



The 66/77 products inside out: The long and short of US Trade Preferences for Nepal

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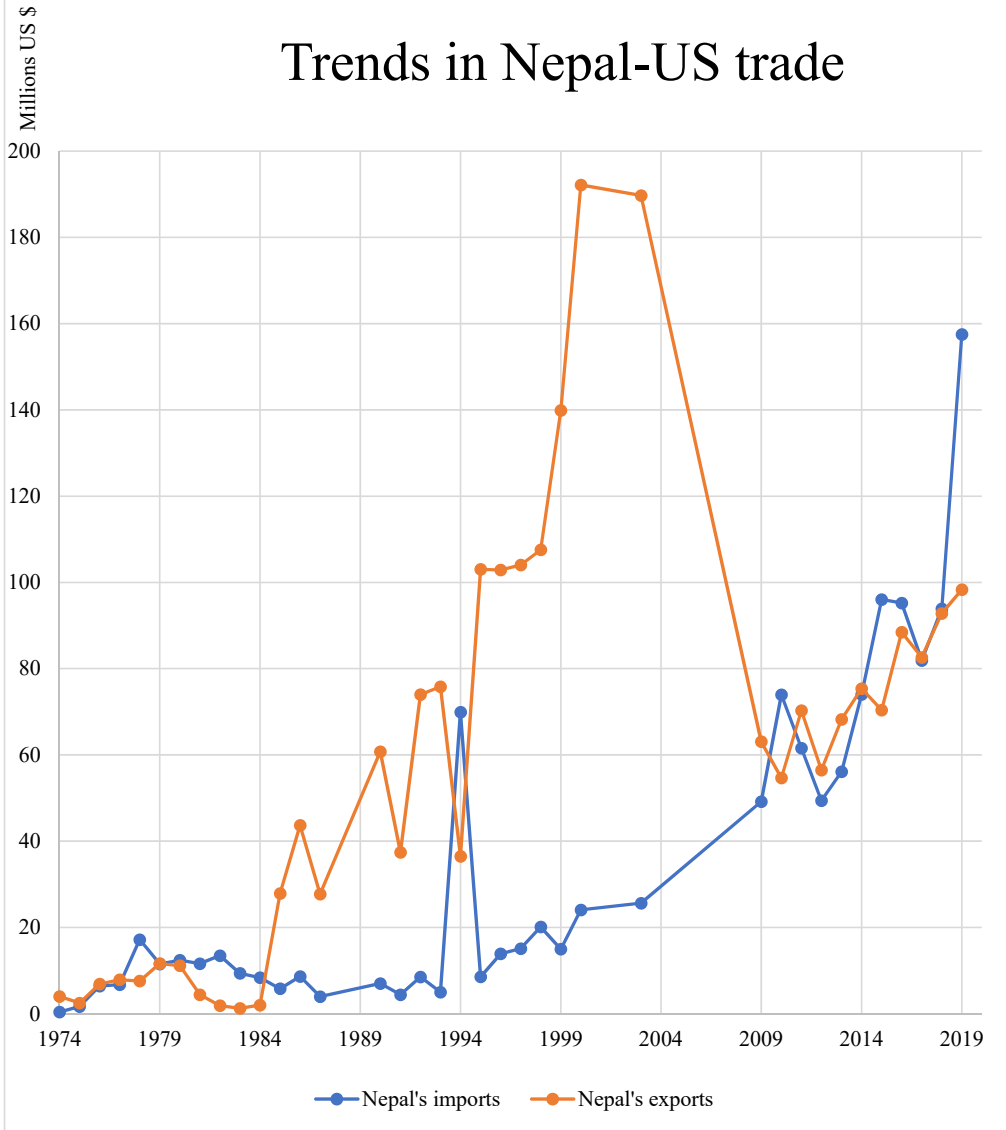
Nepal Trade Preference Programme

- United States' Nepal Trade Preference Programme
 - Legal basis: The Trade Facilitation and Trade Enforcement Act of 2015 (TFTEA)
 - WTO waiver sought and granted
- Runs from December 2016 through 31 December 2025
- 66 products at 8-digit tariff line (HS2012); 77 products under HS2017
 - NP, or NTP products (henceforth)
- 31 of the 77 tariff lines became GSP-eligible in July 2016
- The Act provides for a trade facilitation and capacity building programme for Nepal

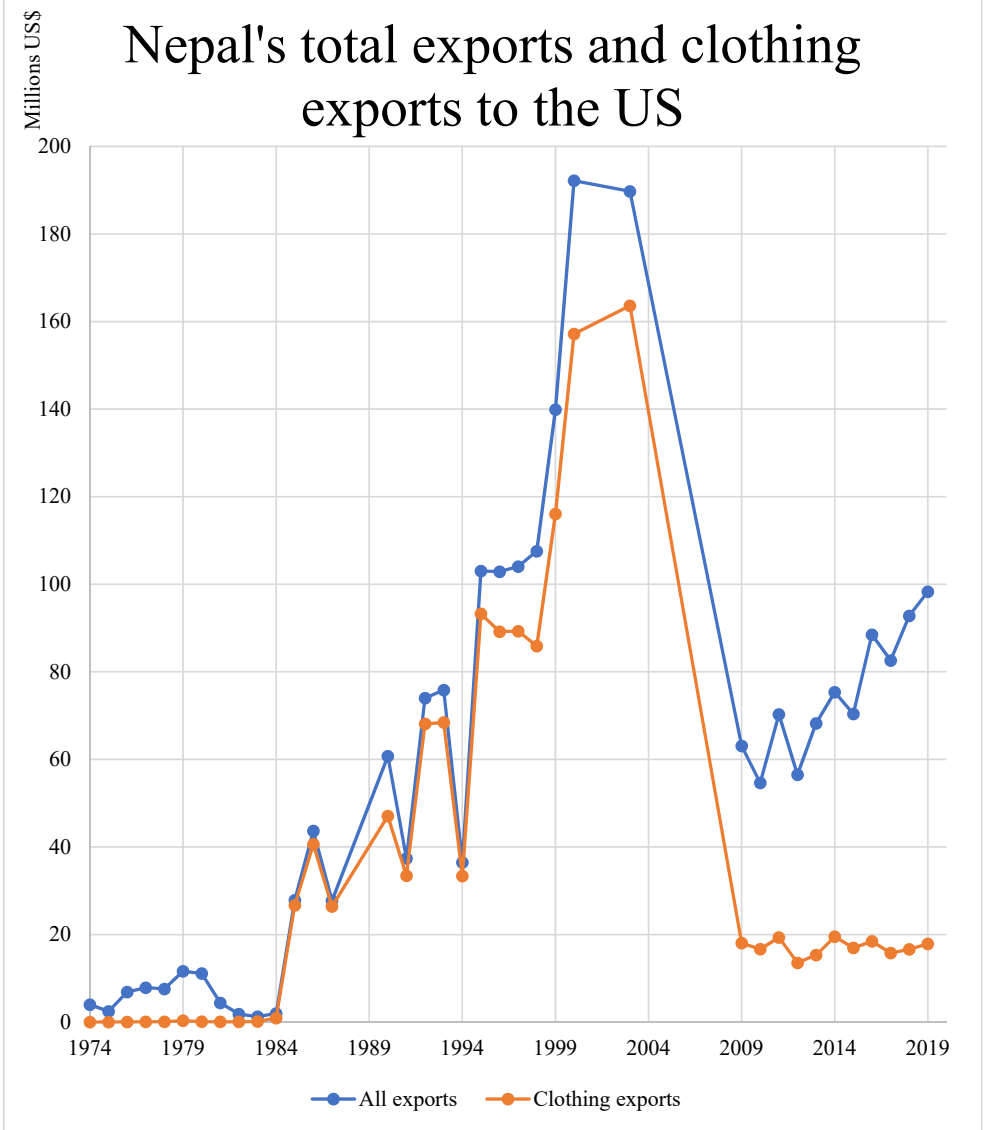
TIFA

- Nepal and US signed Trade and Investment Framework Agreement (TIFA) 2011
- Aims to promote investment and expand and diversify trade in goods and services between the two countries
- TIFA Council tasks:
 - Capacity building, technical assistance
 - Trade facilitation
 - Remove impediments to trade and investment
- TIFA Council meeting to be held at least once a year
 - Sixth meeting held in 2023
 - Prominent issues raised: technical assistance, capacity building, expansion of list of products for duty-free access, LDC graduation

