

'Nepal has underutilized trade opportunities with India'

REPUBLICA

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Despite enjoying zero tariff entry facility on most of the goods to India, which has a huge market potential, Nepal has largely underutilized the opportunities it holds in penetrating market and expanding exports to the next-door neighbor in the south, shows a latest report.

For instance, the total import demand for iron and steel in India in 2010 was close to \$8 billion. But Nepal's share of that was only 1.22 percent. Similarly, Nepal's share of exports in India's total imports of other exportable items on which Nepal has comparative advantage, including edible vegetables, copper articles, edible fruits and nuts among others, is below 2 percent.

According to the report unveiled in Kathmandu on Friday, the reason behind low exploitation of available market potential in India is due to supply side constraints such as infrastructure, human capital,

access to finance and technology, and labor issues. Touching upon the debate over the pegged exchange rate with India, the report notes that there is no decisive evidence to change the peg despite real exchange rate appearing to be revalued.

"Devaluation is helpful if constraints like weak economic fundamentals, institutional and political fluidity and weak industrial and tradable sector is taken care of," reads the report.

The report that is totally focused on Nepal-India trade has outlined that Nepal has a highest degree of trade intensity with India after Bhutan. "Nepal's export basket is heavy with low-value products like ferrous metals, chemicals, crops and food products," states the report. The report prepared by South Asia Watch on Trade, Environment and Economics (SAWTEE) with the help of United States Agency for International Development (USAID) argues that Nepal has not been diversifying its production to increase the volume of export.

According to the report, the non-tariff barriers that are hindering Nepal's export to India are quarantine related issues, rules of origin, transport hassles, technical barriers to trade, quantitative restriction, domestic production and transit state permit. "Quarantine related issues have 39 percent of share in obstructing export to India," reads the report.

Moreover, the report argues that Nepal should ratify the Special Economic Zone bill as soon as possible. "There are issues that should be addressed in domestic level and by India as well," the report states, adding: "The Inter-governmental Committee meeting between Nepal and India should address the issues like transporters' accessibility and transit issues."

The report also argues that the article III of Treaty on Control of Unauthorized Trade between Nepal and India should be reviewed and it should be open for the items that are imported for use in agriculture, manufacturing and service sector.