Luxury items, farm products jack up trade deficit

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With Nepal's trade deficit going through the roof, a couple of days ago a Nepali economist argued that Nepal could manage the trade imbalance even without enhancing its supply capacity.

But how? His obvious answer was: 'by reducing the ever increasing import of luxury goods and by gradually decreasing the import of those goods that can be produced in Nepal'.

Luxury goods and other products that could be easily made in Nepal are major contributors to the ever skyrocketing trade deficit, which ran to over Rs 251 billion in the first six months of the current fiscal year.

Nepal spent Rs 17.52 billion for gold and silver imports during the review period, up by a whopping 28.5 percent compared to the same period last year.

Despite government-imposed import limits of up to 15 kg of gold per day, the significant rise in imports of these precious metals has become a challenge for the government in checking the trade deficit which is running high every passing month.

Strict measures on gold imports have been in place since Fiscal Year 2010/11 after imports of the yellow metal crossed Rs 41.45 billion during the previous fiscal.

Imports of cosmetics also shot up by a staggering 26.4 percent, to reach Rs 1.81 billion during the review period. As luxury items, the government should have contained their imports.

Tobacco product imports, despite heavy customs duty, hit Rs 1.03 billion, although the rise was a marginal 4.1 percent compared to the figures recorded in earlier year's same period.

Impressive rise in energy drinks and alcohol products is also responsible for the jump in imports leading to a higher trade deficit.

Eyeing the big chunk of revenue collected from the heavy customs duty on luxury items, the government does not seem to be keen on putting down measures to discourage imports of such goods.

"Though we can bring down the imports of luxury items, the government priority on increasing customs revenue collection has pushed up the imports of such goods in a poor country like ours," said Purushottam Ojha, a former Commerce Secretary.

Ojha also said the government should make policies to discourage the imports through tariff hikes and other domestic measures.

However, Ratnakar Adhikari, a trade expert, opined that increasing customs duty on such hugely unproductive goods is not a solution for the long run.

"We can increase customs duties only up to the binding rates of the ceiling put by the World Trade Organization (WTO) from the existing applied rate to discourage imports of unwanted goods. Given the narrowing 'water rate' - the difference between binding and applied customs duties -- we have no options but to enhance our supply capacity to drag down the soaring trade deficit," Adhikari told Republica.

Nepal has failed to take advantage of the vast market in India - Nepal's largest trade partner -- despite there being a great potential for Nepali products in its southern neighbor, which is home to around 1.25 billion people.

During the first six months of the current fiscal year, Nepal's exports to India rose marginally by 2.5 percent to Rs 25.03 billion while imports from South Asia's largest economy shot up by a whopping 25.5 percent to touch Rs 187.78 billion.

"Despite enormous potential to drive up exports to the Indian market, we are lagging far behind to take advantage of the opportunity in the absence of effective export incentives and supply capacity," added Ojha.

Worse still, despite an impressive 243.7 percent rise in export to China during the period against a 32.4 percent increase in import from there, Nepal's trade deficit with the world's second largest economy stood at Rs 33.98 billion.

Nepal's trade deficit with the northern neighbor was Rs 26.31 billion during the corresponding period last year. Though China has offered duty-free market access for 7,787 Nepali products, Nepal failed to benefit from the opportunity to increase exports amid a weak supply capacity because of slowing industrial output.

The government failed to tame not only the rising imports of luxury products and products that could be produced in Nepal, but also to give local producers incentives.

Nepal has also been importing a huge amount of agriculture products such as maize, soybean, jute, beetle nut, milled rice, sugar, feeds, potato-chips, rapeseeds (mustard seeds), fresh meat and mixed bean, among others.

With drop in production by 8.3 percent this year, import of maize increased by 28.6 percent to Rs 2.78 billion during the first six months of the current fiscal year. The huge consumption of maize is owed largely to the poultry industry where maize is a major ingredient to feed.

Though the government has attempted to restrict the imports of beetle nut since fiscal year 2010/11, its imports jumped by 229.6 percent to 1.51 billion during the review period.

In the absence of a full budget, government preparation to increase customs duty for beetle nuts by 70 percent from the existing 25 percent could not be implemented. During Fiscal Year 2010/11, Nepal imported more than 108,000 tons of beetle nuts, though domestic consumption was recorded at 7,500 tons.

Despite the claim by Nepali officials that Nepal is in surplus of 720,000 tons of cereals, imports of milled rice jumped by 144 percent to Rs 6.64 billion and sugar imports skyrocketed by 353.7 percent to Rs 1.34 billion.

Due to the supply deficit in maize, imports of feeds shot up by 43.8 percent to over a billion rupees during the review period.

Though the government introduced the Nepal Trade Integration Strategy (NTIS), its blue-print on export promotion, in 2010, exports of three of the 19 goods and services prioritized under NTIS saw a decline.

Exports of organic honey, silver products and woolen products -- all among the NTIS products -- declined by 97.5 percent, 47 percent and 26.4 percent respectively due to lack of concrete programs to implement the NTIS.

"We have to boost investment from both domestic and foreign investors to materialize the NTIS to enhance our supply side," added Ojha.

However, Adhikari, said Nepal's capacity to boost exports can not be enhanced immediately, given the unfavorable industrial climate and political instability in the country.

"At a time when we have a compulsion to import all kinds of goods, including luxury item, given the changing lifestyle and improving living standard of Nepalis, we have no alternative but to mend our export capacity to pull down the ballooning trade deficit," added Adhikari.