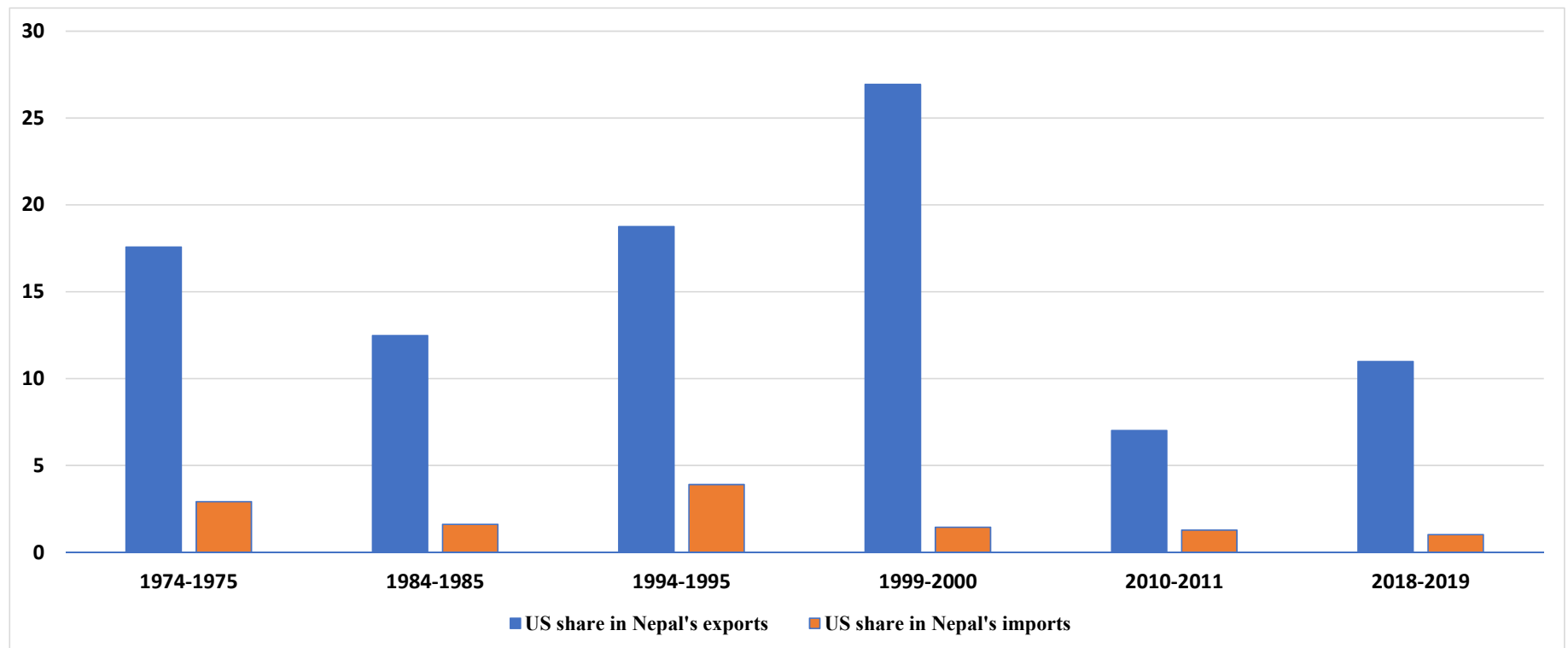
Trends in Nepal-US trade



Nepal's total exports and clothing exports to the US

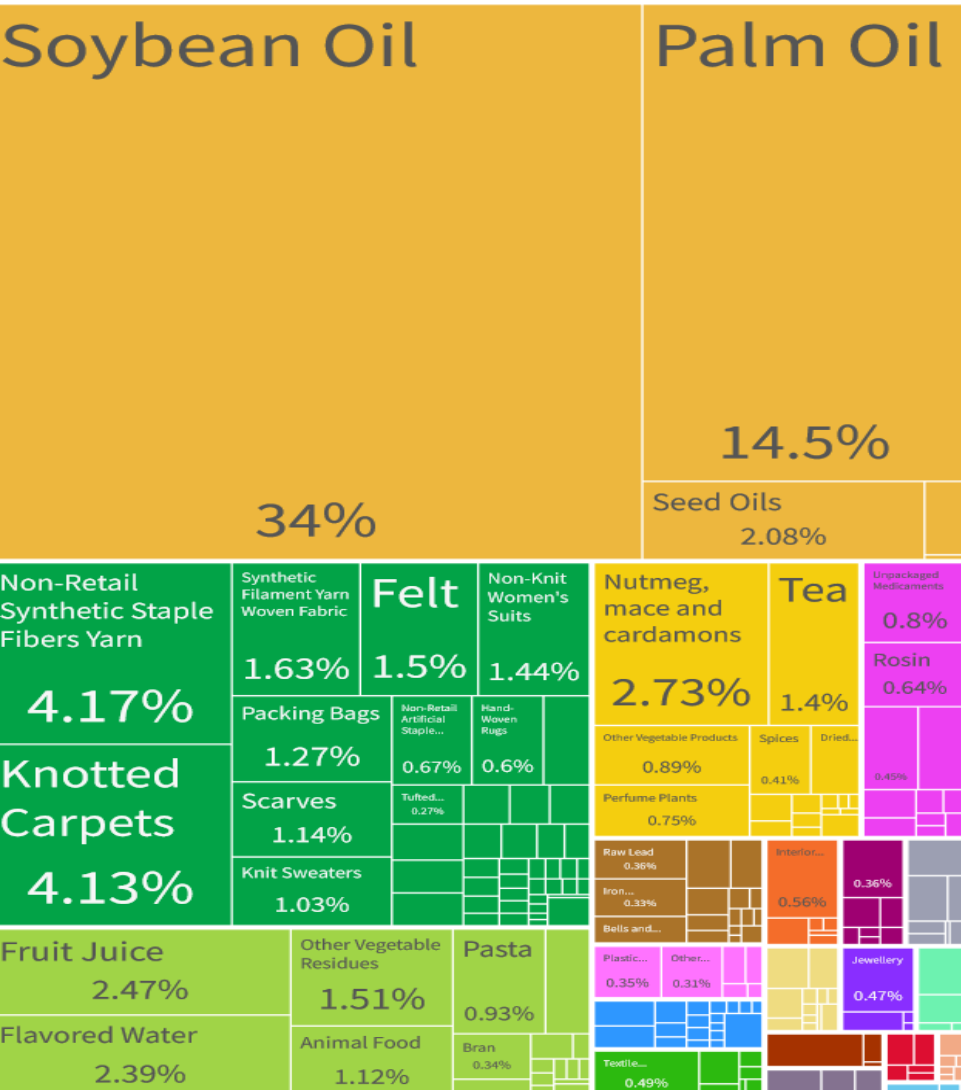


Nepal's second largest goods export destination



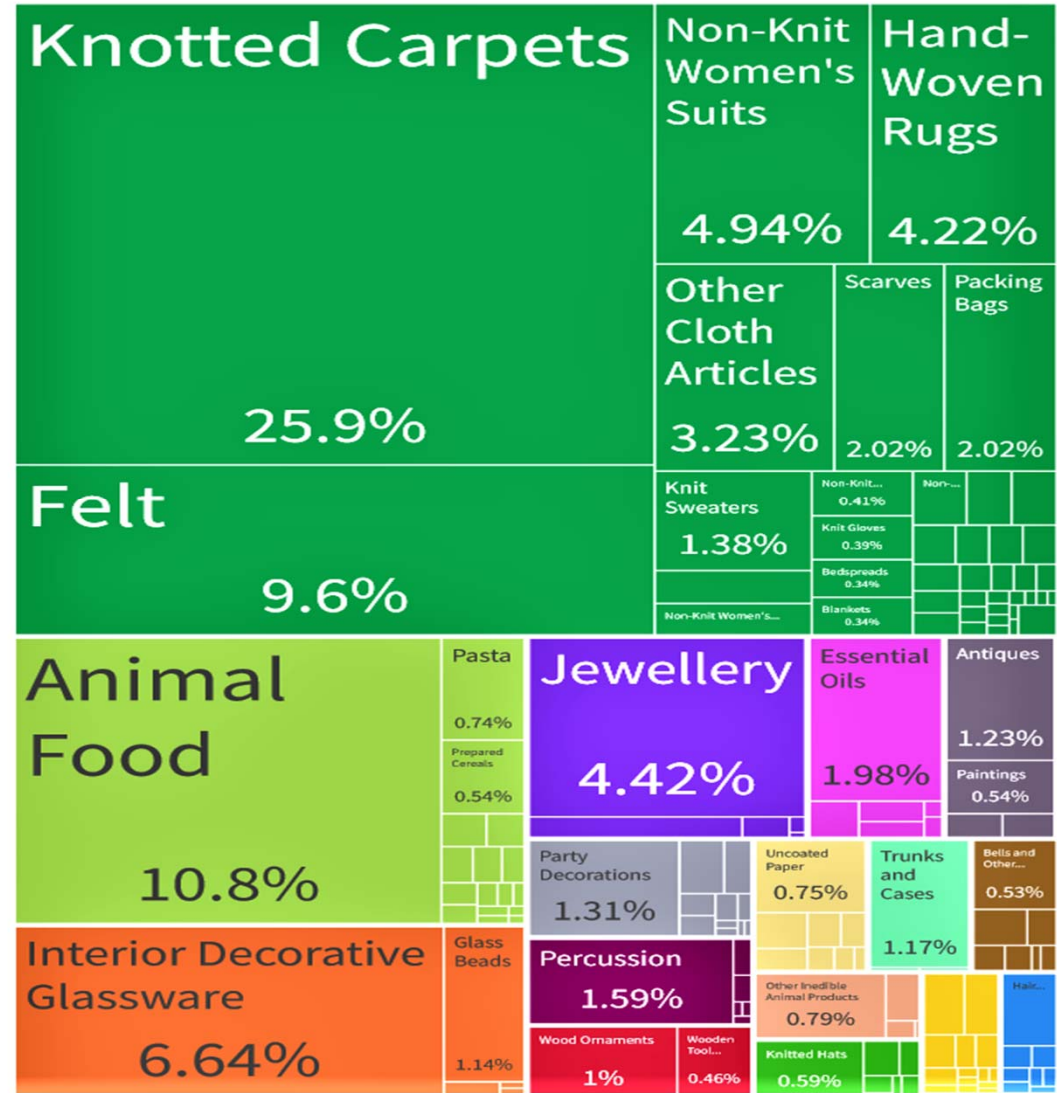
Exports (2021)

