

A study on Nepal-Australia economic ties

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Executive summary

Nepal-Australia ties have come a long way since the establishment of diplomatic relations between the two countries in 1960. Australia set up its residential Embassy in Kathmandu in 1984, while Nepal established its residential Embassy in Canberra in 2007. Nepal also has Honorary Consulates General and Consulates in Brisbane, Melbourne, Sydney, Perth and Adelaide, attesting to the increasing depth of bilateral ties. Education services, migration and remittances stand out as key drivers of the relationship, with tourism, digitally delivered services and food and agriculture, besides various other merchandise subsectors, also carrying significant potential for trade and investment. Australia provided an estimated A\$27.2 million in official development assistance to Nepal during the Australian financial year 2023-24.

In February 2024, a Trade and Investment Framework Arrangement (TIFA) was signed between the two nations. It seeks to deepen economic relations, including through facilitation and promotion of trade and investment. The TIFA stipulates the establishment of a Joint Australia-Nepal Trade and Investment Committee, responsible for, *inter alia*, promotion of bilateral cooperation and related activities, particularly economic cooperation, to strengthen trade and investment in key sectors of mutual interest. It identifies capacity building and technical cooperation in relation to sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) measures as one sector for bilateral cooperation. Meanwhile, Australia's Embassy in Kathmandu has established a Business Advisory Group to advance bilateral business ties.

Merchandise trade

Trends, patterns and composition

In 2023, the total merchandise exports of Australia to Nepal stood at US\$89.54 million. Imports from Nepal into Australia were US\$12.49 million. While exports to Nepal recorded a compound annual growth rate of about 21 percent during 2013-2023, imports from Nepal grew by 7.4 percent per annum. Australia is an important partner for Nepal in merchandise trade. With two thirds of Nepal's global trade concentrated in India, Australia presents potential for Nepal's trade diversification aspirations. Australia ranked 7th in both Nepal's global exports and imports in 2022.

Oil seeds, lentils and chickpeas accounted for more than 90 percent of exports to Nepal, as reported by Australia. There is a considerable discrepancy in exports to Nepal reported by Australia and imports from Australia as reported by Nepal, which goes beyond the differences in transport and related costs, although both are drawn from the UN Comtrade database. The difference is especially stark in coal trade, with Nepal reporting a substantial value of coal imports from Australia (US\$25 million on average during 2017-22) and the latter reporting a much smaller value (less than US\$1 million). Total merchandise imports from Australia reported by Nepal are higher than exports reported by Australia by about 63 percent. The trade data reported by Nepal shows 'low erucic acid rape or colza seed', coal, chickpeas, and lentils as the top products imported from Australia, accounting for more than 85 percent of all imports from Australia on average during 2017-22. Even after accounting for the difference in data reported by the two countries, Nepal has a merchandise trade deficit with Australia, just as it has with most of its major trade partners.

Australia's imports from Nepal are more diverse than its exports to Nepal, with the top 10 products at the 6-digit level of Harmonized System (HS) of product classification accounting for just over 50 percent of the total imports from Nepal. Carpets, food preparations (including noodles/pasta), articles of jewellery, and clothing are the major items.

Potential and opportunities

Employing quantitative tools to trade data, we find significant untapped potential in Nepal-Australia trade. Based on an analysis with revealed comparative advantage at its core, some 184 products of Nepal at the HS 6-digit level are found to have export potential. Nepal's global exports of these products averaged US\$879.29 million during 2017-22 while Nepal exported just US\$6.3 million worth of these products to Australia, which, in turn, imported US\$9.7 billion worth of these goods from the world. All of these products are eligible for duty-free access under the least developed country (LDC) scheme. All except four are also eligible for duty-free access under the Generalized System of Preferences (GSP) scheme available to many developing countries, implying that zero-duty access will be retained for most of the products even after Nepal's graduation from the LDC group in 2026.

A similar exercise for Australian exports identifies 142 products with existing exports to the world of US\$178 billion, out of which Australia exports just US\$60 million to Nepal, with the latter importing US\$1.1 billion worth of these goods from the whole world. The mean MFN tariff on the identified products is 11.22 percent and median MFN tariff is 10 percent. A total of 47 products attract a 10 percent tariff, and imports of these products into Nepal amount to US\$56.11 million, accounting for 94 percent of imports of the identified products from Australia into Nepal. Some 23 products face a 15 percent tariff, and 16 products face tariffs of more than 15 percent.

Unrealized export potential is also non-trivial when based on the Observatory of Economic Complexity's export potential estimation that incorporates three measures of bilateral relatedness into the gravity model of international trade: (i) product relatedness (whether a country already exports many similar products to a destination); (ii) importer relatedness (whether the country exports the same product to the neighbours of the target destination); and (iii) exporter relatedness (whether a country's neighbours are already exporting the same product to the destination). Nepal's unrealized export potential in Australia in 20 HS sections (that is, the broadest categories in the HS classification of products) amount to US\$10.46 million in 2022, equivalent to 78 percent of existing exports. Two sections—Textiles, and Foodstuffs—make up nearly 60 percent of the untapped export potential. Likewise, Australia has unrealized export potential in Nepal in 15 HS sections amounting to US\$29.35 million in 2022, equivalent to 61 percent of existing exports in these sections. Mineral Products explain 70 percent of the untapped export potential.

Further, shilajit, an organic mineral compound derived from high mountain rocks; medicinal and aromatic plants; essential oils; bedsheets made of Nepali textiles; handmade bags, mats and other textile products made from natural fibres, including thakar, allo, banana and cotton, hold potential for export to Australia, as per the private sector in Nepal.

Exports of food items from Nepal to Australia are growing on the back of diaspora demand. Beaten rice (chiura), a staple in Nepali cuisine, has seen a notable increase in exports in recent years. Other popular products include pasta, pickles and spices. Other emerging export items include traditional garments like dhoti and lungi, as well as cereal flour; bangles, tika, beads; buckwheat; bran; and black salt.

Tariffs and trade preferences

Of the 565 products at the HS 8-digit level—a finer classification of products than at the HS 6-digit level—imported by Australia from Nepal during 2017-23, 361 products are on the list of trade preferences for

LDCs and hence get zero-duty access. Their combined imports into Australia from Nepal averaged US\$4.6 million per annum, or 61 percent of total merchandise imports from Nepal. The margin of preferences for these products has a median value of 5 percentage points. Most of the remaining imports face zero most-favoured-nation (MFN) tariffs, that is non-preferential tariffs. The highest tariff faced by the 13 products that are subject to positive tariffs in Australia is 5 percent.

