

# Trade deficit with China higher than overall rate

## POST REPORT

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**N**EPAL'S trade deficit with China is growing faster than the country's overall trade deficit, said South Asia Watch on Trade Economics and Environment (Sawtee).

According to a study conducted by Sawtee, the trade deficit with China has been growing at an average rate of 27.1 percent annually over the last seven years while the overall trade deficit has increased by 21.9 percent.

In the seven years since 2003-04, China's share in Nepal's global export and import has diminished to 1.4 and 11.7 percent respectively. This shows that Nepal's exports to China have decreased by an average of 3.1 percent annually during the period. Likewise, the country's imports from the northern neighbour has been increasing by an average of 3.6 percent annually over the same period. Earlier in 2003-04, China's share in Nepal's total exports and imports was 4.5 and 8.1 percent respectively.

The research study carried out

by Tula Raj Basyal, former senior economic advisor to the Finance Ministry, blames various non-tariff barriers for the lower exports despite the special preferential tariff treatment for 4,721 products. "The value addition requirement of 40 percent is one of the major non-tariff barriers," said the report. According to experts, a criterion of 40 percent value addition is unreasonable for an LDC like Nepal given its industrial capacity. "With our industrial structure and capacity, it is difficult to produce goods with 40 percent of value addition," said Ratnaker Adhikari, an international trade expert. "Trade barriers in China like quarantine are pretty unpredictable."

The report also attributes the deeper constraints in the supply capacity like reduced production and limited exportable surplus for Nepal's growing trade deficit with China. It also blamed other factors including delays and higher transportation costs, delivery complexities like hassles at customs points, rising uncertainties and non-transparency of quarantine requirements, production of lower appeal-

ing items both in price and quality, and the government's apathy towards improving trade relations.

The report recommends expanding production of products having higher value addition and possessing higher export potential to China. As per the report, vegetables, tea, iron and steel products, herbs, lentils, ghee, ginger, aluminium products, handicraft items and ornamental ceramic articles, among others, have a higher market demand in China, and the export of these products should be increased.

The report has also recommended that the government ensure necessary infrastructure like roads, transport arrangements, container yards, quarantine facilities and technological improvements to minimize the trade deficit.

Tanka Karki, former Nepali ambassador to China, said that Nepal could benefit immensely from China if it promoted Buddhism and trade. He said the government should try to increase Chinese aid to Nepal and encourage the Nepali private sector to work in cooperation with Chinese investors to invest in Nepal.