Total: \$1.74B



Exports to United States (2021)

Total: \$144M



75 of the 77 products were exported at least once during 2017-2021

No. of products exported

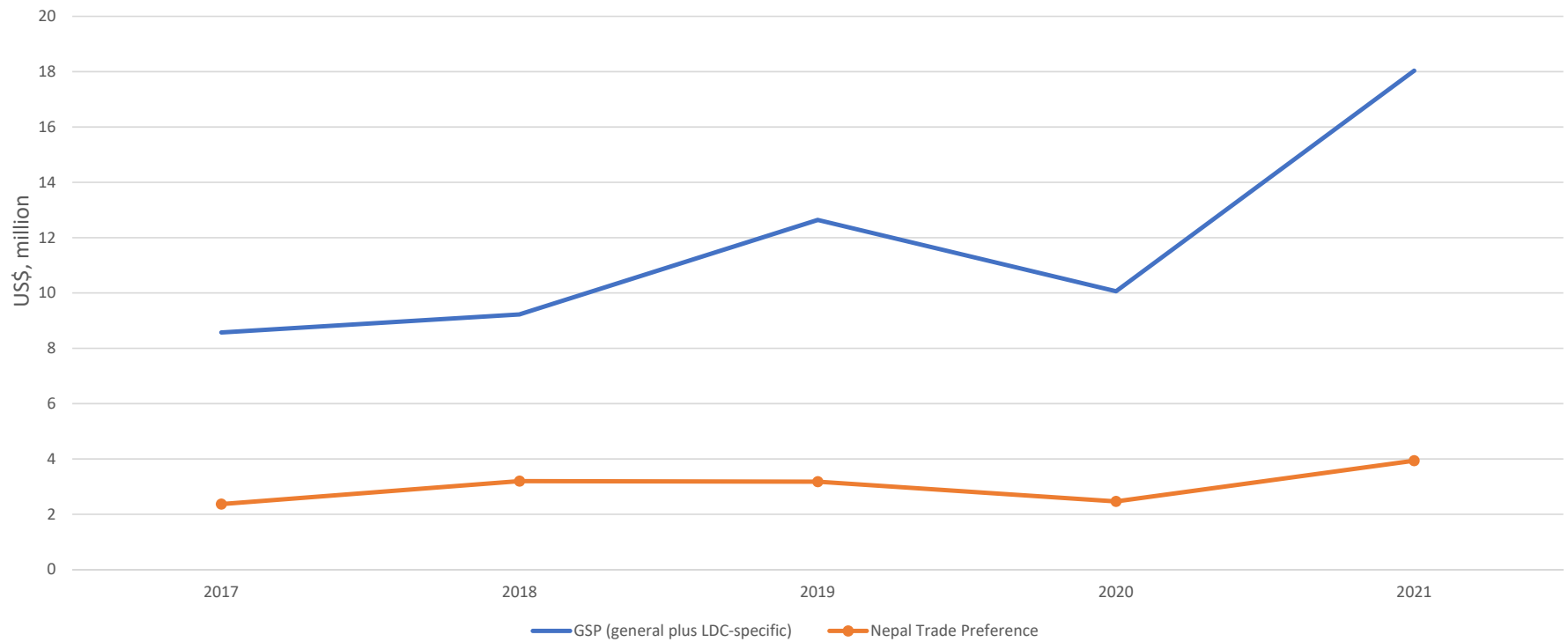
	NP		
	No	Yes	Total
GSP			
No	740	45	785
Yes	267	30	297
Total	1,007	75	1,082