Nepal currently enjoys duty-free access for most of its products in the Australian market thanks to the latter's duty-free scheme for LDCs. Carpets, a major item in exports from Nepal to Australia, will continue to face zero tariffs in Australia after graduation because it faces zero tariffs under the GSP scheme and also faces zero MFN tariffs. The top 10 products—in fact, most products—that Australia currently imports from Nepal will not face any tariff increment after graduating from the LDC category. This is because the next-best trade preferences scheme for Nepal in Australia (the GSP scheme) offers a significant duty-free coverage while many products exported from Nepal to Australia not on the LDC or GSP scheme attract zero MFN tariffs

Nepal underutilizes the available trade preferences in Australia. In 2023, the share of exports from Nepal to Australia eligible for LDC-specific preferences was 67.23 percent, and the rate of utilization of the preferences was 76.3 percent. Nepal's utilization of LDC-specific preferences in Australia averaged 71.32 percent during 2019-23.

Australian products face MFN tariffs, and enjoy no preferential tariffs, in Nepal. The mean tariff is 13.8 percent and the median tariff is 10 percent. Some 37 products enter Nepal duty-free with an import value of US\$0.46 million (average for 2020-22). A 5 percent tariff is levied on 74 products with an import value of US\$47.03 million. Some US\$82.2 million worth of imports, represented by 66 products, are subject to a 10 percent tariff.

Nepal is a member of the Agreement on South Asian Free Trade Area (SAFTA), which counts as other members Afghanistan, Bangladesh, Bhutan, India, the Maldives, Pakistan and Sri Lanka, all of which are member states of the South Asian Association for Regional Cooperation (SAARC). Although overall tariff liberalization has been slow under SAFTA, with most members, including Nepal, maintaining long sensitive lists covering products with high import value, some tariff liberalization has taken place. Nepal's SAFTA tariff rates on products it imports from Australia have a mean of 7.5 percent and a median of 7.25 percent, compared to a mean and a median of 12.35 percent and 10 percent, respectively, applicable to Australia. Overall, the preference disadvantage for Australia vis-à-vis SAFTA members is small.

Non-tariff measures

Although data on non-tariff measures (NTMs) are scarce, and it is very hard to quantify them and their stringency, standard metrics indicate Nepal does not use more NTMs than comparator countries. In recent years, though, Nepal has resorted to significant quantitative restrictions on imports, citing depletion of foreign exchange reserves. These measures have not been targeted at a particular country. Most of them have been lifted. Nepal's enforcement of intellectual property rights needs improvement. The Department of Industry has a significant number of trademark, patent and design infringement complaints, and settling infringement-related cases can take years.

Nepal government's Nepal Trade Integration Strategy (NTIS) 2023 points out that NTMs related to sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT) are significantly impacting Nepal's

exports in general. Conformity assessment, including testing, product certification, quarantine and inspection, are more likely to be reported as burdensome NTMs by Nepali exporters. Procedural obstacles are deemed more burdensome than the technical regulations per se.

Prior studies have not identified Australia as a major source of NTMs affecting Nepal's exports, and that could be because it is not a major export partner of Nepal. The private sector, however, feels that challenges in meeting testing and certification requirements, especially in food and agriculture products, are impeding efforts to effectively break into the Australian market. Take, for example, chhurpi (hard cheese), sold as dog chew, which has emerged as a key item in Nepal's export basket but whose exports are concentrated in the United States. According to industry pioneers, SPS issue is at the core of lack of export diversification of the product. Specifically, the inability to obtain foot and mouth disease-free certification hinders the product's exports to many potential destinations, including Australia. A lack of awareness among Nepali exporters of the taste, demand, requirements and regulations in the Australian market is also deemed to be constraining exports.

High transport and other logistics costs also impede trade between Nepal and Australia. These partly stem from Nepal's not having direct access to the sea due to its landlocked geography.

Services trade

Trends, patterns and composition

Trade in services, led by education and tourism, dwarf merchandise trade between Nepal and Australia, and thus drive bilateral trade flows. Nepal is a major source of services export earnings for Australia.

In 2023, Australia's total services exports to the world were A\$113.52 billion, with exports to Nepal valued at A\$4.27 billion. Services exports to Nepal expanded at a compound annual growth rate of 23.2 percent per annum during 2013-2023. During 2019-2023, Nepal consistently ranked as the seventh biggest country for Australia's services exports.

Australia's services exports to Nepal are primarily driven by the education services sought by Nepali students. Education-related travel constitutes over 95 percent of total services exports from Australia to Nepal. Thus, when only travel exports of Australia are considered, Nepal is the third largest partner for Australia. As of December 31, 2023, Australia hosted 60,630 students from Nepal, making the latter the third-largest source of international students on student visas in Australia, behind only India and China. Nepal comprises about 11.1 percent of the total international student population in Australia.

Australia's imports of services from Nepal are very small relative to its services exports to Nepal. They also grew at a much slower pace of 8.7 percent per annum during 2013-2023 than services exports to Nepal. Still, at A\$180 million in 2023, services imports from Nepal are more than 10 times larger than merchandise imports from Nepal, and have seen a consistent rise. These imports are mostly personal travel (non-education-related) of Australians to Nepal, which got hit by the pandemic. The share of personal travel in total services imports from Nepal was above 80 percent till 2019, and fell to 69.6 percent and 43.8 percent in 2020 and 2021, respectively. In 2023, Nepal welcomed 38,798 Australian tourists, representing 3.8 percent of its total tourist arrivals. Australia ranked sixth in terms of international tourist numbers in Nepal. Another important category of services imports from Australia includes IT-enabled services.

Potential and opportunities

Australia has an opportunity to attract the crème de la crème of Nepali students to its top universities, many of whom gravitate towards other destinations. A potential avenue, as per the Nepali private sector, to build on and expand the existing educational ties is through setting up full-fledged campuses of Australian universities in Nepal.

Trekking, mountaineering, outdoor adventure and eco-tourism are a major draw of Nepal for Australian tourists. There is tremendous potential to bring in more tourists from Australia, especially those who seek to explore the wilderness. In addition, there is an emerging segment of tourists from Australia carrying promising potential that goes beyond dollar earnings. Over the last two decades Nepal has become increasingly popular as a destination for excursion and cross-cultural learning for Australian school students. This nascent segment of Australian tourists must be nurtured for its far-reaching value. The experiences and impressions the young students acquire in Nepal, the bonds they forge here and the memories they take back home with them carry the potential of feeding a self-sustaining reservoir of goodwill in Australia towards Nepal and Nepalis that might as well transcend generations.

Nepal as a tourist destination that has much to offer is yet to be effectively marketed in Australia, despite the fact that Nepal is a major source of students and immigrants in Australia. There is potential for joint ventures between Australia and Nepali businesses in high-value tourism.

Likewise, there is a significant potential for Nepal to expand exports of digitally delivered services to Australia.

Migration and remittances

Nepal-born people constitute Australia's fastest-growing migrant community. The resident population of Australia born in Nepal grew from 7,980 in 2007 to 34.75 thousand in 2013, and then soared to more than 179,000 in 2023, an increment by over five times in a decade. Nepal ranks among the top 10 countries whose citizens have received permanent residency in Australia in recent years.

