

# Overview of Trading System in Nepal



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# Outlines of Presentation



- Historical Background
- Direction of Foreign Trade.
- Governance of Trade(Domestic and International)
- Trade in Services (Potentials and Challenges)
- Some Key Issues
- The Way Forward

# Historical Background



- In ancient times, barter trade prevailed at domestic and border trade.
- The international trade was limited to Tibet and East India Company.
- Nepal provided transit passes between India and Tibet during the medieval times in history (treaty of peace and commerce was signed with Tibet during the time of Pratap Malla).
- Treaty of Thapathali signed in 4<sup>th</sup> April 1856, discontinued taxation of trade, opened Nepali Bhardar office at Lhasa, established Nepali trade mart in Lhasa, and expressed both sides amity and peace.

# Historical Background



- India occupied 95 percent of Nepalese trade during the Rana period.
- Nepal signed the treaty of friendship with British India in 1923. (imports were basically industrial and manufactured goods and export were agricultural goods)
- Nepali Vakil in Kolkata, Alainchi Kothi in Patna and Buying Office in Kolkata were established to facilitate bilateral trade.

# Historical Background



- GON and GOI signed historic treaty of trade and commerce in July 31, 1950 both for transit and bilateral trade.
- The subsequent trade and transit agreement were signed in September 11, 1960 for a period of five years.
- The agreement of 1960 were renewed in 1965 and 1970. Separate three agreements were signed in 1978 and subsequently 1991 for trade, transit and control of unauthorized trade.

# Historical Background



- Nepal also signed bilateral trade agreements with 15 other countries between 1947 and 1992 (the first one USA and the last with Mangolia and Poland in 1992): all in MFN basis.
- Some other agreements include; Transport Agreement with PRC in 1994, Trade and Other Related Matters in 2002, NTTFC in 2009 and Zero Tariff Preferences (MOU) agreement in 2010.
- Trade and Transit Agreements with Bangladesh were signed in 1976.

# Historical Background



- The trade treaty with India were renewed in 1996 with new provisions of DFQF market access, modified in 2002 and renewed in 2007.
- A new agreement was signed in October 2009 with India with a view to addressing several challenges in the context of changing dynamism of international trade.
- Nepal is a beneficiary to GSP scheme since 1971, a member of SAFTA , BIMSTEC FTA and WTO since 2004.

# Direction of Foreign Trade



- Before 1950, altogether 95 percent trade was with British India.
- Since 1950 to 1970 the trade with India counted for 90 percent.
- Since 1970 the share of India gradually declined and the trade with third countries increased to 82 percent in 1995.
- There was a turn around since 1996 and the export to India increased by eight fold between 1996 and 2001.



# Direction of Foreign Trade



- There was nominal growth of Nepalese export to India between 2002 and 2007 which started declining after the year.
- However, India occupies around 60 percent of Nepalese trade in recent years.
- This basically draws two inferences; one imports from India is increasing at a faster pace and secondly, the export to third country is decreasing.