NTP products by broad categories

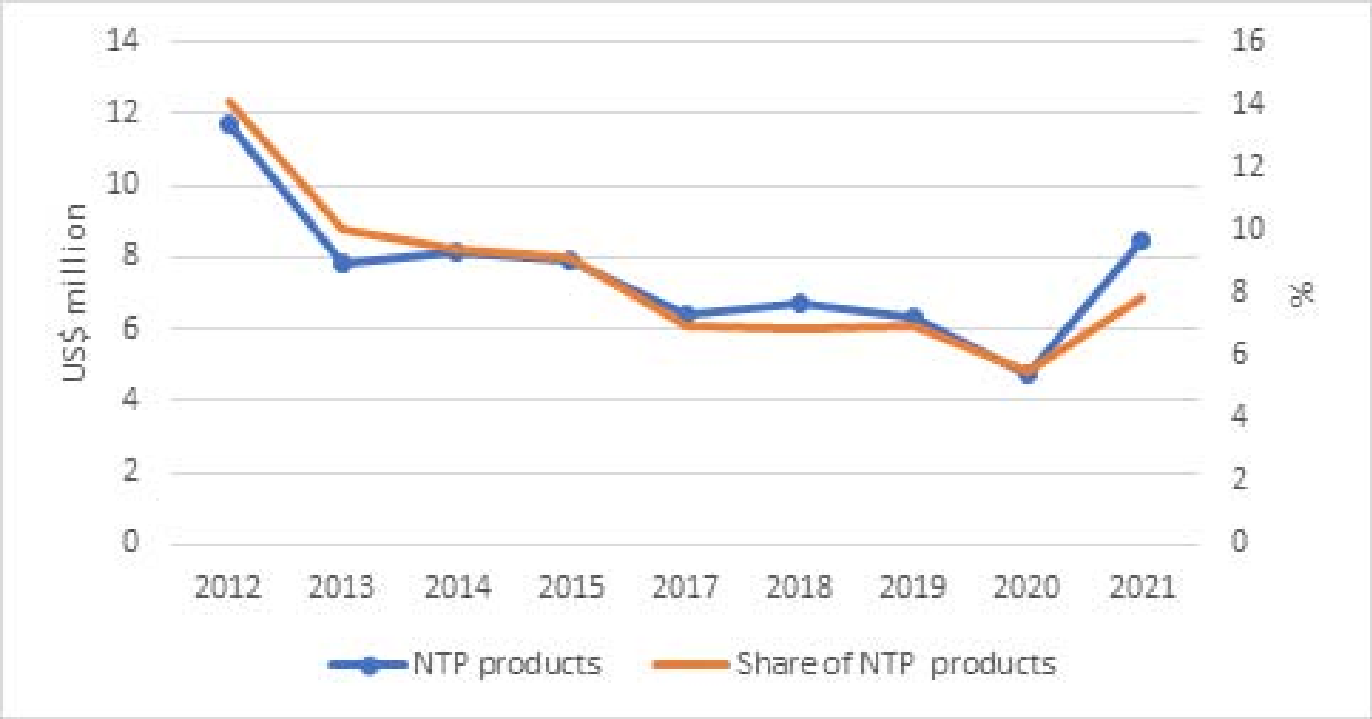
	Exports (2017- 2021), US\$ mn	Share in total exports	Exports of NP, US\$ mn	Share in total exports of NP	Share of NP in total group exports
Textiles	297.521	62.6361	22.99	70.31	7.73
Other agricultural products	58.025	12.2159	0	0	0
Manufactures, nes	57.150	12.0316	0.07	0.21	0.12
Clothing	46.842	9.8615	9.44	28.88	20.16
Cereals and Preparations	4.557	0.9595	0	0	0
Chemicals	2.886	0.6075	0	0	0
Fruits, Vegetables, Plants	2.812	0.5920	0	0	0
Coffee, Tea	1.276	0.2685	0	0	0
Non-electrical Machinery	1.238	0.2606	0	0	0
Electrical Machinery	1.217	0.2562	0	0	0
Leather, footwear, etc.	1.077	0.2266	0.21	0.65	19.88

HS Chapter	Description	No. of NP products	No. of NP products exported	Exports of NP, US\$m (2017-21)	Share in total exports of NP	Share of NP in total exports
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)	40	38	9.24	28.26	96.16
57	Carpets and other textile floor coverings	13	13	7.42	22.69	4.05
61	Apparel and clothing accessories; knitted or crocheted	2	2	0.51	1.57	2.61
62	Apparel and clothing accessories; not knitted or crocheted	7	7	8.93	27.31	32.83
63	Textiles, made up articles; sets; worn clothing and worn textile articles; rags	2	2	0.17	0.51	0.34
65	Headgear and parts thereof	13	13	6.44	19.71	97.29

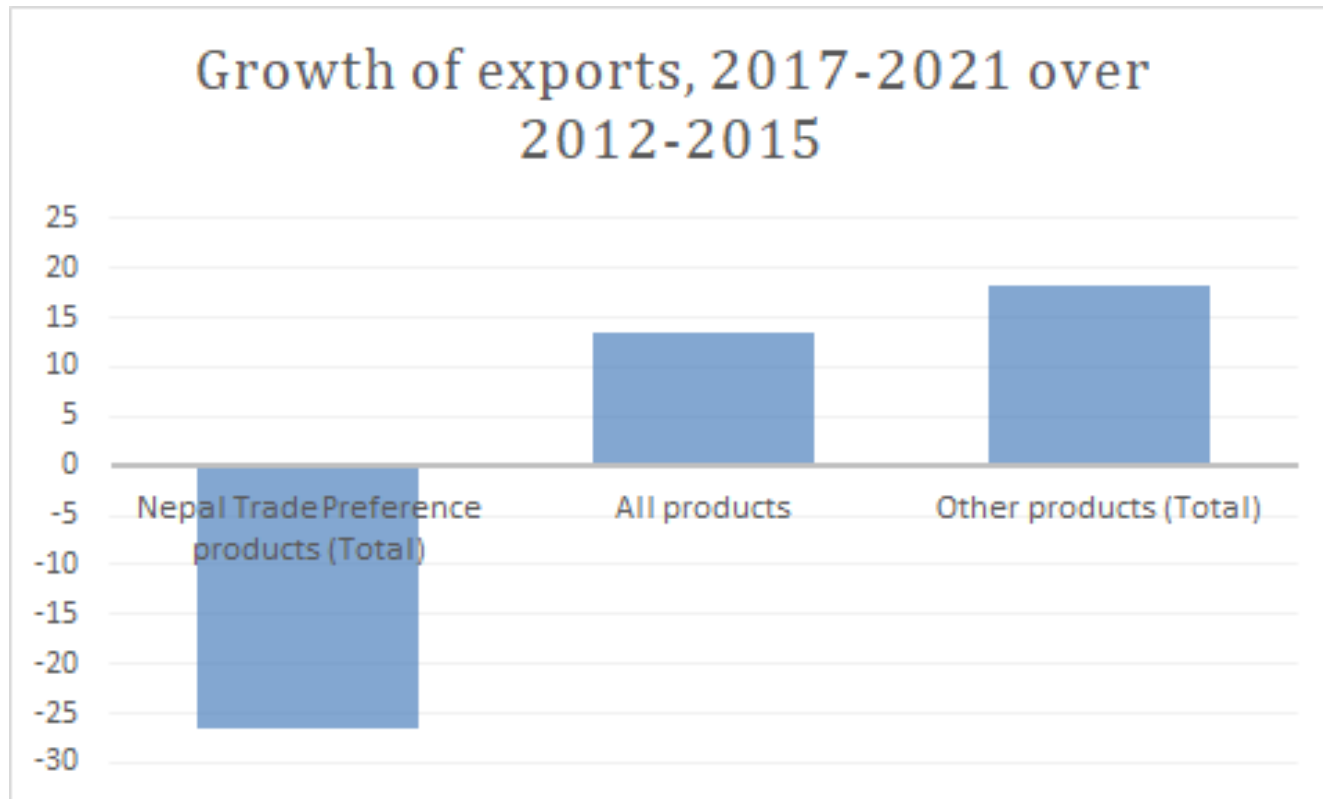
Exports claiming GSP dwarf exports claiming NTP