As of July 31, 2024, student visas accounted for 43.5 percent of all the 134,168 temporary visas granted to Nepalis. Growing student visas have resulted in more temporary graduate visas granted to students after completion of their studies, enabling them to work for a few years in Australia. As of July 31, 2024, temporary graduate visa holders from Nepal numbered 32,675.

Estimates place Australia as the sixth largest source of remittances to Nepal (US\$467 million, or about 5.7 percent of total remittances received by Nepal in 2021). The private sector believes the amount could be much bigger. A significant portion of remittances from Australia is believed to flow into Nepal through informal channels of transfer. Students and former students who have obtained work visas are a major source of remittances from Australia to Nepal.

The Nepali diaspora in Australia is a source of demand for Nepali goods as well as investors in Nepal, especially in the tourism/hospitality and ICT sectors, including those generating digitally delivered services exports.

Investment

Australia is the fourth largest source of foreign direct investment (FDI) stocks in Nepal. As of mid-July 2023, the total FDI stock of Australia stood at about US\$145 million, accounting for 6.4 percent of Nepal's total FDI stock. Most of these investments from Australia are in the services sector.

Data on the distribution of realized investments across services subsectors are not available. Data on approved investments from Australia in Nepal in recent years reveal that Australian investors are drawn to Nepal's tourism and ICT sectors.

The Nepali diaspora in Australia is investing in Nepal in sectors as varied as luxury hotels, hydropower and export-oriented IT-enabled services.

Based on Australian investment elsewhere, the composition of Australia's non-mining exports, Nepal's proximity to the huge markets of China and India, which offer duty-free market access to Nepali goods—and, importantly, tariff-free access to India not being contingent on LDC status—there are opportunities for Australian businesses to boost investments in Nepal targeting the Chinese and Indian markets. For example, in agriculture, Australian investors have the opportunity to invest in the pork, poultry, goat rearing, and horticulture subsectors, and export Australian-standard products to, *inter alia*, the Chinese market. Nepal's private sector is already exploring this prospect.

Way forward

Government of Nepal should consider being more proactive in cultivating and deepening ties with Australia. Nepal's importance to Australia as a source of students and thereby service income must be disseminated to a wider audience there. Nepal's potential as an investment and tourism destination must be better marketed. The Australian government's support in this endeavour will be equally important.

Education is a key sector of Nepal's interaction with Australia. It has generated both knowledge and financial transfers to Nepal. Australia-trained individuals who have returned to Nepal are contributing to society and economy in various fields. Concerns are expressed in public and private discourse over the labour drain, brain drain and foreign exchange outflows attributed to the exodus of Nepali youths to foreign shores for education purposes, a sizeable portion of whom settle abroad. An alternative view is that this relationship yields high returns on investment, given the knowledge, opportunities and broader horizon that are accruing to Nepalis. The onus is on the Nepal government to strategize on utilizing Australia-trained Nepalis, whether they are abroad or in Nepal. The sizeable resident population of Nepali origin in Australia is a potential source of soft power. *Prima facie*, there is an opportunity for Australian universities to open campuses in Nepal, provided appropriate facilitation measures are taken by Nepal government. Investors, professionals and policymakers in the education sector should explore this idea in greater detail, and identify the precise support measures needed from the two governments.

Nepal taking determined steps to improve its quality infrastructure and Australia, as part of its aid for trade programme, helping Nepali exporters understand and prove compliance with its SPS and TBT regime, besides assisting Nepal in upgrading its quality infrastructure, are needed to unlock Nepal's export potential in goods, vis-à-vis not just Australia but the whole world. Nepal should continue with trade and investment policy reforms, emphasizing further transparency, clarity and predictability, as well as implementation of the minimum standard of protection for intellectual property rights.

There is untapped potential in leveraging Australian expertise to develop an export-oriented agriculture sector in Nepal. Australian investments in agriculture will bring in technology and knowhow critical for producing high-quality and exportable agricultural, food and forest-based products.

Direct flights would provide a major fillip to Australian tourist inflows to Nepal.

Continued and enhanced Australian support for improving connectivity in South Asia, with a meaningful component that addresses the special needs of landlocked countries of the region, would be welcome. The ambit of such support could include research, dissemination, capacity building and advocacy activities that will contribute to improved intra-regional and extra-regional connectivity in the medium to long run.

Meetings between the business communities of Australia and Nepal should be organized more often. More engagement between Nepal and AusTrade (Australian Trade and Investment Commission) would be helpful. The private sector feels that the posting of a representative of AusTrade in the Australian embassy in Kathmandu would be a good start. Likewise, instituting a dedicated representation of the Australian government's Department of Education in Kathmandu would be commensurate with Nepal being a major source of international students for Australia. The Australian government could consider supporting more familiarization trips to Nepal in collaboration with the Nepali government and private sector.

Meetings of the Joint Australia-Nepal Trade and Investment Committee, expected at least once every two years as per the Trade and Investment Framework Agreement, would benefit from a clear agenda, diligent follow-ups on previous decisions, and a critical assessment of progress. Establishing sector- or theme-specific sub-committees with the participation of relevant government agencies and key stakeholders, backed by regular meetings and follow-ups, could help make the Committee more effective. The sub-committees would benefit from in-depth issue-specific research, some of which may be done jointly by researchers based in Nepal and Australia. Collecting and updating detailed data on bilateral trade, investment, migration and remittance flows and stocks are essential to fill data gaps that constrain informed policy- and decision-making.

The Australian Embassy Business Advisory Group can provide useful inputs to the Committee. Nepal government should strategically mobilize its embassy, consulates and honorary consulates general in Canberra and other cities of Australia to identify and implement actions for advancing economic ties—in the process, both informing the activities of and executing the decisions of the Committee.

1. Introduction

This paper is aimed at those interested to know about the Nepali economy; economic ties between Australia and Nepal; the economic significance of the ties for the two countries; and the prospects and challenges in advancing the relationship. It dissects the Nepal-Australia economic relationship, covering goods, services, migration and remittances, and investment. It describes the trends and patterns in these areas, and identifies broad potential and opportunities as well as challenges and constraints. While the bulk of it is based on secondary data, it also presents the views of the Nepali private sector.

The paper is organized as follows. Section 2 provides an overview of the Nepali economy. Section 3 presents an overview of Nepal's trade and investment scene. Section 4 provides an overview of Nepal-Australia diplomatic and economic ties. Section 5 dissects Nepal-Australia trade using, mostly, secondary data. It is divided into subsections on goods trade, services trade, migration and remittances, investment, and overseas development assistance. Section 6 presents insights from the private sector in Nepal. Section 7 makes some recommendations.

2. An overview of the Nepali economy

Nepal is among the poorest countries in Asia in terms of per capita gross national income (Figure 1). GDP growth averaged 4.4 percent in the three decades from fiscal year (FY) 1993/94 to FY 2023/24 (Figure 2),¹ with GDP valued at NPR5,704.84 billion, or US\$42.64 billion², in current prices in 2023/24.