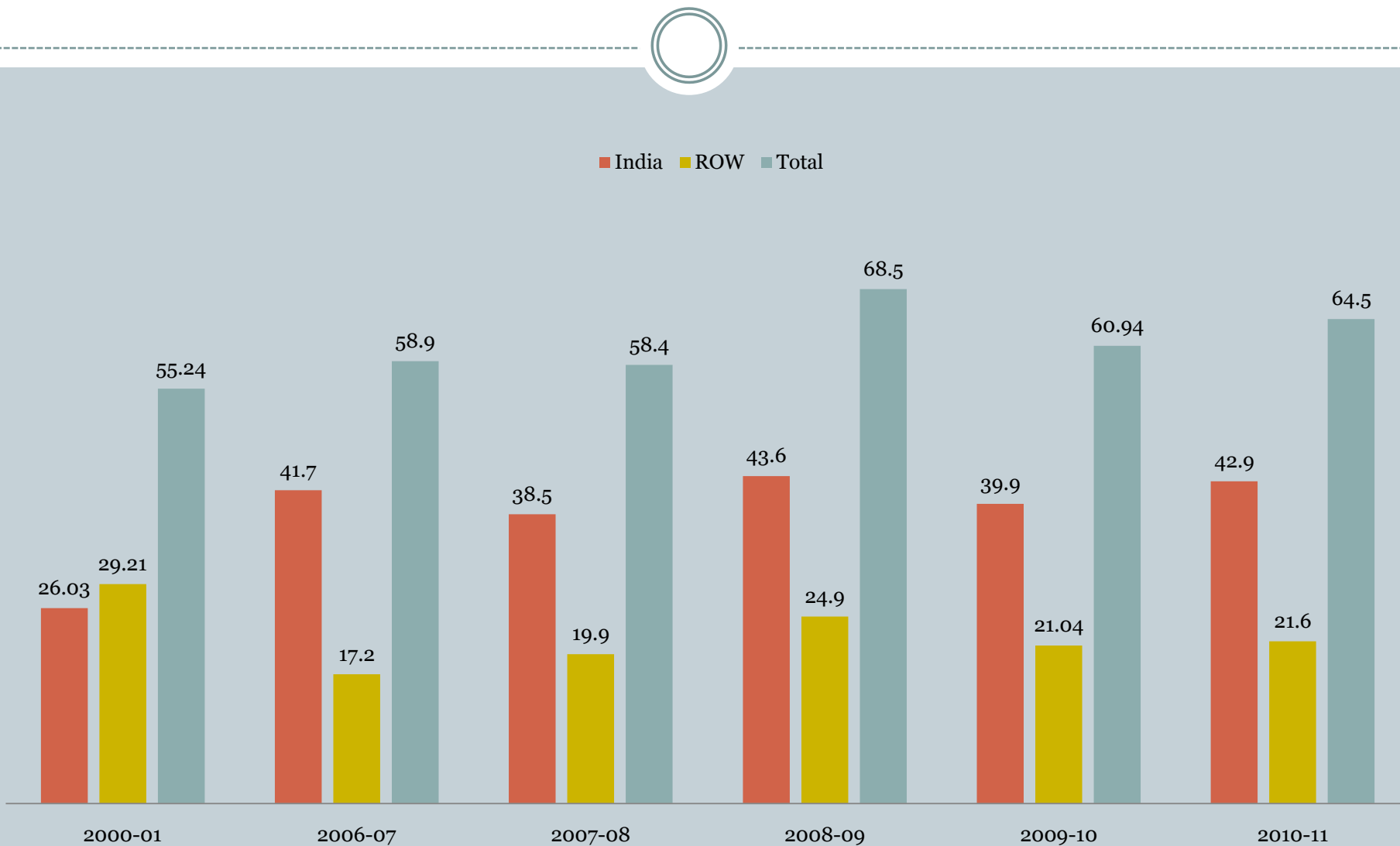
# Direction of Foreign Trade

(Billion NPR)