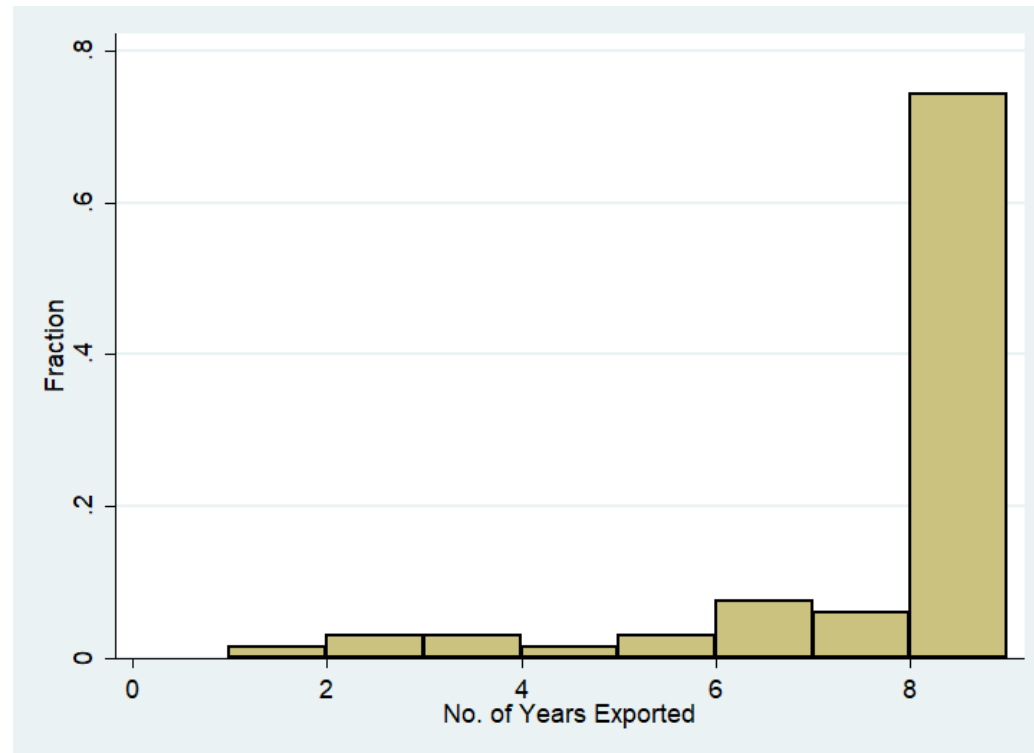
Trend in exports of NTP products (66)



Aggregate exports of NTP products have fallen while those of other products have risen

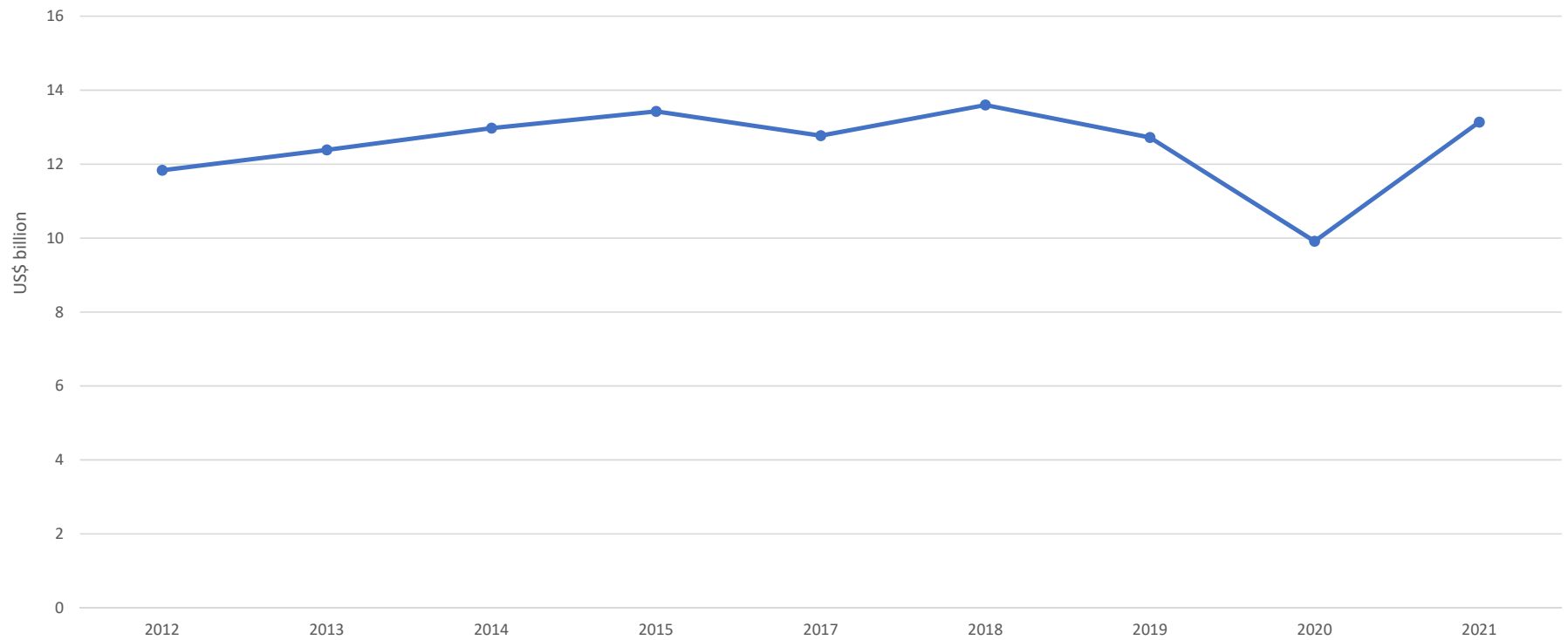


NTP products: No. of years exported (2012-2021)



