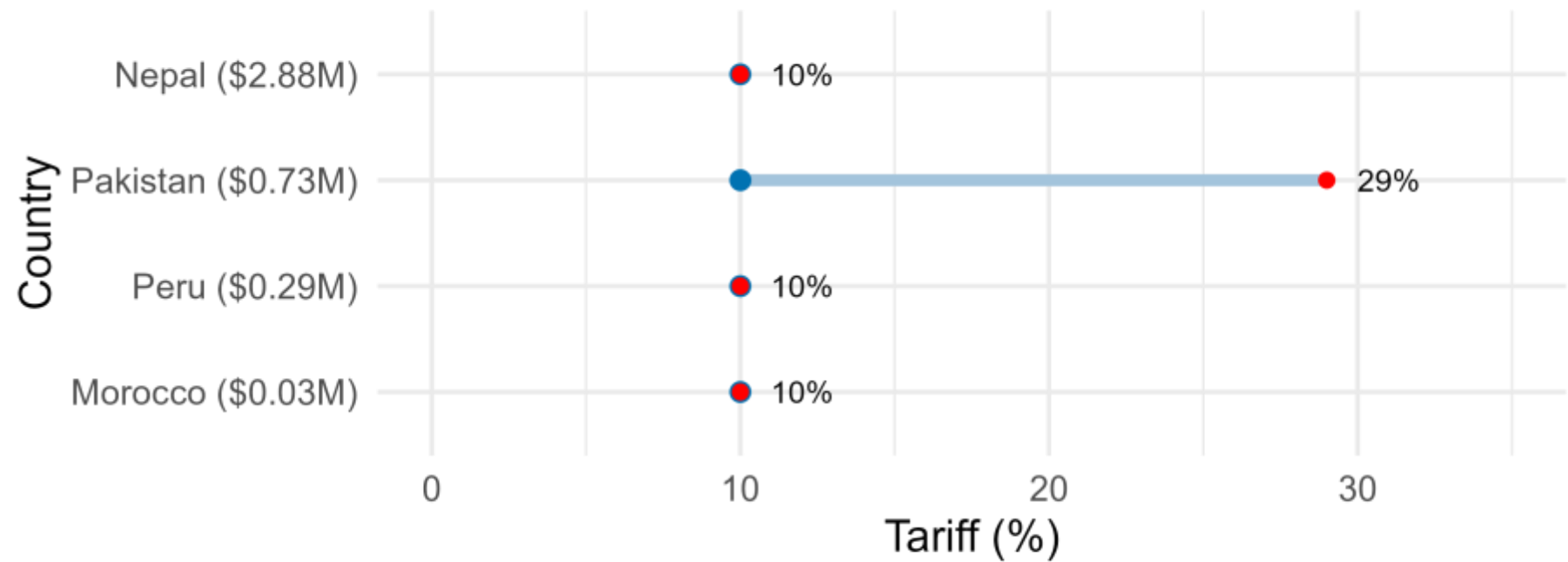
### Flags/made-up textile articles (HTS 63079098)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

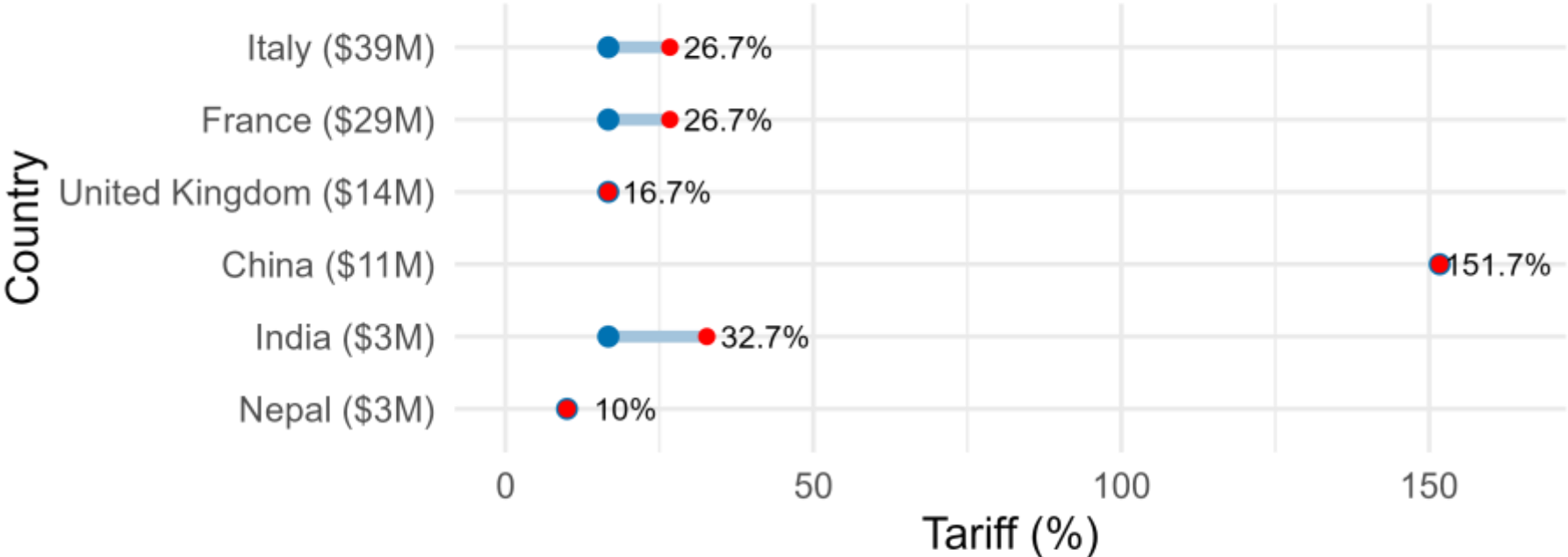
### Carpets/floor covering (HTS 57011013)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