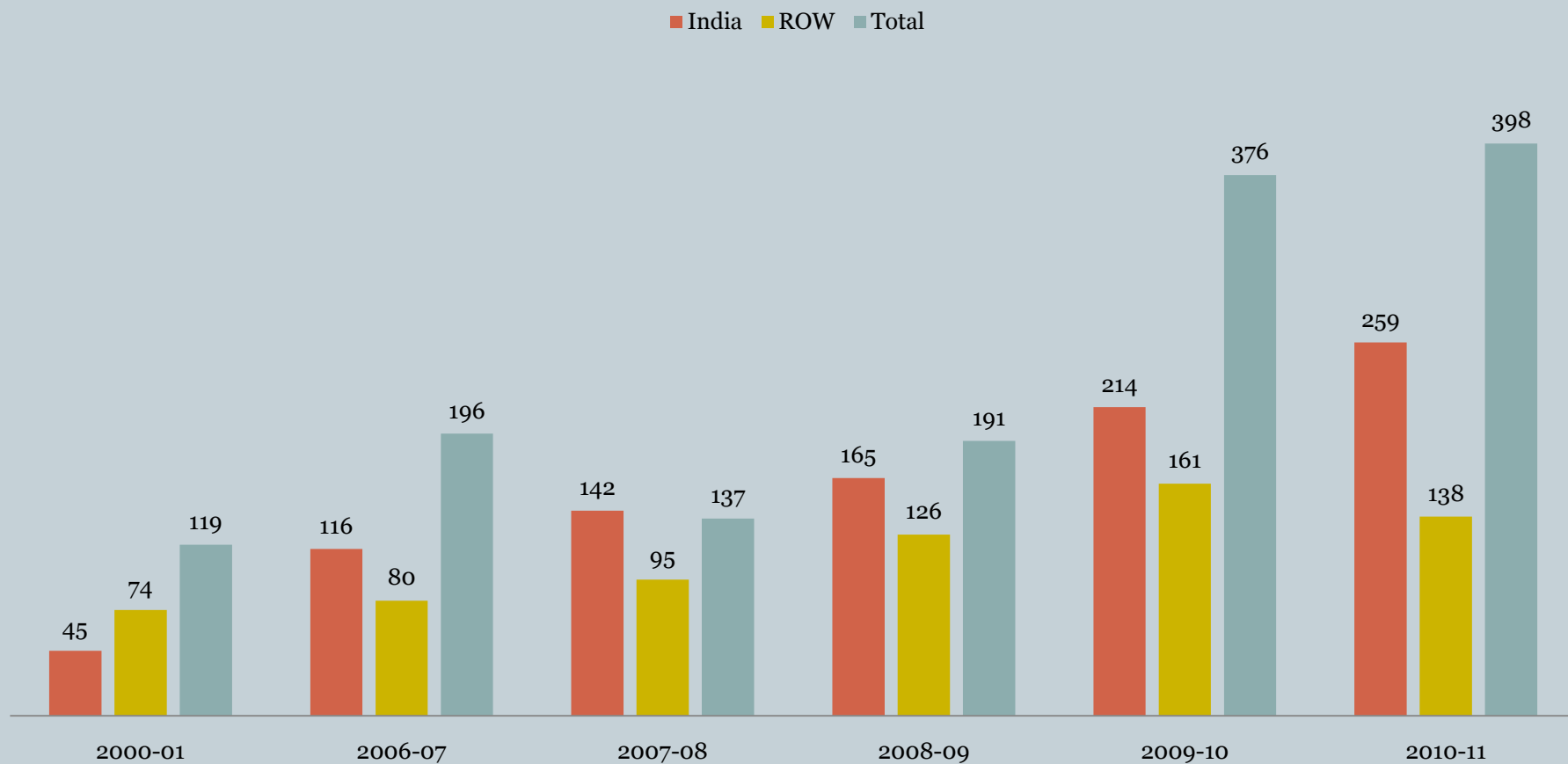


Direction	2000-01	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Export</b>						
India	26.03	41.7	38.5	43.6	39.9	42.9
ROW	29.21	17.2	19.9	24.9	21.04	21.6
Total	55.24	58.9	58.4	68.5	60.94	64.5
<b>Import</b>						
India	45.21	115.9	142.4	165.1	214.3	259.2
ROW	73.52	80.0	94.6	125.8	161.3	138.3
Total	118.73	195.9	137.0	190.9	375.6	397.5
<b>Total Trade</b>						
India	71.24	157.6	180.9	208.7	254.2	302.1
ROW	102.73	97.2	114.5	150.7	182.34	159.9
Total	173.97	254.8	259.4	359.4	436.54	462.0

# Figure 1: Direction of Nepalese exports (in Rs. Billion)



# Figure 2: Direction of Nepalese imports (in Rs. Billion)



# Governance of Trade



- **Domestic Rules Governing Trade**
  - Export Import Control Act-1958
  - Export Import Control regulation 1974
  - Gazette Notifications of October 2008.
  - Customs Act 2006 and Regulations 2006.
  - Private Firm Registration Act, 1959.
  - Company Act, 2006.
  - Plant Protection Act, 2006.

# Governance of Trade



- **Domestic Rules Governing Trade**
  - Food Act, 1969.
  - Animal Health and Livestock Services Act
  - Standard Measurement and Weight Act, 1969.
  - Quarantine Act and Regulations.
  - Narcotics Drug Control Act, 1976.
  - Patent, Design and Trademark Act, 1967.
  - Consumer Protection Act, 1998 and Regulations 2000.

# Governance of Trade



- **Domestic Rules Governing Trade**
  - Industrial Enterprises Act, 1992.
  - Foreign Investment and Technology Transfer Act, 1992.
  - Trade Policy, 2009.
  - Industrial Policy, 2010.
  - Nepal Trade Integration Strategy, 2010.
  - Various Acts and Legislations governing services like education, health, accounting, tourism and professional services.