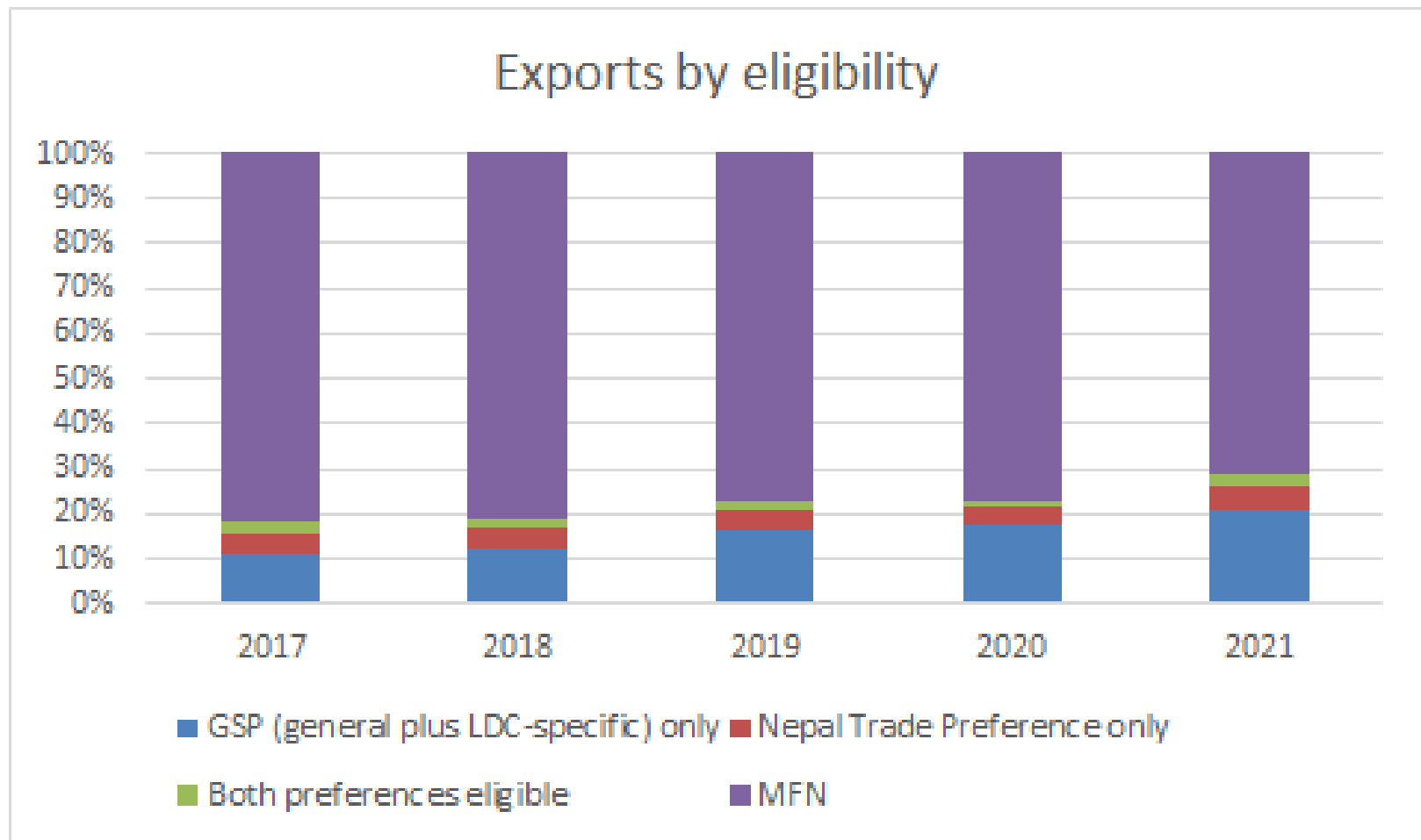
In terms of 66 products, 65 exported at least once before and after NTP introduction; one exported in first period but not in second period; 44 products exported in all years (made up 97-98% of NTP exports in both periods)

NTP products in the US represented an import market of US\$13 billion in 2021

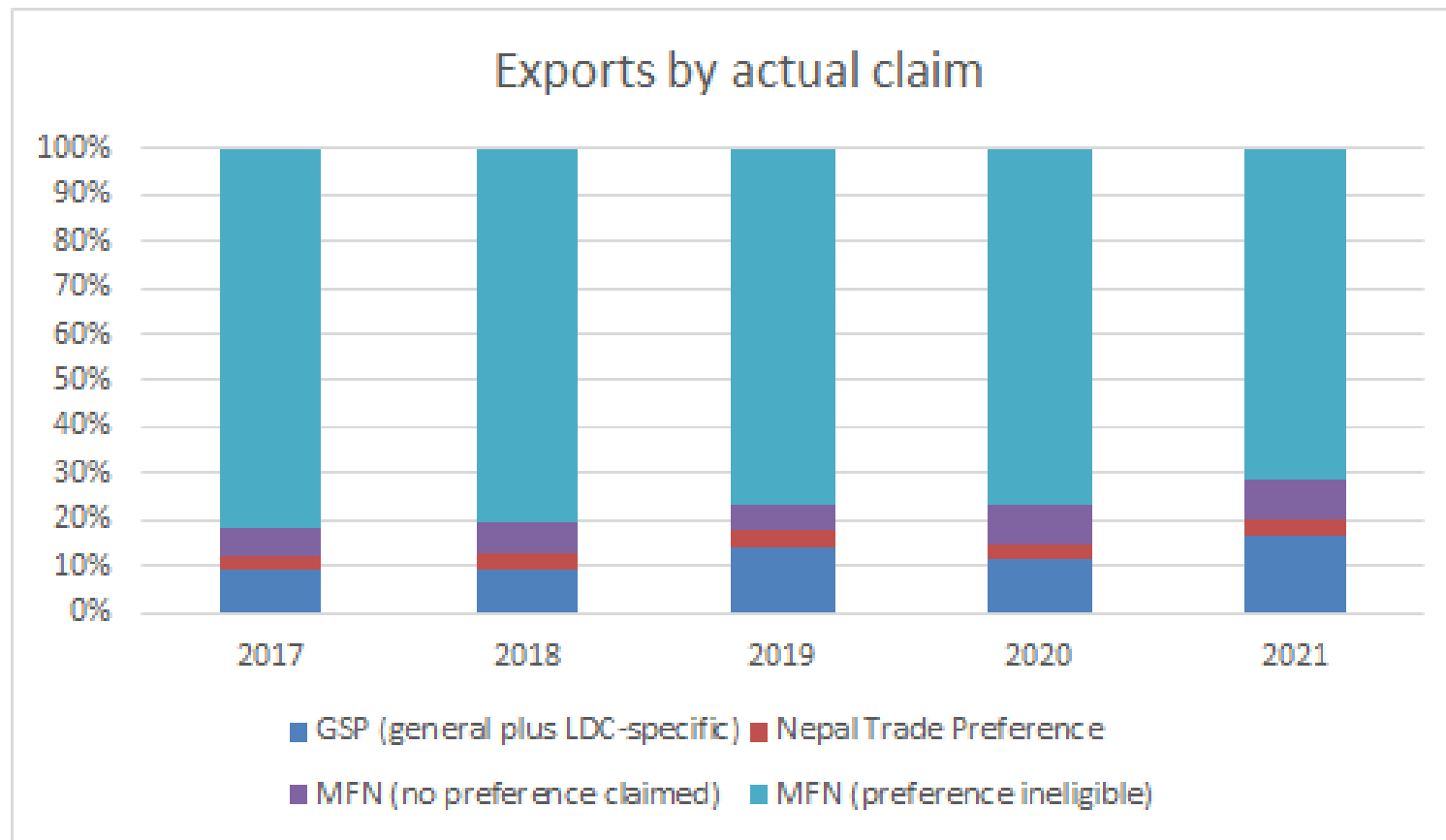


These products appear close to Nepal's current export capabilities

NTP has contributed to potential preference eligibility of Nepali exports to the US