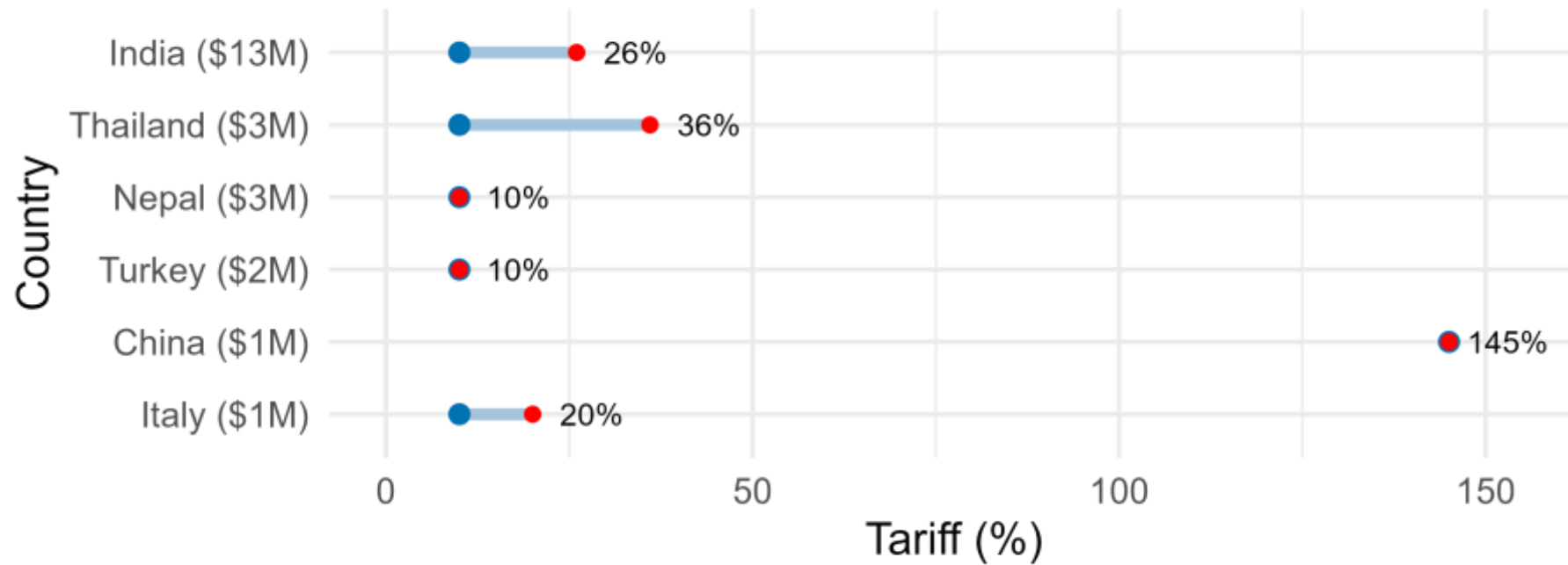
# Shawls/scarves (HTS 62142000)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

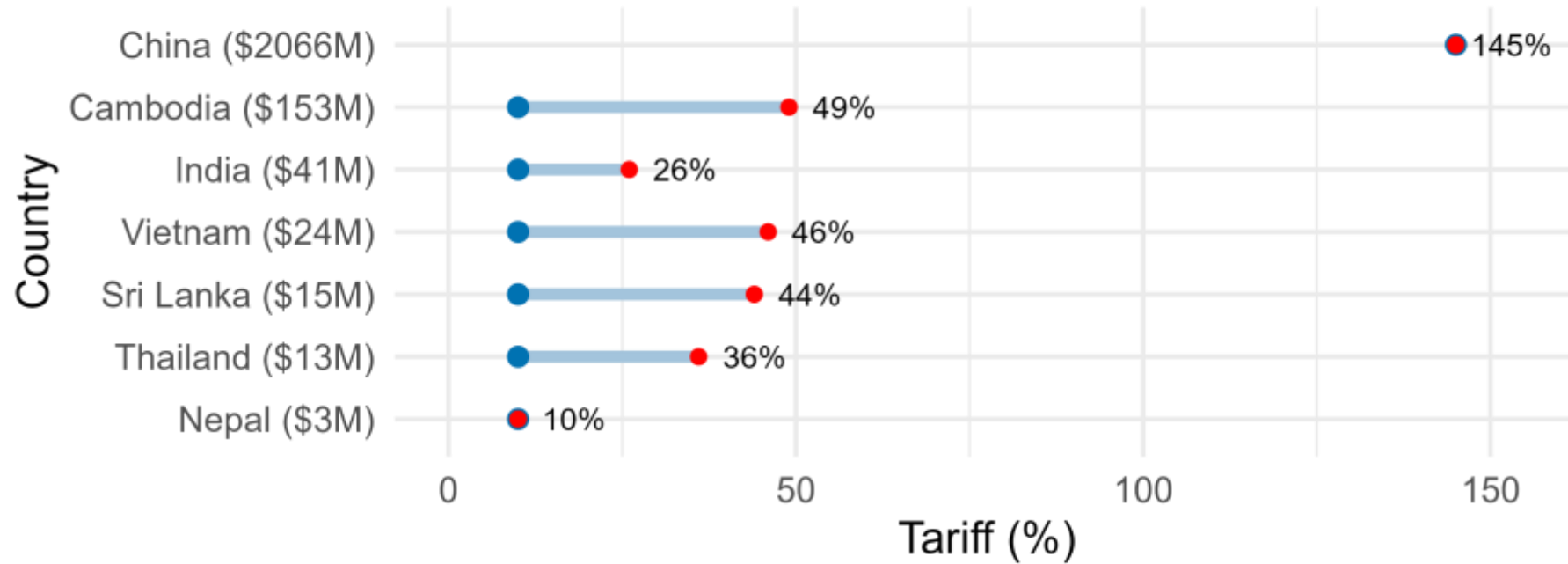
## Carpets/floor covering (HTS 57019020)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

