

Session V

# World trading system and hierarchy of regulatory and institutional arrangements

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# Learning goals

**At the end of this session, you will be able to:**

- ▶ Appreciate the use of trade policy and how trade policy instruments are used.
- ▶ Understand the three trade policies of Nepal and the updates in them.
- ▶ Understand preferential market access, bilateral treaties, regional economic cooperation agreements (RECOs)
- ▶ Understand Nepal's involvement in regional trade agreements (SAFTA and BIMSTEC).
- ▶ Appreciate the implication of the above agreements to Nepal.

# Trade policy

Trade policy is an official document that outlines rules and regulations pertaining to international trade.

Trade policy deals with the economic effects of direct or indirect government intervention that alters the environment under which international transactions take place.

## Why trade policy?

- ▶ Check trade deficits
- ▶ Promote industrialization/ exports
- ▶ Safeguard the interest of domestic industry: anti-dumping, CVD, safeguard measures
- ▶ Meet security/health objectives
- ▶ Discourage luxury consumption
- ▶ Generate revenue

# Trade policy (contd...)

## Instruments

- ▶ Import tariffs
  - ad valorem or specific.
  - Export duty
  - Other duties : anti-dumping duties and countervailing duties, penalty duties, retaliatory duties, and preferential duties.
- ▶ Export subsidies
- ▶ Quantitative restriction/quota
- ▶ Prohibitions
- ▶ Non-tariff barriers- local value addition requirement, SPS requirements, export licenses, and administrative hassles
- ▶ Monetary measures

# Trade policy (contd...)

	<b>Tariff</b>	<b>Export Subsidy</b>	<b>Import Quota</b>	<b>Voluntary Export Restraint</b>
Producer surplus	Increases	Increases	Increases	Increases
Consumer surplus	Falls	Falls	Falls	Falls
Government revenue	Increases	Falls (government spending rises)	No change (rents to license holders)	No change (rents to foreigners)
Overall national welfare	Ambiguous (falls for small country)	Falls	Ambiguous (falls for small country)	Falls

# Trade policy(contd...)

## Trade policy in Nepal

The first consolidated trade policy was launched in 1983 with the slogan “Exports for Development”.

### Objectives

- ▶ to enhance investment in export-oriented sectors and
- ▶ promote indigenous products in the international market.

### Instruments

- ▶ cash incentives for exports,
- ▶ duty drawback provisions, and
- ▶ promotion of the linkage of imported raw materials to export-oriented sectors.

# Trade policy(contd...)

## Trade policy 1992

### Objectives

- ▶ to enhance the contributions of trade sector to national economy by promoting internal and international trade with the increased participation of private sector through the creation of an open and liberal atmosphere;
- ▶ to diversify trade by identifying, developing and producing new exportable products through the promotion of backward linkages for making export trade competitive and sustainable;
- ▶ to expand trade on a sustained basis through gradual reduction in trade imbalances; and
- ▶ to co-ordinate trade with other sectors by expanding employment-oriented trade.

# Trade policy(contd...)

## Major provisions (exports)

- ▶ Licenses were not to be required for the export of products other than banned or quantitatively restricted items.
- ▶ Container service to be introduced and bonded warehousing system to be further expanded and improved.
- ▶ The duty drawback scheme for the refund of import duty to be implemented.
- ▶ Exports to be free from all charges except the service charge.
- ▶ Preparation for full convertibility of the Nepalese currency in trade and services
- ▶ Export Valuation System to be gradually abolished after the full convertibility of the Nepalese currency.

# Trade policy(contd...)

## Major provisions (imports)

- ▶ Imports to be gradually tied up with exports with a view to creating a well organized and sustained foreign trade sector by narrowing the gap between exports and imports.
- ▶ The existing import licensing and control system to be simplified and quantitative restrictions on imports to be gradually replaced through the tariff media.
- ▶ Imports of all products other than banned or quantitatively restricted items to be made free.
- ▶ Income tax exempted
- ▶ Import procedures and documentation to be made short and simple.
- ▶ Special efforts to be made to reduce transit costs and also to minimize pilferage and demurrage.

# Trade policy(contd...)

## Trade Policy 2009

### Objectives

- ▶ to create a conducive environment for the promotion of trade and business in order to make it competitive at the international level;
- ▶ to minimize trade deficit by increasing exports of value-added products through linkages between imports and exports trade;
- ▶ to increase income and employment opportunities by increasing competitiveness of trade in goods and services and using it as a means of poverty alleviation; and
- ▶ to clearly establish interrelationship between internal and foreign trade, and develop them as complementary and supplementary to each other.