% of exports claiming preferences (GSP or NTP) has increased

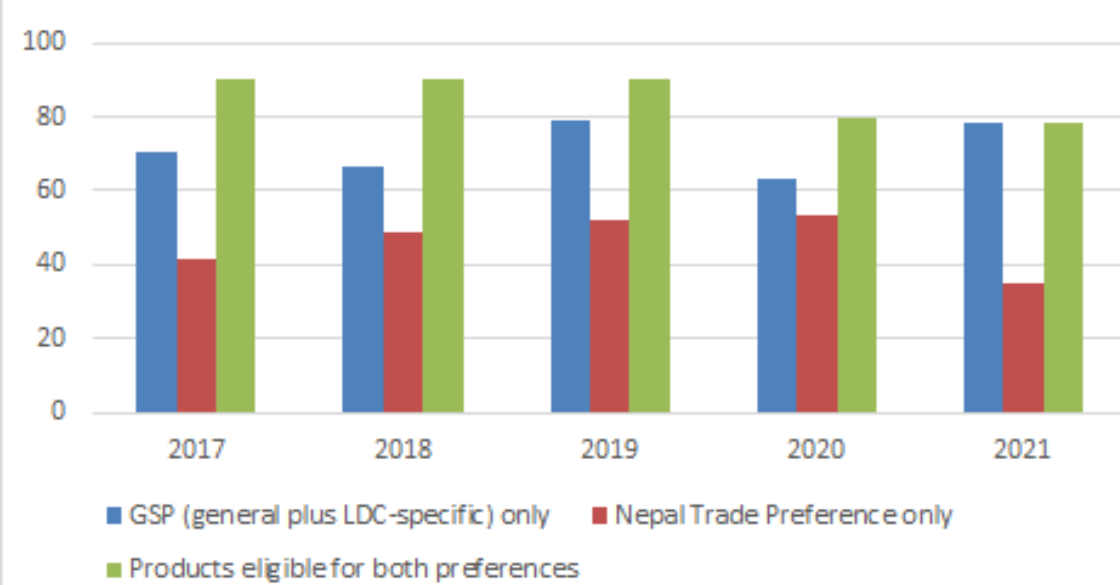


21% of exports in 2021 entered US claiming preferences (GSP or NTP): GSP 16.6%, NTP 3.6%

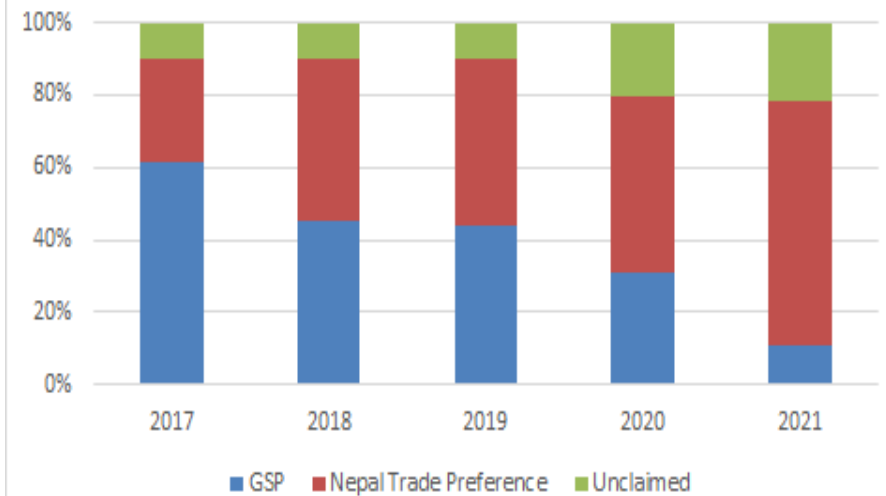
Preference utilization higher in GSP than in NTP

NTP products also on GSP have higher preference utilization

Preference utilization by type



Preference utilization in products potentially eligible for both Nepal Trade Preference and GSP



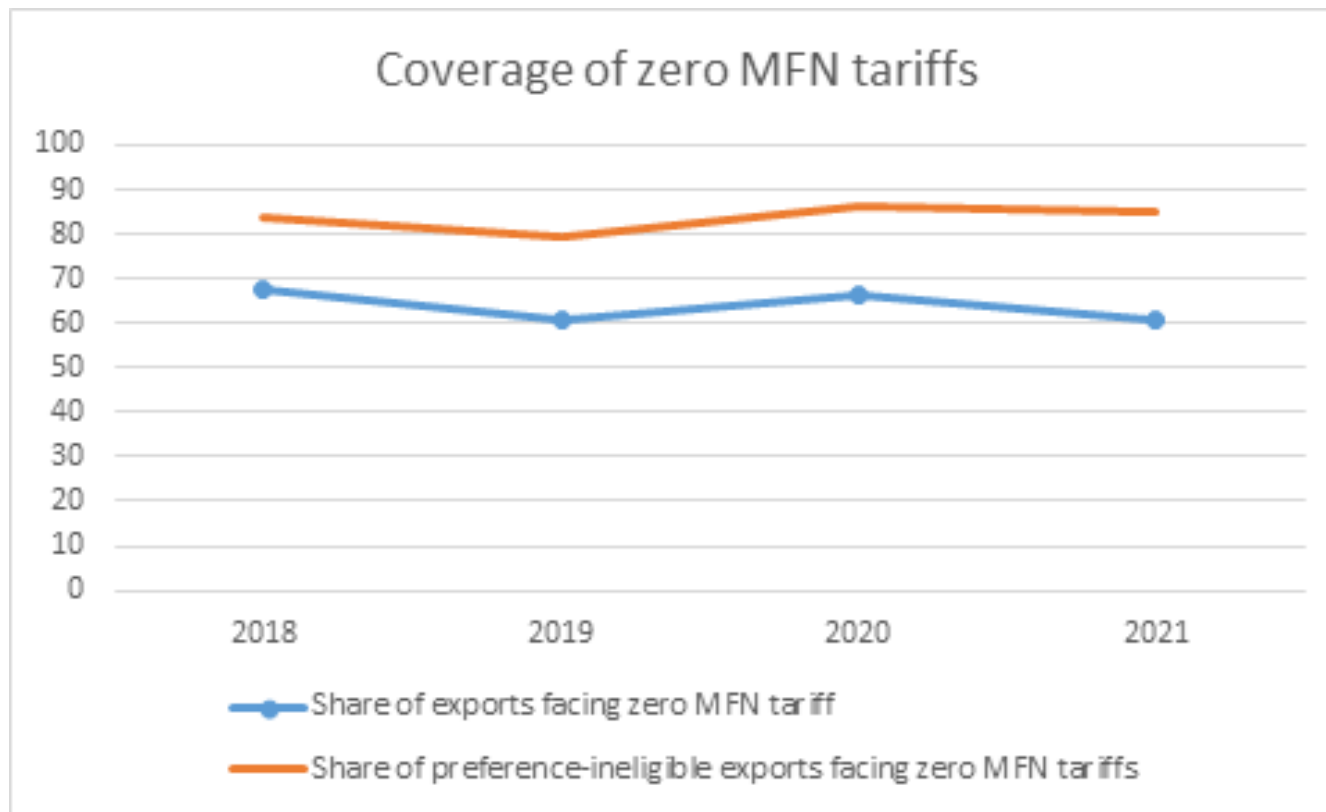
HS Code	Product description	Share in exports of NP products (Mean for 2017-2021)	MFN tariffs (AVE)	GSP eligible	Mean utilization: NTP	Mean utilization: GSP	Mean utilization: All preferences
62142000	Shawls, scarves, mufflers, mantillas, veils and the like, not knitted or crocheted, of wool or fine animal hair	21.7	6.7	No	30.41	0.00	30.41
42029215	Travel, sports and similar bags with outer surface of cotton, not of pile or tufted construction	13.7	6.3	Yes	60.62	36.33	96.96
65050030	Hats and headgear, of wool, knitted or crocheted or made up from knitted or crocheted fabric	13.67	8.6	No	75.66	0.00	75.66
57011090	Carpets and other textile floor coverings, of wool or fine animal hair, not hand-hooked, not hand knotted during weaving	12.58	4.5	No	27.73	0.00	27.73
42022245	Handbags with or without shoulder strap or without handle, with outer surface of cotton, not of pile or tufted construction or braid	4.84	6.3	Yes	50.45	37.20	87.65