## Christmas articles (HTS 95051025)

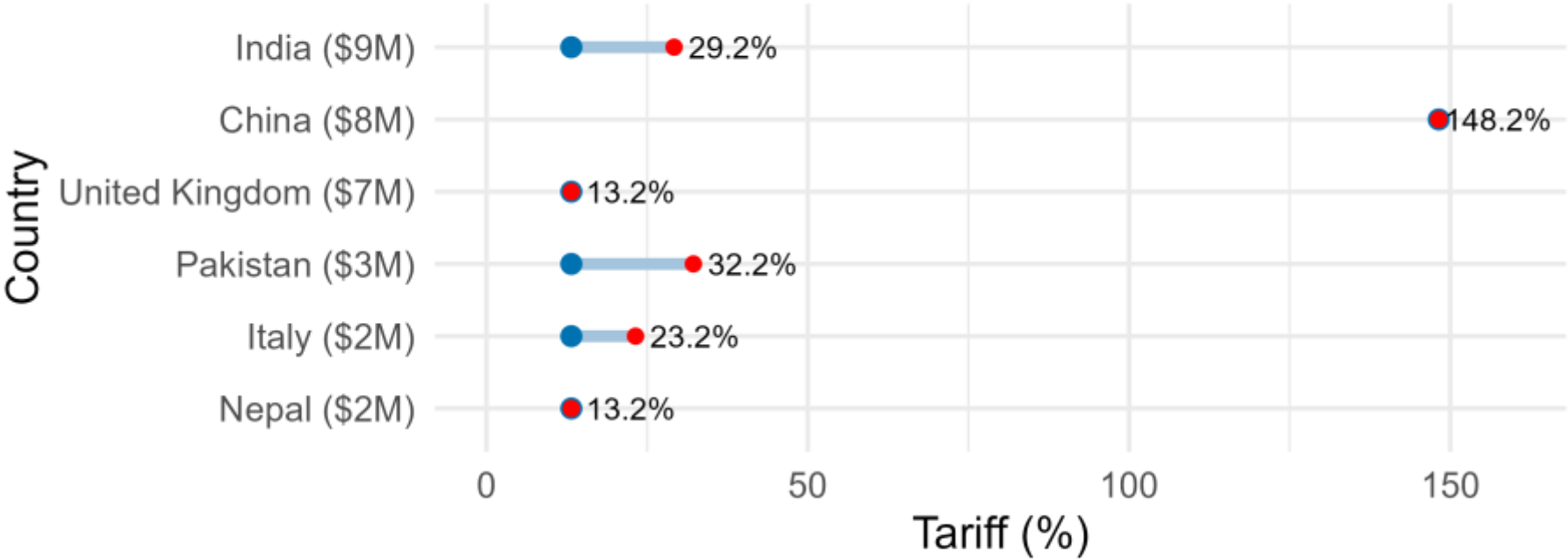


Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions



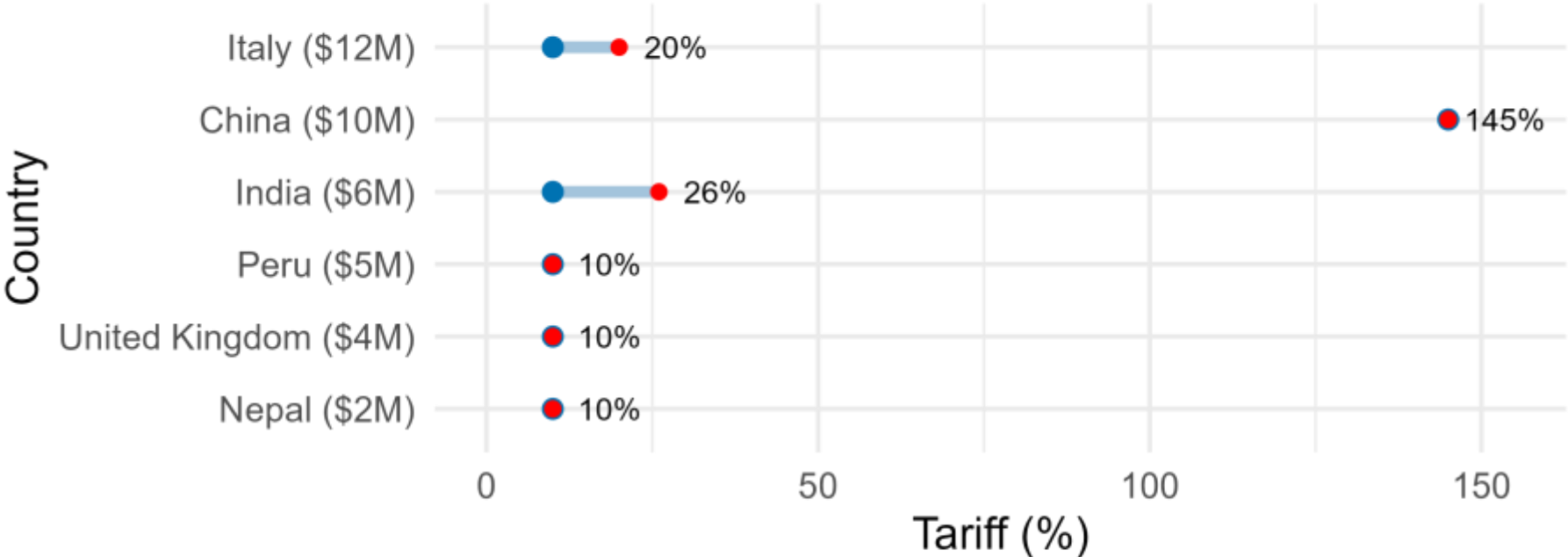
# Furnishing articles (HTS 63049960)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

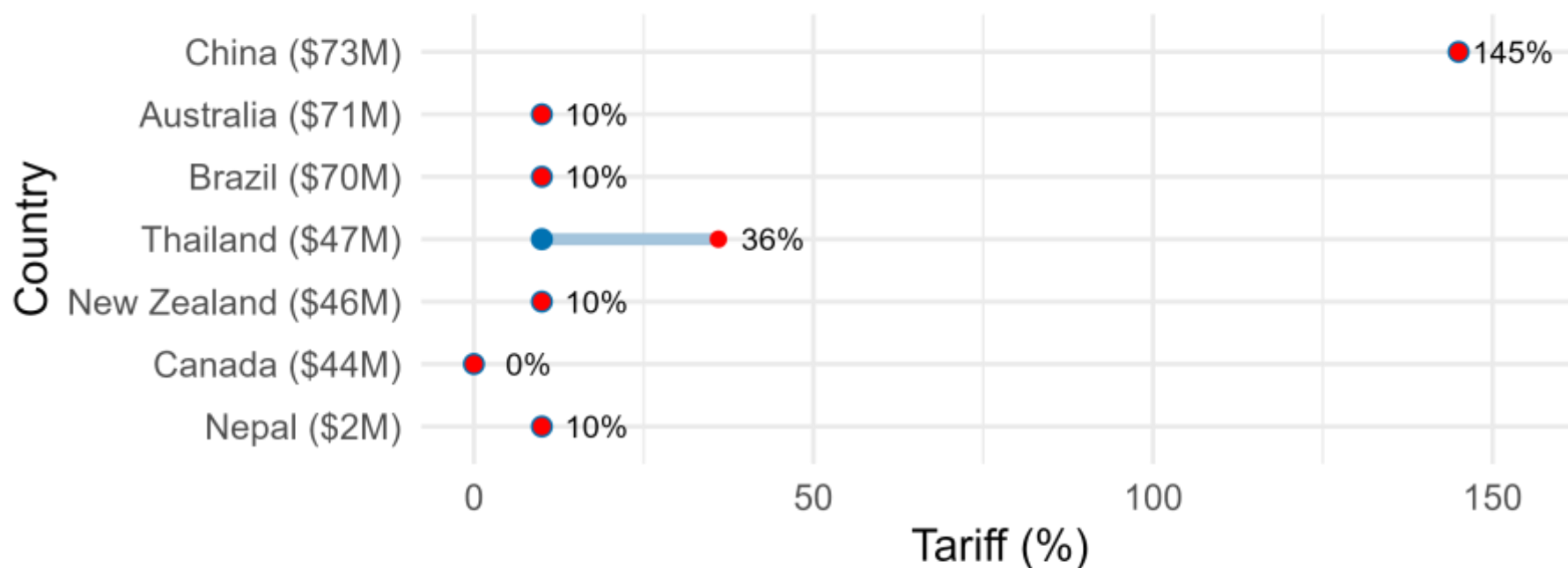
# Blankets/traveling rugs (HTS 63012000)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