The structural transformation of Nepal's economy has witnessed prematurely premature deindustrialization (Kharel 2020). The value added of agriculture, forestry and fisheries as a share of total value added in the economy has declined, from 40.8 percent in 2000 to 24.6 percent in 2022; so has the value added of industry (including mining; electricity, gas and water; manufacturing; construction), from 21.1 percent to 14.1 percent; while the value added of services has increased, from 37 percent to 61.2 percent (Kharel 2024). Manufacturing value added as a percentage of GDP has been in decline since the late 1990s; the peak share was 9 percent. Although a decline in manufacturing's share of output and employment is a general global phenomenon and the peak share has been recorded at progressively lower levels of per capita income over time, the value added in manufacturing as a share of GDP in Nepal peaked at an income level much lower than the world average for such peaking and the peak itself is significantly lower than the world average peak (Kharel 2020). Further, the employment share of manufacturing in Nepal has long been low: 5.8 percent in 1998, 6.6 percent in 2008 and 6.8 percent in 2018 (Kharel 2022). The expansion of services has largely been in the non-tradeable variety, unable to pick up the slack in exportable surplus in the agriculture and manufacturing sectors, whose shares of GDP have declined.

¹ The Nepali fiscal year runs from mid-July to mid-July.

² US\$1=NPR133.8 on average in 2023/24, as reported by Nepal Rastra Bank in its Current Macroeconomic and Financial Situation annual dataset for FY 2023/24.

As a percentage of GDP, exports of goods and services fell from 26.3 percent in 1997 to 6.8 percent in 2022, lower than the average for the least developed countries (LDCs), low-income countries and lower middle-income countries (Kharel 2024). The performance of merchandise exports has been especially dismal, falling from 13.1 percent of GDP in 1999/2000 to 2.9 percent in 2022/23 (ibid.). In real terms, merchandise exports fell by 37 percent between 2000 and 2019, the only country among non-high-income countries in South and Southeast Asia to experience a decline in exports in real terms (Sharma 2023).

Remittances play a crucial role in the economy and are a significant source of foreign exchange. From 2017 to 2021, the remittance-to-GDP ratio averaged 22.4 percent, making it the fourth highest globally. Additionally, the remittance-to-exports ratio during the same period was the highest in the world (2017-21 average) (World Bank and IMF 2023). Extreme poverty has come down significantly, with remittances playing a significant role (World Bank 2021a). Moreover, remittances are a vital source of external financing for Nepal, exceeding the total contributions from goods and services exports, official development assistance (ODA) receipts, and foreign direct investment (FDI) inflows. In 2021, the receipts from remittances were almost double those from all other external financing sources combined.³

Nepal is highly vulnerable to natural hazards, a situation worsened by climate change, which poses serious risks to its population and economy. Models indicate that by 2030, the number of people affected by river flooding could double, with the economic consequences potentially tripling (World Bank and ADB 2021). According to ADB (2019), floods result in more than 175 deaths each year and average economic losses of over US\$140 million. Nepal ranks tenth worldwide for its vulnerability to river flooding, with potential damage to physical assets amounting to 1.4 percent of its GDP (ibid.). Additionally, glacial lake outburst floods (GLOFs) are becoming an increasing threat, further elevating the country's disaster risk levels. The INFORM Risk Index ranks Nepal 34th in terms of significant disaster risk.⁴ The recent floods in September 2024, triggered by heavy rainfall, have impacted approximately 81,215 individuals, including an estimated 27,613 children. The disaster resulted in the deaths of 233 people, among whom were 55 children, and left 169 people injured⁵, with estimated losses of about NPR17 billion⁶.

³ World Development Indicators (WDI), World Bank.

⁴ INFORM (Index for Risk Management) serves as an open-source hub for assessing risks in humanitarian crises and disasters, aiming to aid decisions on prevention, preparedness, and response. This global risk index evaluates countries' susceptibility to crises and disasters that might strain their national response capacities, spanning 191 countries at both domestic and international levels, utilizing 50 different indicators related to the conditions that lead to crises and disasters. <https://drmhc.jrc.ec.europa.eu/InformIndex/Portals/0/InfoRM/CountryProfiles/NPL.pdf>

⁵ Nepal Floods Humanitarian Situation Update, UNICEF, 4 October 2024.

⁶ <https://kathmandupost.com/money/2024/10/01/heavy-rains-inflict-rs17-billion-loss-on-nepal#:~:text=Heavy%20to%20very%20heavy%20rainfall,preliminary%20report%20unveiled%20on%20Tuesday>. Accessed on 7 October, 2024.

Nepal's political landscape is characterized by significant instability. Nepal's political stability index score of -0.25 positioned it 114th in the global rankings in 2022⁷. This environment is further complicated by regulatory uncertainties and infrastructure challenges, making it a tough climate for businesses. According to the World Bank, in 2019, Nepal ranked 94th for ease of doing business, while the ranking for starting a business was even lower at 135th⁸. As per the first round of data (2024) from the World Bank's Business Ready project, which assesses the business and investment climate, Nepal has a significant room for improvement on all three pillars of business readiness: regulatory framework (fourth quintile), public services (third quintile) and operational efficiency (second quintile).⁹ Among the three, Nepal scores highest in operational efficiency, followed by regulatory framework and public services. Among 10 indicators, Nepal scores highest in Financial Services, International Trade, and Business Entry, and lowest in Market Competition, Business Insolvency, and Taxation.

Nepal's recent shift to a federal republic structure has resulted in the establishment of seven provinces and 753 local governments. The implementation of federalism has led to a significant increase in public expenditure. Since the federal government began making intergovernmental transfers to these newly created sub-national entities starting in FY 2017/18, there has been a consistent rise in the federal government's recurrent expenditure, which has been a key factor in driving up public spending in the post-federalism period (Dahal and Kharel 2023). The ongoing increase in government expenditure has led to a swift accumulation of public debt in recent years. As of FY 2022/23, Nepal's public debt reached NPR2,299.4 billion, accounting for 42.7 percent of the country's GDP.

Nepal is set to graduate from the least developed country (LDC) category in 2026. This transition is likely to further weaken the already fragile export sector, as it will result in the loss of preferential market access to many destinations and the special and differential treatment that was given to LDCs. According to various studies using partial equilibrium models, the decline in goods exports is projected to be between

⁷ The political stability index is based on the methodology developed by the World Bank which is based on the percentile rank of political stability and absence of violence/terrorism.