# Trade policy(contd...)

## Trade Policy 2009

### Major incentives

- ▶ An Export Guarantee Scheme to be introduced.
- ▶ Incentives to be given for value addition to products currently exported in raw form.
- ▶ For products with long production cycle (e.g. tea, coffee), arrangements to be made for leasing land for commercial farming.
- ▶ A Product Development Fund to be established for transporting raw materials to processing centres.
- ▶ Ancillary industries that supply raw materials to industries in export and special zones to be encouraged.
- ▶ Export Promotion Fund to be used for new technology adoption and upgrading of production process.
- ▶ Industries in Export Processing Zones to be allowed to sell a certain percent of their products in the domestic market.

# Preferential market access

- ▶ Reciprocal
  - Global System of Trade Preferences (GSTP)- established in 1988, open for Group of 77, principle of mutuality of advantages, tariff preferences are bound
- ▶ Non-reciprocal
  - Generalized System of Preferences (GSP), European Union (EU) introduced the Everything but Arms (EBA),
  - African Growth and Opportunity Act (AGOA)
  - Caribbean Basin Initiative (CBI)
  - Duty-free and quota-free (DFQF) market access

## Low utilization of GSP facilities

- lack of security of access
- insufficient product coverage,
- stringent ROO
- lack of understanding or awareness
- Non-tariff barriers

# Bilateral trade agreements

No any universal definition of a BTA. However, it is like a treaty concluded between two international entities like states or organizations with treaty-making power.

A BTA is a binding instrument, governed by international law.

WTO's World Trade Report 2011 states that there are 170 BTAs world-wide, out of which about 80 percent are among the developing countries

Nepal also signed 17 BTA

# Nepal- India Trade Treaty

Nepal and India signed the Treaty of Peace and Friendship, and the Treaty of Trade and Commerce on 30 July 1950.

The Treaty of Trade was modified and renewed in 1961 and 1971, and incorporated provisions regarding transit facilities extended by India for Nepal's trade with a third country, as well provisions on cooperation to control unauthorized trade.

New Treaties of Trade were signed in 1978, 1991, 1996, 2002 and 2009.

## Salient features

- **Extension of MFN treatment** with respect to (a) customs duties and charges of any kind imposed on or in connection with importation and exportation, and (b) import regulations including quantitative restrictions.

# Nepal- India Trade Treaty

- ▶ **Reciprocal duty-free** and without any quantitative restrictions market access for primary products.
  - Duty-free and without any quantitative restrictions market access to Indian markets for all articles **manufactured** in Nepal qualifying the rules of origin criterion.
  - **Partially exemption** from customs duties and quantitative restrictions by Nepal on imports from India and waiver of additional customs duty on all Indian exports.
  - ▶ Provisions **for invocation of safeguard measures** if the imports cause or threaten to cause injury to the domestic industry.
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# Nepal- India Trade Treaty

- ▶ **Quota restrictions** for preferential access in Indian markets of 100,000 MT per year for vegetable fats (vanaspati ghee), 10,000 MT per year for acrylic yarn, 10,000 MT per year for copper products and 2, 500 MT per year for zinc oxides produced in Nepal.
- ▶ Establishment of Inter-governmental Committee (IGG) led by the Secretaries in the Ministry of Commerce of the two governments.
- ▶ Provisions of trade facilitation measures.
  - 27 Land Customs Stations
  - assist Nepal “to increase its capacity to trade through improvement in technical standards, quarantine and testing facilities and related human resource capacity”
  - mutual recognition of the SPS certificates

# Nepal China Trade Agreement

First friendship treaty was signed between Nepal and China on 20 September, 1956,

- ▶ Trade and Payments Agreement 1981,
- ▶ Agreement on Trade and Other Related Matters 2002 with Tibet Autonomous Region,
- ▶ Bilateral Road Transportation Agreement 1994,
- ▶ Agreement of Cooperation for Industrial Product Inspection 2005 and
- ▶ Air Services Agreement 2003.
- ▶ Memorandum of Understanding between Nepal and Tibet Autonomous Region (TAR) of China to establish Nepal-Tibet Trade Facilitation Committee was signed on 2 September, 2009.
- ▶ Letter of exchange of 14 May, 2010