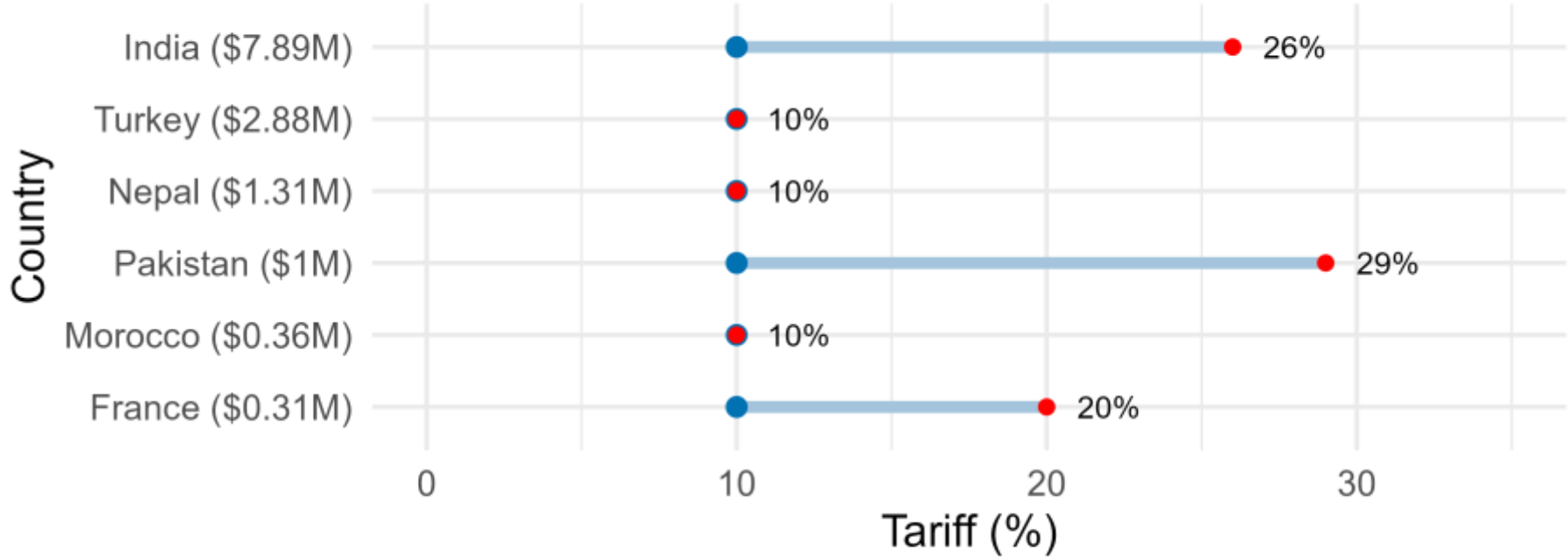
## Animal products (HTS 05119930)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

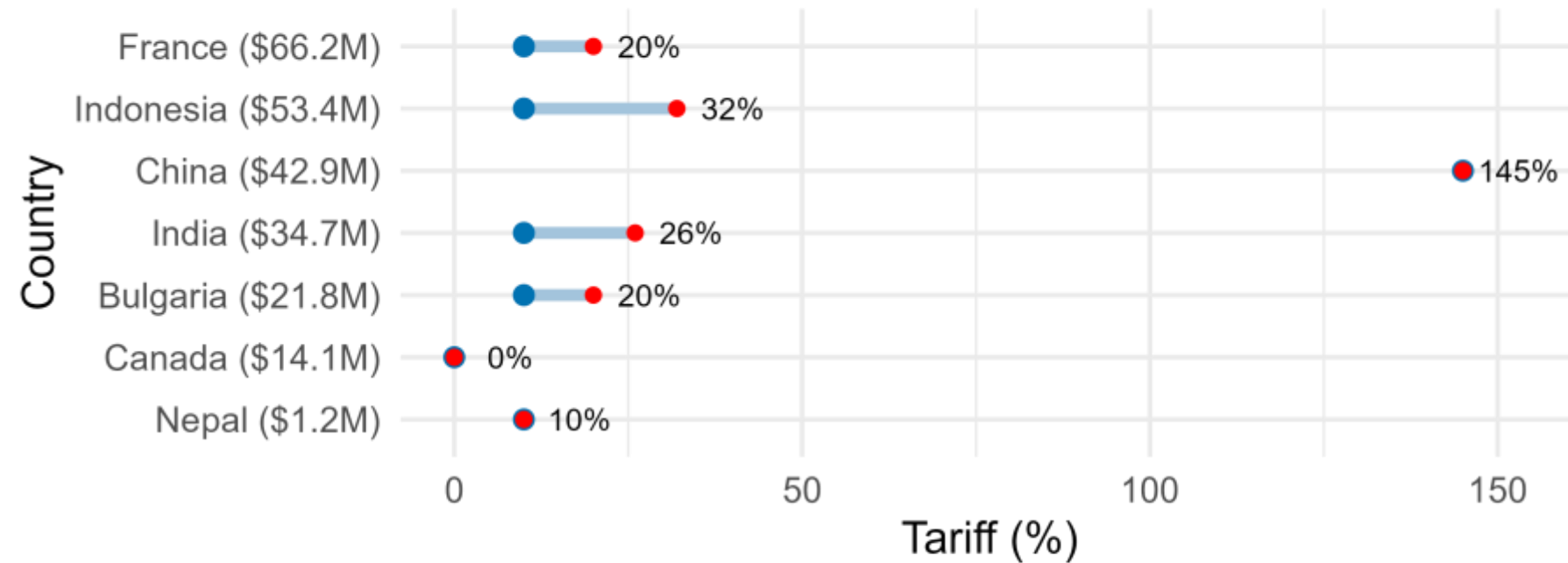
### Carpets/floor covering (HTS 57011016)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

Note: Values in parentheses indicate each country's exports of the product in US\$ millions