https://www.theglobaleconomy.com/rankings/wb_political_stability/

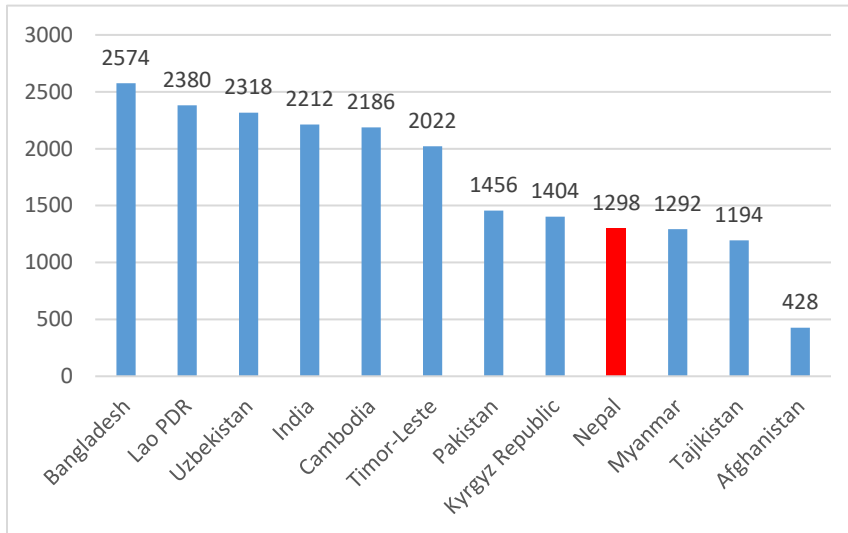
⁸ The ease of doing business index ranks economies from 1 to 190 based on how conducive their regulatory environment is to starting and running local firms. Rankings are determined by aggregating scores across 10 topics like starting a business, dealing with construction permits, getting electricity, registering property, getting credit, and trading across borders, and each of these comprising multiple indicators, with equal weight assigned to each topic. <https://archive.doingbusiness.org/en/rankings>

⁹ <https://www.worldbank.org/en/businessready>. Pillar I, Regulatory Framework, covers the rules and regulations that firms must follow as they open, operate (or expand), and close (or reorganize) a business. Pillar II, Public Services, spans the facilities that governments provide

to support compliance with regulations and the institutions and infrastructure that enable business activities. Pillar III, Operational Efficiency, captures the ease of compliance with the regulatory framework and the effective use of public services directly relevant to firms.

2.5 percent and 4 percent. The effects of LDC graduation are anticipated to be particularly pronounced in the European Union (EU), the United Kingdom (UK), Turkey and China (Pandey et al. 2022).

Figure 1: GNI per capita, current US\$, Asia

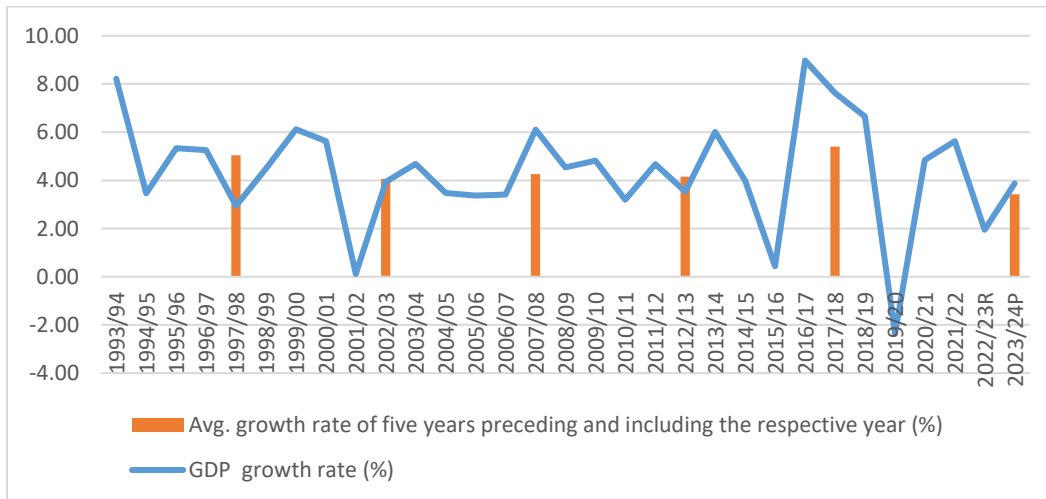


Note: GNI per capita (Atlas method) of less than US\$3,000 is considered.

5-year average for 2019-23 is considered. Data for Syrian Arab Republic is not available for 2023; hence, the country is not considered here. If the average for 2018-22 is considered, its GNI per capita is US\$796. Further, data for Yemen are not available for the period 2019-23.

Source: World Development Indicators (WDI), World Bank

Figure 2: Real GDP growth: Nepal



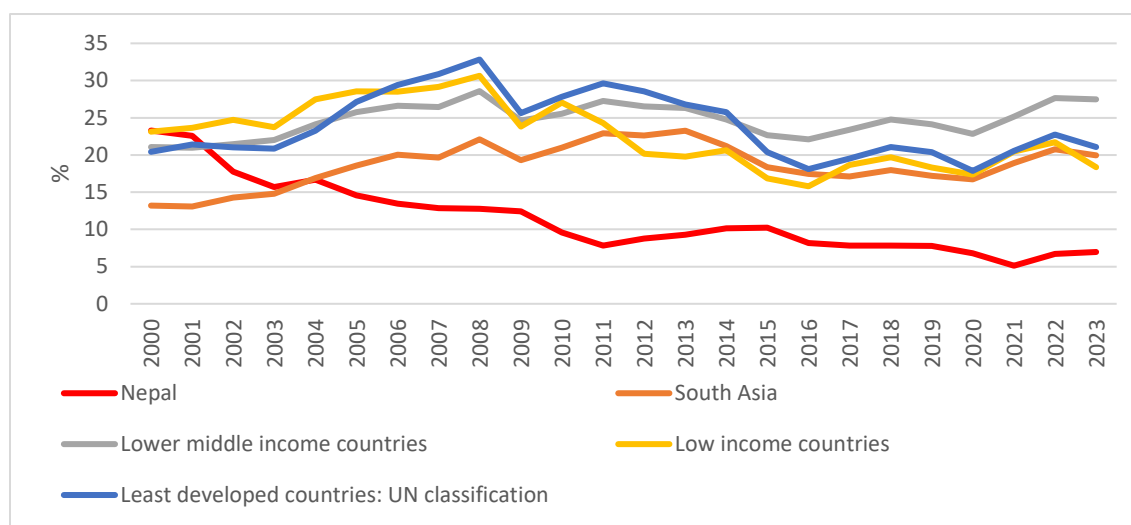
Note: Six-year average growth from 2018/19 to 2023/24

Source: Current macroeconomic and financial situation, various years, Nepal Rastra Bank

3. An overview of Nepal's international trade and investment scene

Nepal's export performance in both goods and services remains underwhelming. In 2023, export of goods and services accounted for around seven percent of the country's GDP, a figure significantly lower than the averages for low-income, lower middle-income, least developed and South Asian countries (Figure 3). Moreover, despite government policies prioritizing exports, this ratio has steadily declined over the past two decades. In the year 2000, export of goods and services amounted to about 23.3 percent of GDP, almost on a par with or even higher than comparator country groups (Figure 3). However, this proportion has significantly declined in recent years.