# Nepal China Trade Agreement

## Trade and Payment Agreement 1981

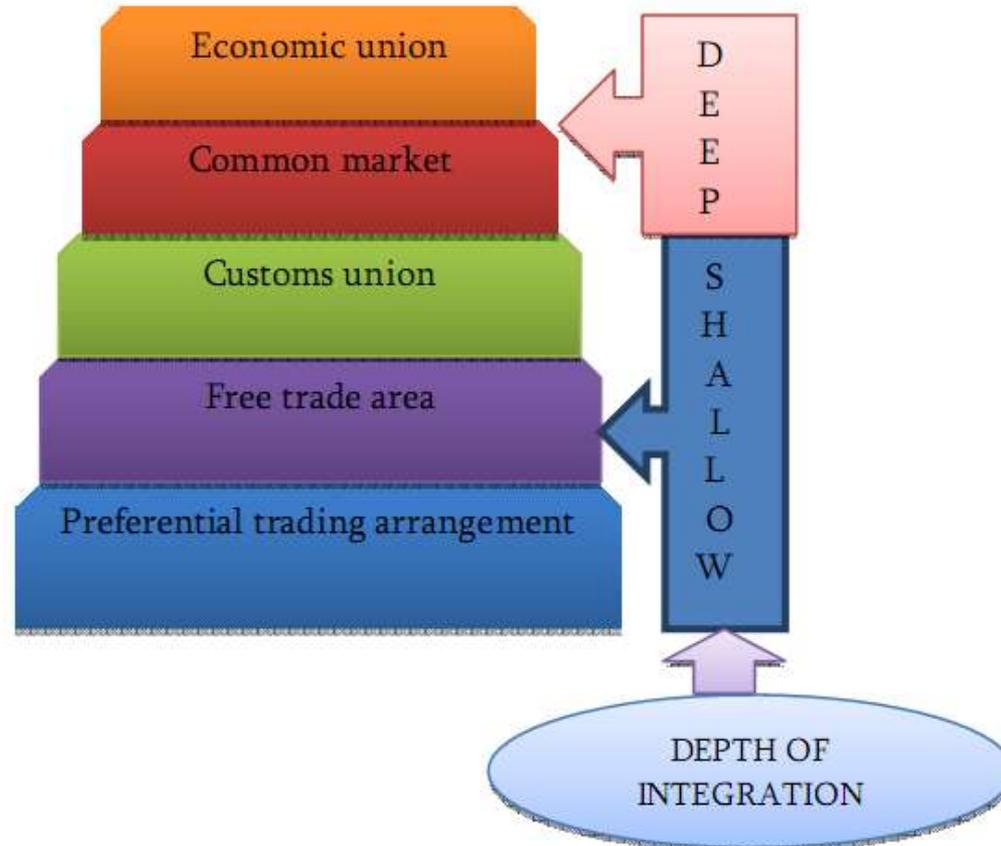
- ▶ It requires both countries to **take all measures to develop bilateral trade** and to provide each other 'all possible facilities' for consolidation and development of traditional overland trade.
- ▶ It provides **application of domestic laws and regulations in trade and foreign exchange matters**, except otherwise mentioned in the agreement.
- ▶ It **identifies products** for China's overseas exports to Nepal—textiles, garments, light industrial products, food stuffs, cement, metal and steel products, lubricant oil, chemicals and others—and exports from TAR to Nepal: raw wool, living ship, salt, yak and yak tail, carpets and others.

# Nepal China Trade Agreement

- ▶ It states that trade between the two countries shall be based and regulated 'as far as possible on the **principle of equilibrium**'.
- ▶ The treaty provides for **MFN treatment** to each other on customs duties, other taxes, fees and charges and customs rules and procedures.
- ▶ It provides five **trading points**, viz., Kodari / Naylam, Rasyuwa / Kyerong and Yari/ Purang, Kimathanka / Riwu and Nechung / Lizi for overland trade.
- ▶ It has made the special provision of **traditional trade** on barter basis for the border inhabitants within 30 kilometers from the border.
- ▶ The **payments of overseas** trade shall be in freely convertible currency. However, the payments of overland trade will 'remain in the traditional customary way'.