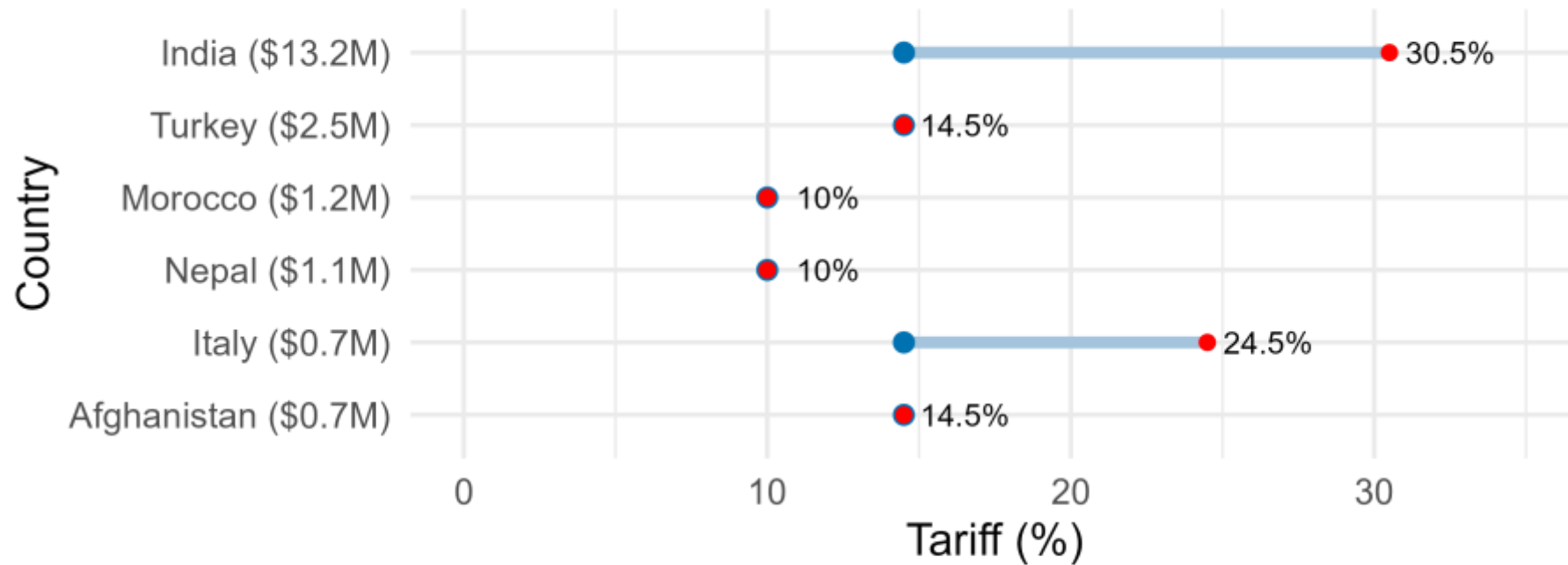
## Essential oils (HTS 33012951)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

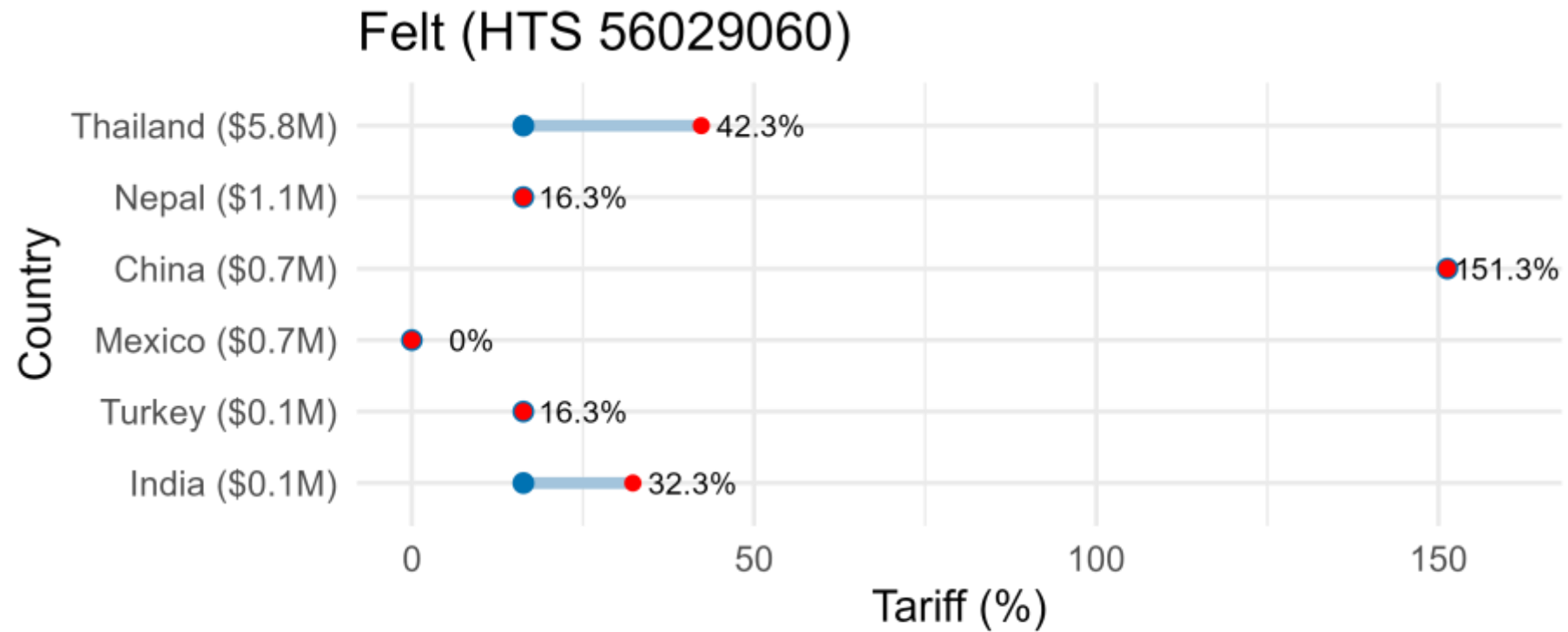
Note: Values in parentheses indicate each country's exports of the product in US\$ millions