HS Code	Product description	Share in exports of NP products (Mean for 2017-2021)	MFN tariffs (AVE)	GSP eligible	Mean utilization: NTP	Mean utilization: GSP	Mean utilization: All preferences
57031020	Hand-hooked carpets and other textile floor coverings, tufted, whether or not made up, of wool or fine animal hair	3.39	6	Yes	20.34	51.34	71.68
65050040	Hats and headgear, of wool, made up from felt or of textile material, not knitted or crocheted or made up from knitted or crocheted fabric	2.69	8.99	No	76.17	0.00	76.17
57029130	Floor coverings, not of pile construction, woven not on power-driven loom, made up, of wool or fine animal hair, nesoi	1.96	4.3	Yes	8.70	72.68	81.38
62141010	Shawls, scarves, mufflers, mantillas, veils and the like, not knitted or crocheted, containing 70% or more silk or silk waste	1.78	1.2	Yes	23.43	14.42	37.85
42029220	Travel, sports and similar bags with outer surface of vegetable fibers, excl. cotton, not of pile construction	1.56	5.7	Yes	60.81	32.01	92.82

NTP products enjoy significant preference margins

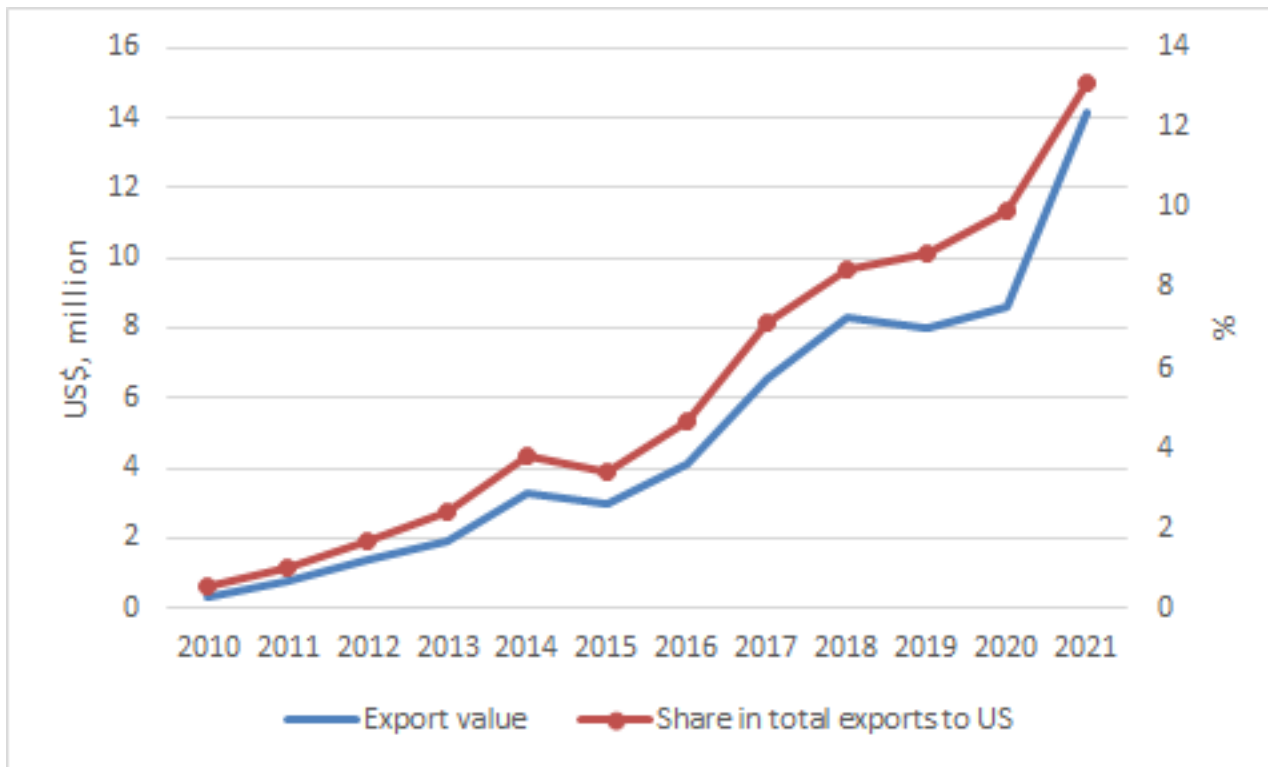
	mean	sd	min	p25	p50	p75	max	N
All exports	0.069	0.075	0.000	0.000	0.053	0.100	0.551	1065
NTP	0.095	0.055	0.012	0.057	0.075	0.146	0.200	75
GSP only, not NTP	0.051	0.042	<0.001	0.028	0.042	0.061	0.380	267
NTP only, not GSP	0.084	0.048	0.027	0.057	0.070	0.090	0.200	45
Both NP & GSP	0.111	0.062	0.012	0.060	0.088	0.176	0.200	30
No preferences	0.074	0.085	0.000	0.000	0.056	0.120	0.551	723

80%+ of exports to the US not eligible for preferences face zero tariffs



Nepal's exports to the US are about 10% of potential

Guess the product



MFN tariff = 0% [Year 2020]

Compound annual growth in exports to the US = 40%

US absorbs 86% of exports of this product

Assessing the effect of NTP on exports

- Causal effect difficult to tease out: endogeneity (confounding factors)
- A stab at assessing the effect through difference-in-differences and triple-difference estimation techniques
 - Compare changes in exports of NTP products with those of other products from Nepal to the US
 - Compare changes in exports of NTP products with those of other products from Nepal to the US, relative to the changes in exports of the two sets of products from the rest of the world to the US
 - Compare changes in exports of NTP products with those of other products from Nepal to the US, relative to the changes in exports of the two sets of products from Nepal to the rest of the world
- No evidence of a positive effect

Some implications and questions: I

- There is considerable room to increase the utilization of existing preferences (especially products that are only on the NP list).
- What's behind the relatively low utilization rates for NTP-only products and the decline in utilization rates for products common to NTP and GSP?
- Why are exports of NTP products growing much slower than other products?
- Reinstatement of GSP is important for Nepal as the programme accounts for 80 percent of Nepal's preference-claimed exports.
- Restoration of GSP will also preserve preferences on over a third of exports of NTP products even if NTP is not extended after expiration.
- Scaling up exports of preference-granted products by addressing productive capacity and supply-side constraints 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.

Some implications and questions: II

- NTP was introduced through an Act and had received WTO waiver. Justification needed for an extension
- Extending the NTP beyond 2025 is likely necessary to build capacity to export
 - Effectively operationalizing the capacity building and technical assistance window under TIFA
 - Lessons must be drawn from the implementation of the window
- Extending the NTP 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.
- The bulk of Nepal's exports not covered by preferences being subject to zero MFN tariffs implies an opportunity to exploit the export potential in these products further.

Thank you

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