# Governance of Trade



- **International Rules**
  - Unilateral preferences available under GSP and zero tariff preferences by the developing and developed countries.
  - Bilateral arrangement with India.
  - Regional trade agreements of SAFTA and BIMSTEC FTA.
  - WTO rules and obligations.



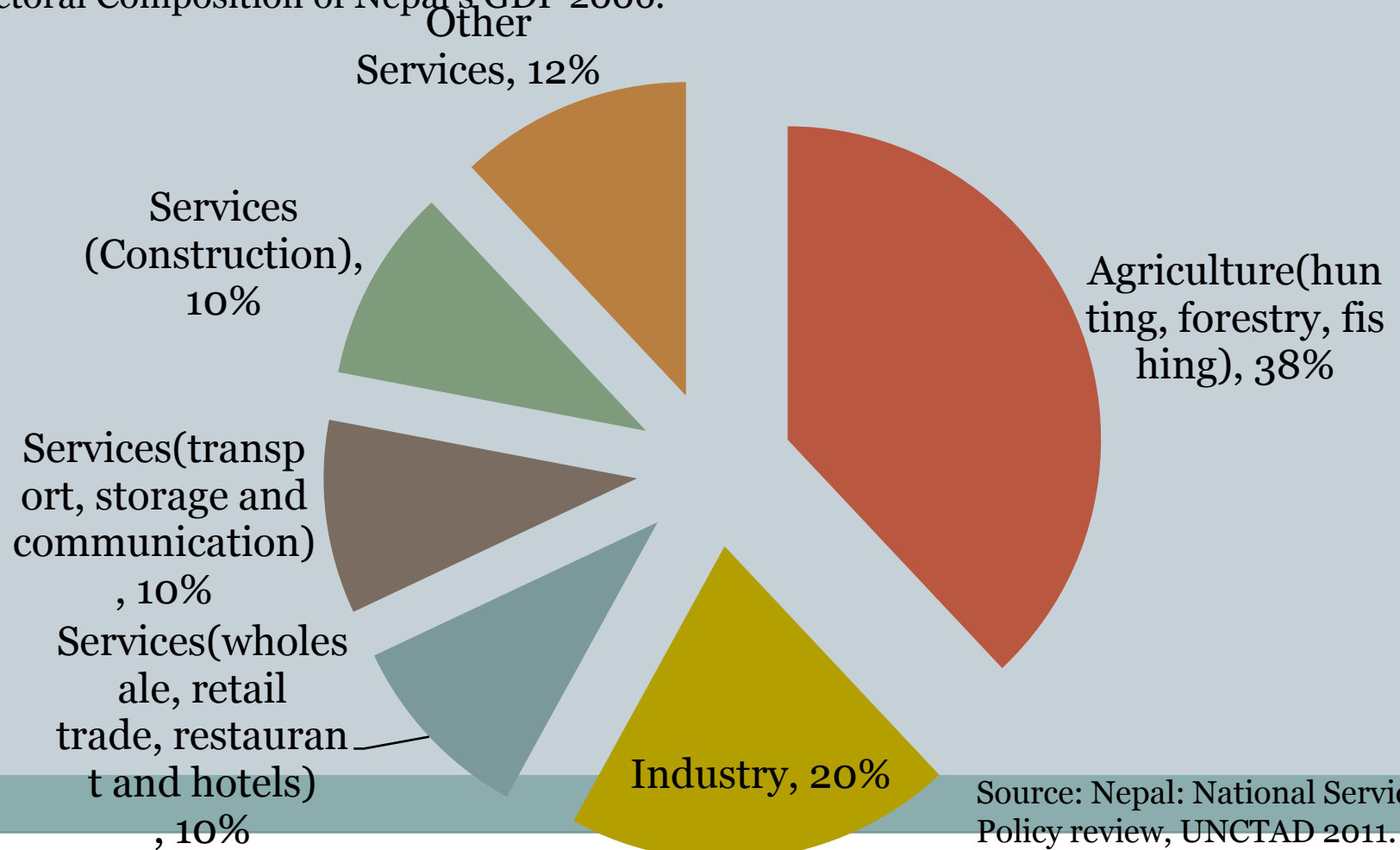
# Trade in Services (Potentials and Challenges)



- NTIS 2010 identified seven areas of services as most potentials. These are: Tourism, Labor, IT and BPO Services, Health, Education, and Engineering Services and hydro-power.
- Nepal has also made commitment to open 11 services sectors and 67 sub sectors during the WTO accession.
- Services negotiations are underway at SAFTA and being undertaken in BIMSTEC FTA.