## Carpets/floor covering (HTS 57011090)



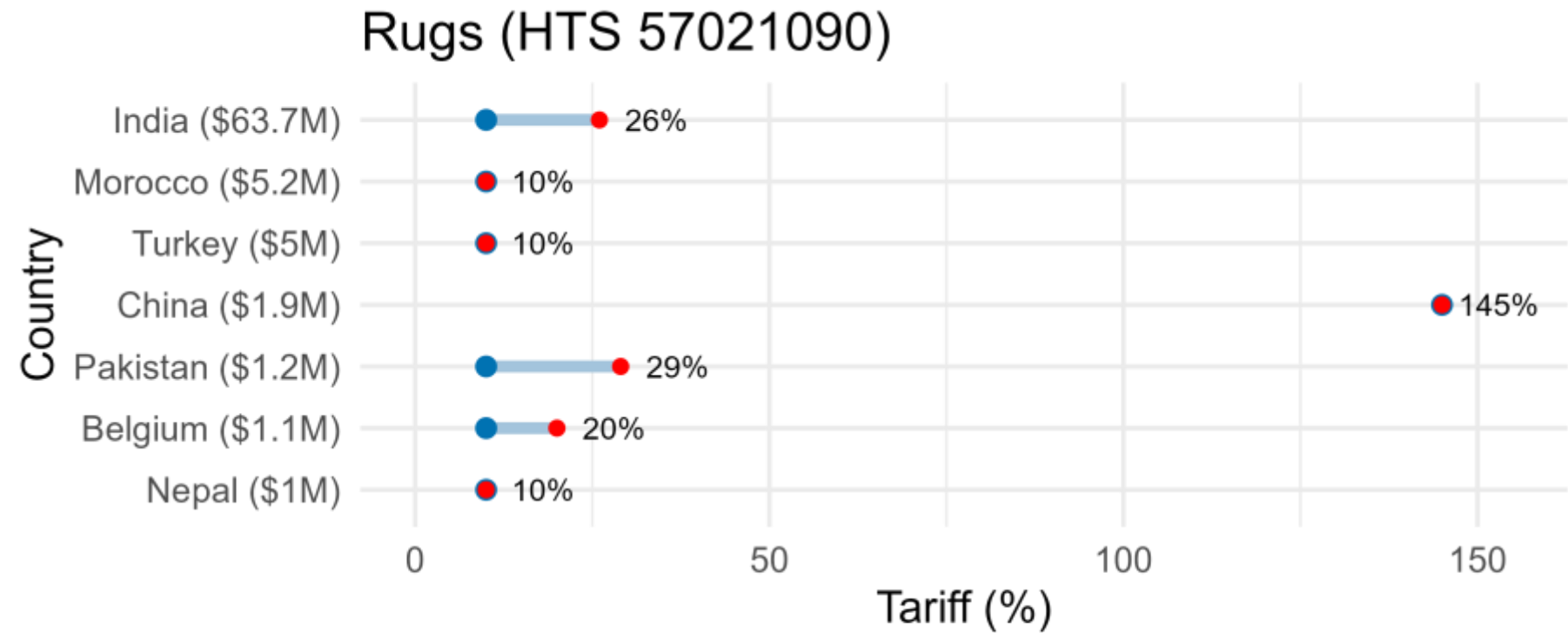
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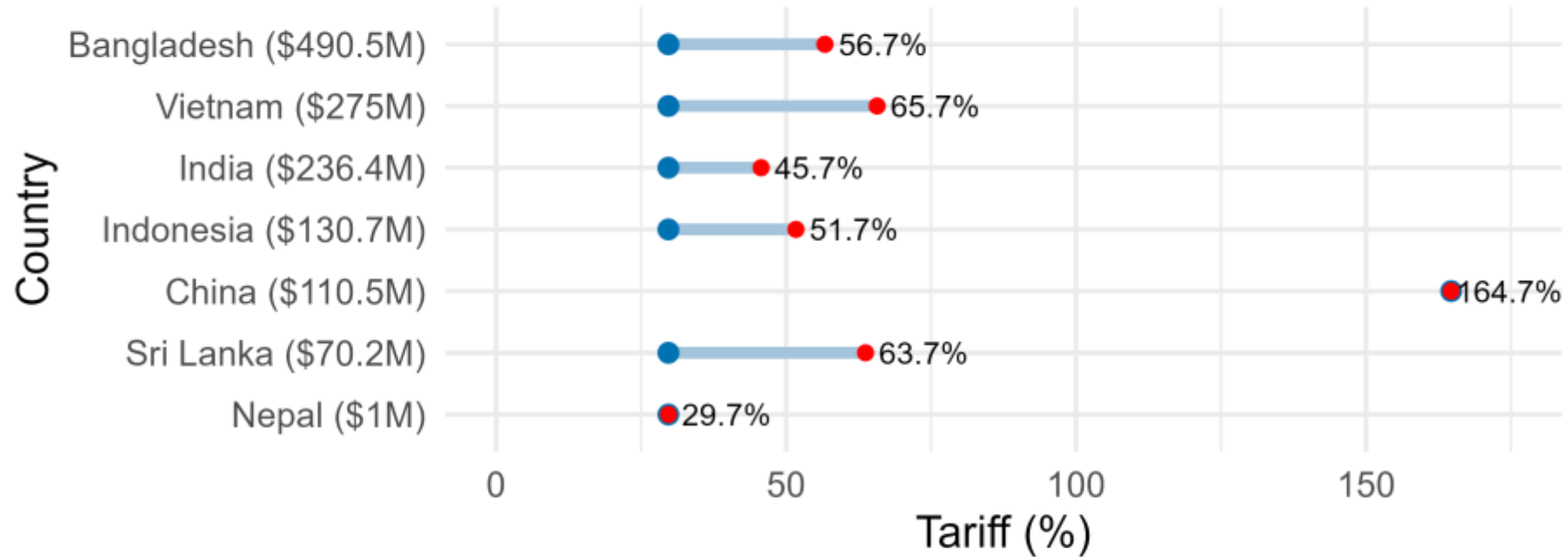


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Note: Values in parentheses indicate each country's exports of the product in US\$ millions



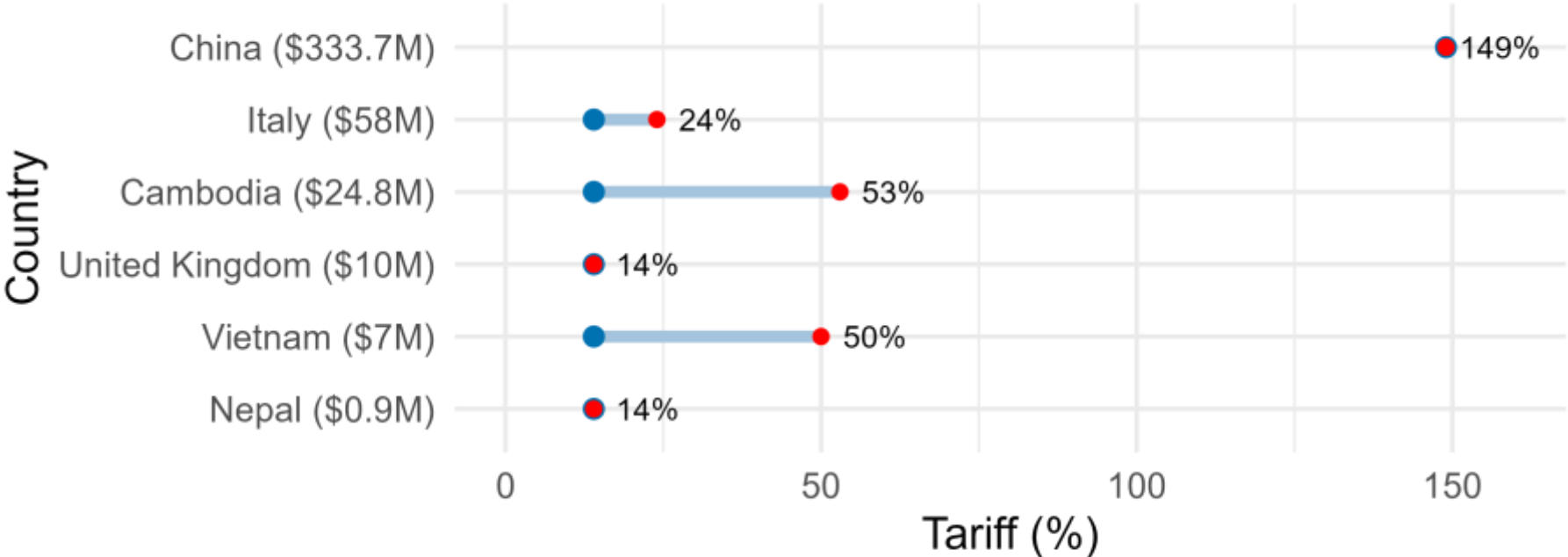
## Cotton shirts (HTS 62052020)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