Figure 3: Export of goods and services (% of GDP)—Nepal and other relevant country groups



Source: World Development Indicators (WDI), World Bank

Goods

Nepal's merchandise trade is heavily skewed towards imports. In 2022, merchandise imports of Nepal amounted to US\$13.5 billion, while exports were US\$1.3 billion, the trade deficit being a massive US\$12.2 billion. Trade deficit as a proportion of GDP stood at 30.1 percent in 2022¹⁰. Nepal's export of goods falls significantly short of its potential. World Bank (2021) estimates Nepal's merchandise export potential at 12 times its actual exports. The "missing" merchandise exports (estimated using data for the period 2010-2017) to China exceed US\$2.2 billion, followed by India (US\$1.2 billion), the United States (US\$800 million), and Japan (US\$700 million). Australia ranks 12th by the size of Nepal's missing goods exports (US\$144 million).

¹⁰ UNCTADstat data.

Nepal's exports during 2017-22 averaged US\$1.05 billion (Table 1). Apart from products under the Harmonized System (HS) Chapter 15 (Animal, vegetable or microbial fats and oils)¹¹, carpets (HS 570110), cardamoms (HS 090831), yarns (HS 550951, HS 550921), and mixtures of juices (HS 200990) are some of the major export products of Nepal (Table 1). Nepal's top five HS chapters for exports are led by Chapter 15, which constitutes 28.69 percent of total exports, with exports amounting to US\$301.14 million (Figure 4). Chapter 55 (man-made staple fibers) follows with a 7.80 percent share and an export value of US\$81.83 million. Chapter 09 (coffee, tea, mate, and spices) represents 7.77 percent of exports, valued at US\$81.52 million. Chapter 57 (carpets and other textile floor coverings) contributes 6.71 percent, with exports totaling US\$70.48 million, while Chapter 62 (clothing and apparel) holds a 5.01 percent share, amounting to US\$52.54 million (Figure 4). When analyzing the data by clusters of HS chapters, HS 50-63 (textiles and clothing) and HS 06-15 (vegetables) represent the primary export portfolio of Nepal, with HS 50-63 accounting for 32.8 percent and HS 06-15 making up 40.1 percent of total exports (Figure 4).

Nepal's total goods imports between 2017 and 2022 averaged US\$12.4 billion. The largest import category was HS 27 (fuels), representing about 17.3 percent of total imports, totaling US\$2.1 billion (Table 2 and Figure 6). Other significant imports include HS 72 (iron and steel) and HS 84 (nuclear reactors, boilers, machinery, and mechanical appliances and parts thereof). HS 72 accounted for roughly 9.32 percent of imports, valued at US\$1.2 billion, while HS 84 contributed 8.22 percent, with imports amounting to US\$1 billion. When analyzing the data by clusters of HS chapters, HS 06-15 (vegetables), HS 27 (fuels), HS 72-83 (metals), and HS 84-85 (machineries and electrical equipment) are the major imports into Nepal (Figure 6).

Nepal's international trade is concentrated in India, with 70 percent of total exports bound for India and around 63.3 percent of total imports coming from India (Figure 5). Other key export destinations for Nepal, apart from India, include the United States (with a 10.16 percent share), the European Union (6.93 percent), Turkey (2.65 percent), and the United Kingdom (2.19 percent) and China (1.3 percent), among others (Figure 5). Australia accounts of 0.72 percent of Nepal's exports, ranking among the top 10 export destinations. On the other hand, Nepal's major import markets apart from India include China, accounting for 14.12 percent of total imports, the European Union (2.54 percent), the United Arab Emirates (2.14 percent), and Indonesia (1.85 percent) (Figure 7).

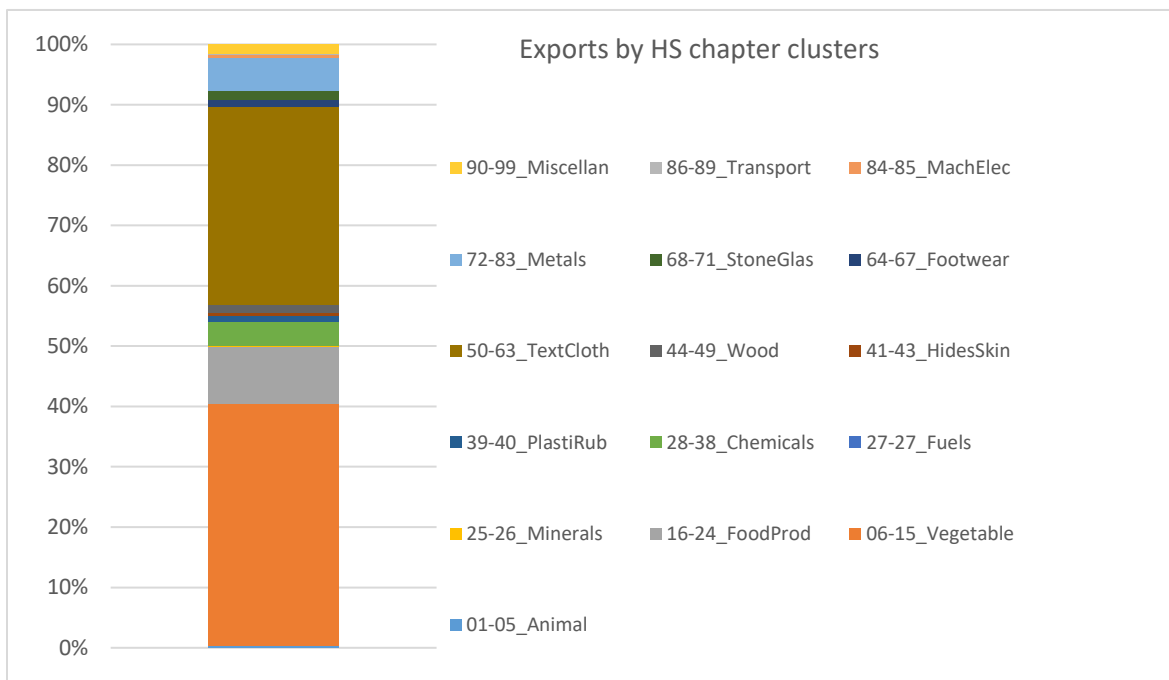
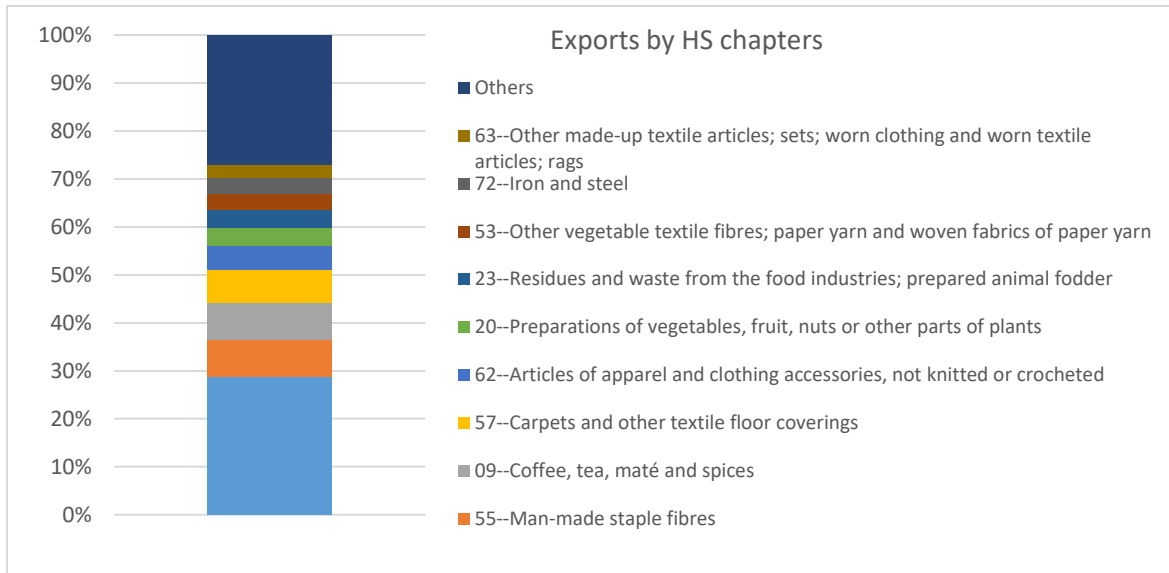
¹¹ Nepal's exports of palm and soybean oil, categorized under Chapter 15, largely result from importing crude oils from third countries and exporting the refined products to India. This practice is financially beneficial for Nepali refineries because India levies high tariffs on crude oils, while Nepal receives duty-free access to the Indian market for refined oils. Nonetheless, Nepal does not possess a genuine comparative advantage in the production of these oils. For more details, see <https://www.sawtee.org/opinion-in-lead/has-nepal-finally-broken-out-of-its-trend-of-export-stagnation.html>