# Regional economic cooperation

## Stages of economic integration



# Agreement on South Asia Free Trade Area (SAFTA)

The SAFTA Agreement was signed in January 2004; operationalized from 1 January 2006 and tariff reduction programme commenced on 1 July 2006

India, Pakistan and Sri Lanka are categorized as Non-Least Developed Contracting States (NLDCs) and Bangladesh, Bhutan, Maldives and Nepal are categorized as Least Developed Contracting States (LDCs) of SAFTA. Afghanistan joined in 2007 as an LDC member.

## Objectives:

- ▶ eliminating barriers to trade in, and facilitating the cross-border movement of goods between the territories of the Contracting States;
- ▶ promoting conditions of fair competition in the free trade area, and ensuring equitable benefits to all Contracting States, taking into account their respective levels and pattern of economic development;

# Agreement on South Asia Free Trade Area (SAFTA)

- ▶ establishing a framework for further regional cooperation to expand and enhance the mutual benefits of the Agreement.

## *Principles*

- ▶ It will be governed by the provisions of the Agreement and also by the rules, regulations, decisions, understandings and protocols to be agreed upon within its framework by the Contracting States;
- ▶ The Contracting States affirm their existing rights and obligations with respect to each other under the Marrakesh Agreement Establishing the World Trade Organization and other Treaties/Agreements to which such Contracting States are signatories;

# Agreement on South Asia Free Trade Area (SAFTA)

- ▶ SAFTA shall be based and applied on the **principles of overall reciprocity and mutuality of advantages** in such a way as to benefit equitably all Contracting States, taking into account their respective levels of economic and industrial development, the pattern of their external trade and tariff policies and systems;
- ▶ SAFTA shall involve the **free movement of goods**, between countries through, inter alia, the elimination of tariffs, para-tariffs and non-tariff restrictions on the movement of goods, and any other equivalent measures;
- ▶ SAFTA shall entail **adoption of trade facilitation** and other measures, and the progressive harmonization of legislations by the Contracting States in the relevant areas; and
- ▶ It is also explicitly mentioned that the **special needs of the Least Developed Contracting States** shall be clearly recognized by adopting concrete preferential measures in their favour on a non-reciprocal basis.

# Agreement on South Asia Free Trade Area (SAFTA)

## Salient features of SAFTA Agreement

- ▶ Trade Liberalization Programme: NLDCs would bring down tariffs to 20 percent in 2 years, while LDCs would bring them down to 30 percent. NLDCs would then bring down tariffs from 20 percent to 0-5 percent in 5 years (Sri Lanka, 6 years), while LDCs would do so in 8 years. NLDCs would reduce their tariffs for LDC products to 0-5 percent in 3 years.
- ▶ Sensitive list
- ▶ Non-tariff and para tariff barriers
- ▶ Rules of origin

# Agreement on South Asia Free Trade Area (SAFTA)

- ▶ Institutional arrangements
- ▶ Mechanism for revenue compensation
- ▶ Technical assistance for LDCs
- ▶ Safeguard measures
- ▶ Dispute settlement
  - Consultation 30 days
  - Reference to CoE 60 days
  - SMC 60 days

# Bay of Bengal Initiative for Multilateral Technical and Economic cooperation (BIMSTEC)

Initially started in 1994 by Bangladesh, India, Sri Lanka and Thailand, Myanmar joined in 1997 and Nepal and Bhutan in Feb 2004.

## Objectives

- ▶ Obtaining mutual benefits from cultural and geographic similarities;
- ▶ Exchanging of multidimensional cooperation;
- ▶ Promoting free trade;
- ▶ Building partnership and overall cooperation;
- ▶ Promoting economic and social development of the region.

# BIMSTEC FTA Framework Agreement

BIMSTEC FTA Framework Agreement was signed in February 2004, and came into effect in June 2004.

**Trade in goods:** trade liberalization under fast and normal track and negotiation on negative list, rules of origin, non-tariff measures, and safeguard mechanism,

**Trade in services and investment:**

- ▶ substantial sectoral coverage through a positive list approach
- ▶ promotion and protection of investments, progressively liberalize investment regimes and strengthen cooperation for facilitating investment

**Institutional arrangement, including dispute settlement mechanism:**

- ▶ Trade Negotiating Committee
- ▶ Senior Trade and Economic Officials' Meeting
- ▶ BIMSTEC Trade/ Economic Ministers

# Implication for Nepal

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Thank you