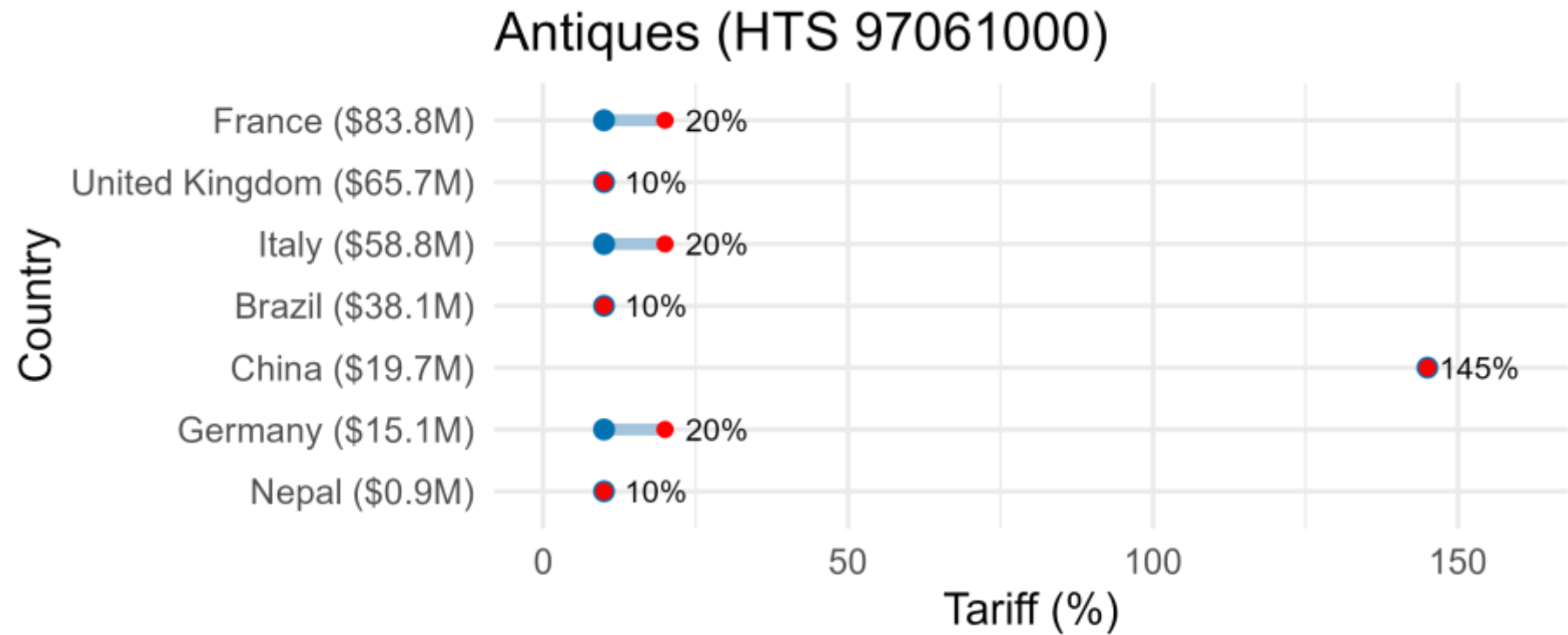
Note: Values in parentheses indicate each country's exports of the product in US\$ millions

# Sweaters/pullovers (HTS 61101210)



Blue = Current tariff, Red = Tariff after the implementation of reciprocal tariffs

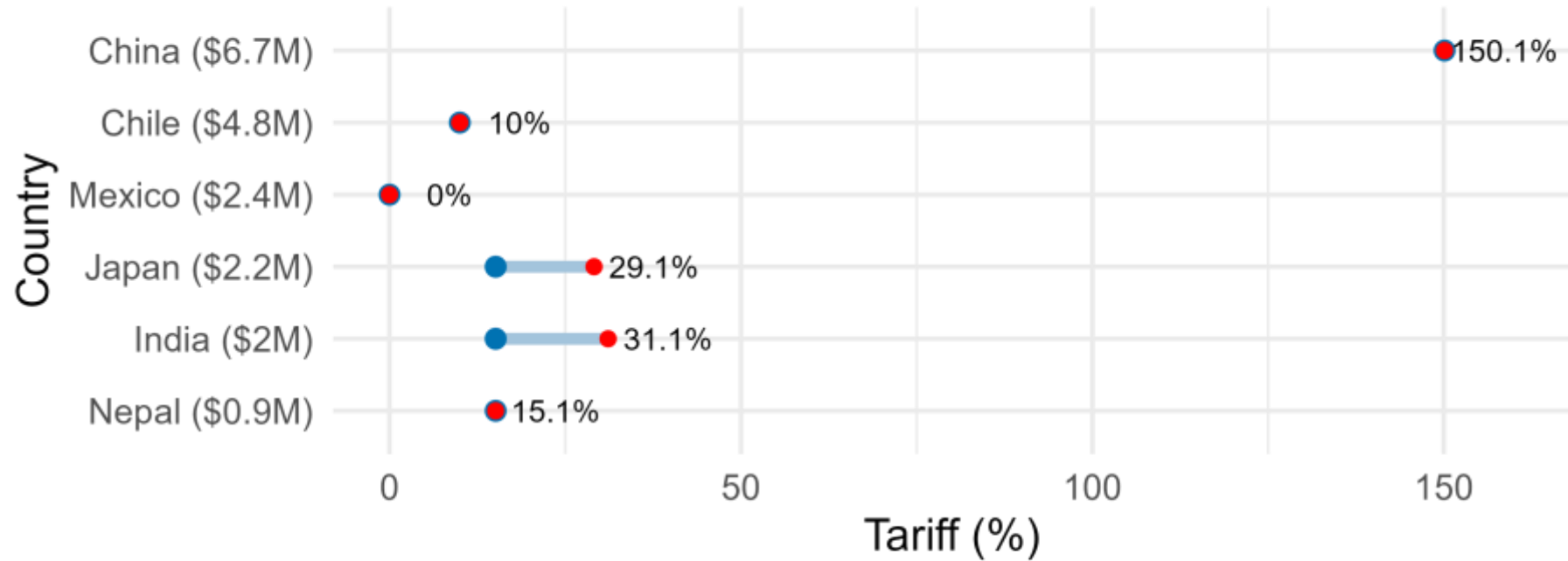
Note: Values in parentheses indicate each country's exports of the product in US\$ millions