Table 1: Nepal's top 10 exports to the world, average of 2017-22

HS	Product description	Avg. exports to the world (US\$ million, 2017-22)	Share (%)
150790	Soya-bean oil and its fractions, whether or not refined (excl. chemically modified and crude)	173.89	16.56
151190	Palm oil and its fractions, whether or not refined (excl. chemically modified and crude)	116.07	11.06
570110	Carpets and other textile floor coverings, of wool or fine animal hair, knotted, whether or not made up	67.19	6.40
090831	Cardamoms, neither crushed nor ground	39.85	3.80
550951	Yarn containing predominantly, but < 85% polyester staple fibres by weight, mixed principally ...	30.71	2.93
200990	Mixtures of fruit juices, incl. grape must, and vegetable juices, unfermented, whether or not ...	29.91	2.85
531090	Woven fabrics of jute or of other textile bast fibres of heading 5303, bleached, dyed, made ...	27.65	2.63
540720	Woven fabrics of strip or the like, of synthetic filament, incl. monofilament of ≥ 67 decitex ...	27.47	2.62
090240	Black fermented tea and partly fermented tea, whether or not flavoured, in immediate packings of > 3 kg	27.26	2.60
550921	Single yarn containing $\geq 85\%$ polyester staple fibres by weight (excl. sewing thread and yarn put up for retail sale)	24.13	2.30
	Others	485.64	46.26
Total		1049.76	100.00