# Figure 3: Trade in Services (Potentials and Challenges

Sectoral Composition of Nepal's GDP 2006.



Source: Nepal: National Services Policy review, UNCTAD 2011.

# Trade in Services (Potentials and Challenges)



- Nepalese GDP composition over the years shows that the share of agriculture is decreasing (70 % in 1975 to 38% in 2006) and the share of Services is increasing.
- The share of industrial and services sectors combined in real GDP increased from 55 percent in 1992 to around 62 percent in 2006. It has been buoyed by telecommunication, tourism and financial services.
- Remittances has several times outpaced the trade in goods. (around 300 billion NPR per annum).

# Trade in Services (Potentials and Challenges)



- **Potentials for services sector**
  - This is an area of comparative advantage in view of geographical constraint of the country.
  - The presence of different ecological belt and climatic conditions facilitate the development of multiple services sector.
  - Abundance of hydro-power potentials.
  - Well developed communication and telecom infrastructures.

# Trade in Services (Potentials and Challenges)



- **Potentials:**

- Increasing numbers of professionals and technical manpower in the field of engineering, medicine, nursing, accountancy and others.
- Open and liberal foreign investment policies on services sector.
- Well developed financial sector.

# Trade in Services (Potentials and Challenges)



- **Challenges.**
  - Political instability leading to policy instability.
  - Law and order problems.
  - Inadequate physical infrastructures.
  - Lack of adequate incentives to the investors.
  - Low quality and standards of services.
  - Labor issues.
  - Poor governance.

# Some Key Issues



- Enhancing supply side capacity both in trade in goods and services.
- Linking trade with poverty reduction strategies.
- Inadequate attention for human resources development.
- High cost of doing business.
- Inefficient transit transport systems.

# Some Key Issues



- Enlarging the market access opportunities.
- Strengthening the trade negotiating capacity.
- Developing a comprehensive master plan for service sector development.
- Utilizing the opportunities of international support on trade development.
- Creating a conducive investment climate by with appropriate incentives to the potential investors.



# The Way Forward



## 1. **Enhance supply-side capacity:**

- Develop the products and services that are of comparative advantage to higher value chain. Do not limit only to products and services of NTIS recommendations.
- Mainstream trade in national development agenda, particularly focusing on development of export potential items.

# The Way Forward



- Focus on pocket area development on the modality of OVOP.
- Develop quality infrastructures and get international accreditation for test and certifications. Collaborate with the test and certification institutions of major export destinations.
- Initially, pick up some potential products for development and support from the farm level to the destination markets (farm to fork concept) and not dilute the support by scattering in a wide areas.

## **2. Continue to engage in expanding market access opportunities:**

- Engage in constructive dialogue with potential countries bilaterally or regionally in order to expand the market access.

# The Way Forward



- Initiate FTA with other neighboring countries.
- Review the provisions of Nepal-India treaty of trade in the changing context of international trade.

## **3. Addressing the systemic issues/capacity development:**

- Persuade measures in improving the business climate and reducing the cost of doing business.
- Implement capacity building measures on trade negotiations based on need assessment.
- Prepare a master plan for service sector development.

# The Way Forward



- Develop institutional and HR capacity for updated information on dynamism of international trade, market intelligence and promotion of Nepalese goods and services.
- Establish a strong institutional mechanism to oversee the trade related issue at higher level.

## **4. Streamlining transit transportation:**

- Diversify transit corridors and reduce the cost of transit transportation by improving logistics and introduction of multi-modal transport systems.
- Use of EDI, introduction of SW and promoting cooperation between port customs, LCS of India and Nepal.

# The Way Forward



## **5. Increasing visibility in the international trade forums:**

- Engage with and encourage various development partners for maximizing the resources allocations under aid for trade initiatives.
- Work together with the LDCs and developing countries in finding a common acceptable solutions to the problems of LDCs and LLDCs.
- Strive for meeting the obligations of various agreements of which Nepal is a party too, in a timely manner.



**Thank You for your  
attention.**