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Note: Values in parentheses indicate each country's exports of the product in US\$ millions

## Wooden tools (HTS 44170080)



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Note: Values in parentheses indicate each country's exports of the product in US\$ millions

# Implications I

- Relative prices matter: Possibility of improved price competitiveness
  - If reciprocal tariffs remain, a boon for the garment sector a la quota-induced boom?
  - Uncertainty about reciprocal tariffs (longevity; rates). Some 70 countries have reportedly contacted White House for talks.
  - There are factors other than cost that determine global competitiveness: product quality, reliability of supply and timeliness of delivery.
  - Tariff advantage versus other hindrances to FDI inflows.

# Implications I

A back-of-the-envelope computation

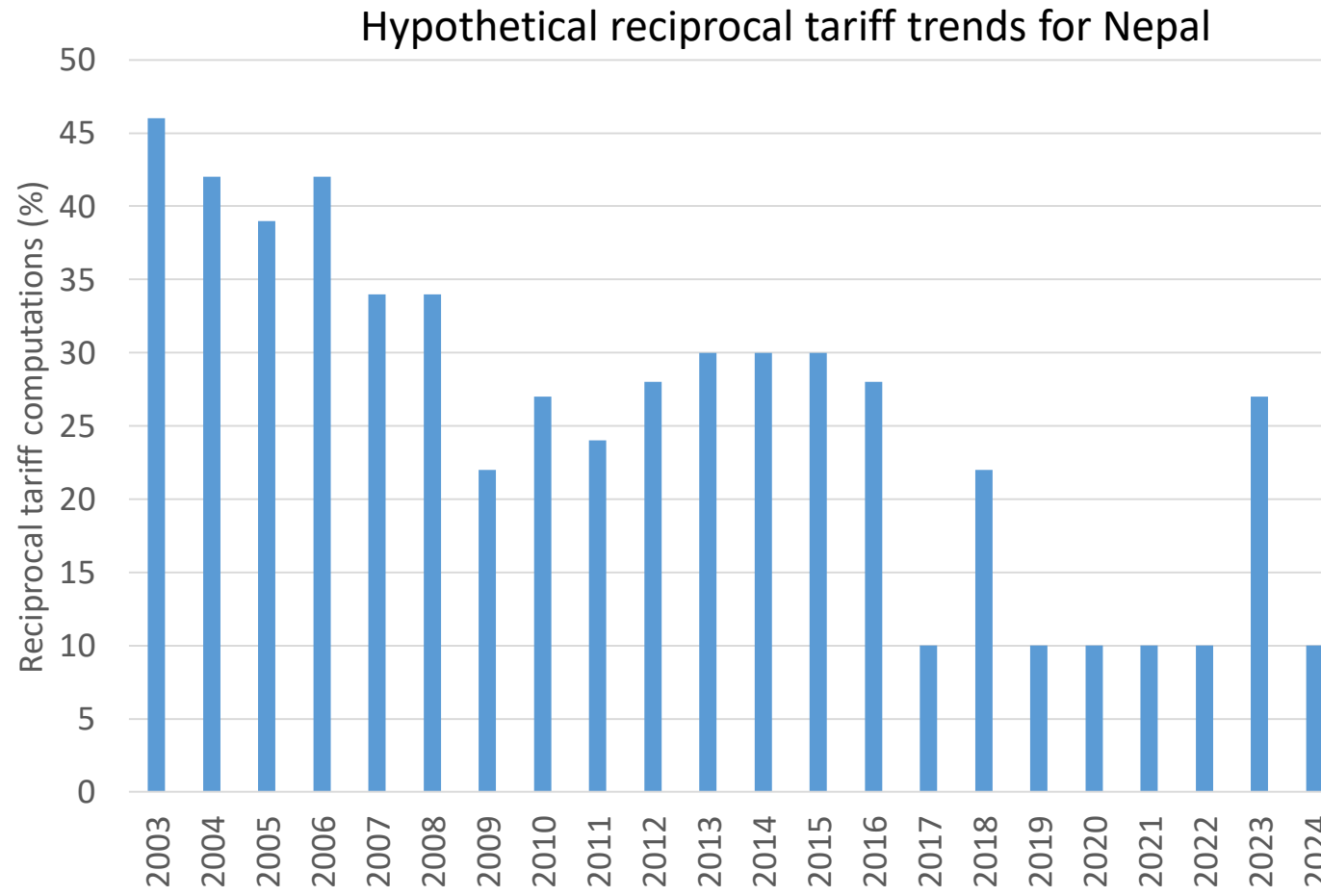
- Goods exports = 2.7% of GDP
- Goods exports to the US: 12%
- Goods exports to the US = 0.31% of GDP
- If domestic value addition is about 40%, then value-added goods exports to the US = 0.12% of GDP
- World Bank (2025): 1% point increase in tariffs >> 0.8 percent fall in goods exports (aggregate, not US-specific)
  - Hence, a 10% point increase in tariffs could represent a direct dent to the GDP of (negative) .0096%
- Coefficients in World Bank (2025) imply: A preference margin of at least 6.3 percentage points is needed for an increase in average tariffs levied by an export destination on the world to boost Nepali exports.
  - Nepal potentially faces a much higher preference margin

# Implications II

- Possibility of trade deflection (for re-exporting to the US)
- Services exports to the US much greater than goods exports; unaffected directly
- US/global slowdown/recession >> reduced demand for goods and services (and migrant labour)
- Lower import prices (terms of trade improvement); dumping could hurt domestic producers
- If dollar depreciation persists, exports could be hurt

# Implications

## Uncertainty reigns supreme



Surplus could trigger higher tariff

Longevity and rates of reciprocal tariffs

What can Nepal offer (in economic ties) should there be a surplus? Consider issues raised in TIFA?

Relative importance of Indian, EU, UK, Chinese markets increases

Start doing homework on pursuing trade agreements with important and potentially important partners if it comes to that (cf. NTIS 2023): identify offensive and defensive interests



Thank you