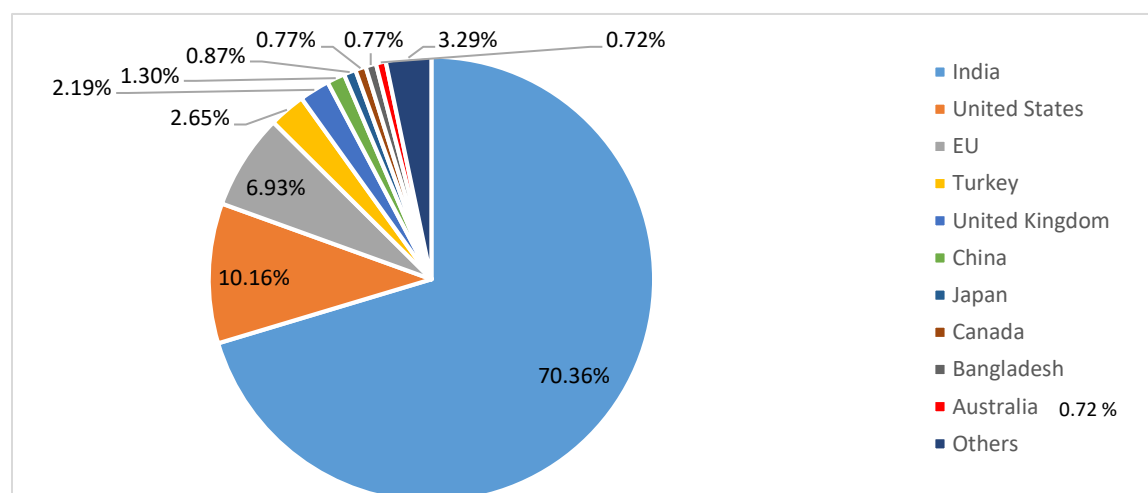
Source: WITS, World Bank

Figure 4: Nepal's exports to the world, average of 2017-22



Source: WITS, World Bank

Figure 5: Shares of Nepal's top 10 export markets, average of 2017-22



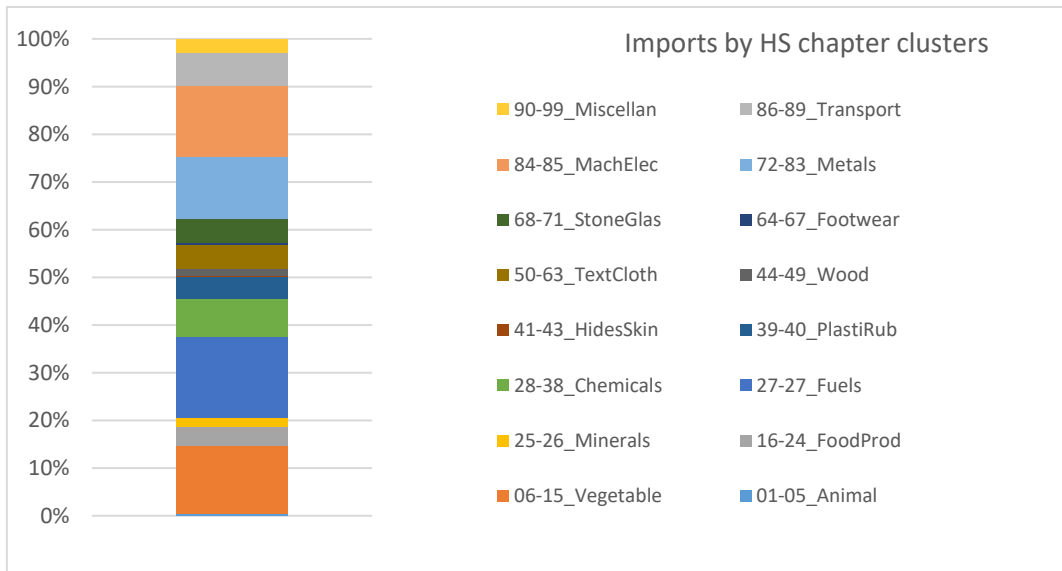
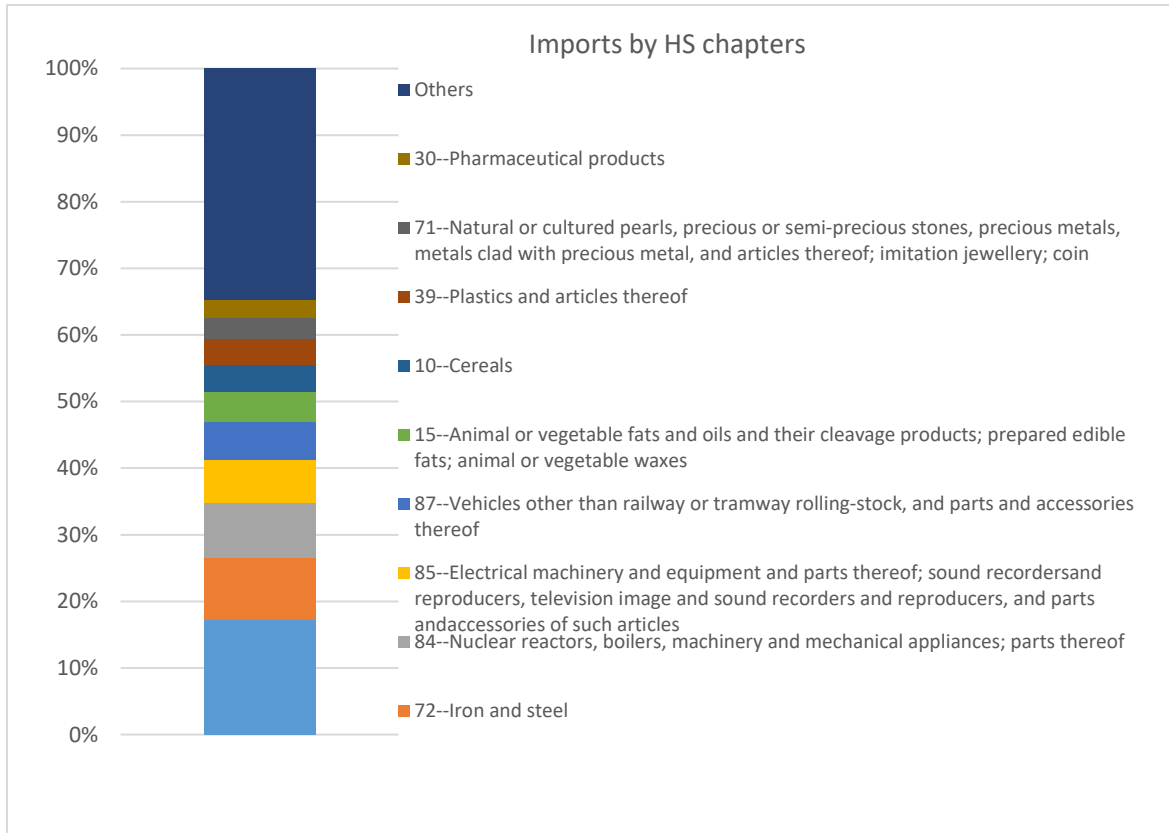
Source: WITS, World Bank

Table 2: Nepal's top 10 imports from the world, average of 2017-22

HS	Product description	Avg. imports from the world (2017-22, US\$ million)	Share (%)
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel, n.e.s.	1154.65	9.33
720719	Semi-finished products of iron or non-alloy steel containing, by weight, < 0,25% of carbon, of circular cross-section, or of a cross-section other than square or rectangular	472.72	3.82
271012	Light oils and preparations, of petroleum or bituminous minerals which >= 90% by volume	341.43	2.76
271119	Gaseous hydrocarbons, liquefied, n.e.s. (excl. natural gas, propane, butane, ethylene, propylene, butylene and butadiene)	334.76	2.71
150710	Crude soya-bean oil, whether or not degummed	266.06	2.15
710813	Gold, incl. gold plated with platinum, in semi-manufactured forms, for non-monetary purposes	243.66	1.97
851712	Telephones for cellular networks "mobile telephones" or for other wireless networks	219.64	1.78
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	210.18	1.70
270119	Coal, whether or not pulverised, non-agglomerated (excl. anthracite and bituminous coal)	207.65	1.68
871120	Motorcycles, incl. mopeds, with reciprocating internal combustion piston engine of a cylinder capacity > 50 cm ³ but <= 250 cm ³	195.72	1.58
	Others	8724.07	70.52
Total		12370.55	100.00

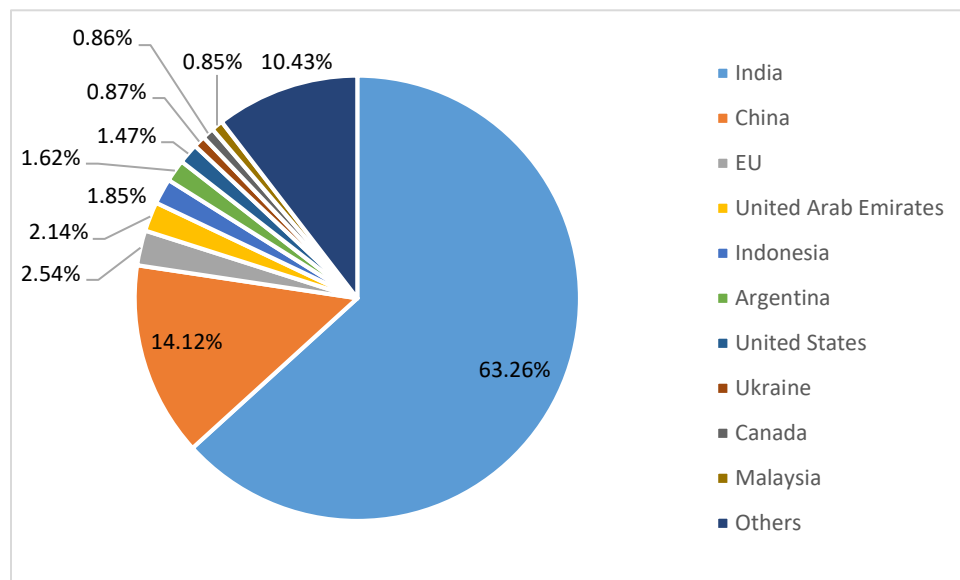
Source: WITS, World Bank

Figure 6: Nepal's imports from the world, average of 2017-22



Source: WITS, World Bank

Figure 7: Shares of Nepal's top 10 import sources, average of 2017-22



Note: Australia's rank 11th, share 0.81%

Source: WITS, World Bank

Services

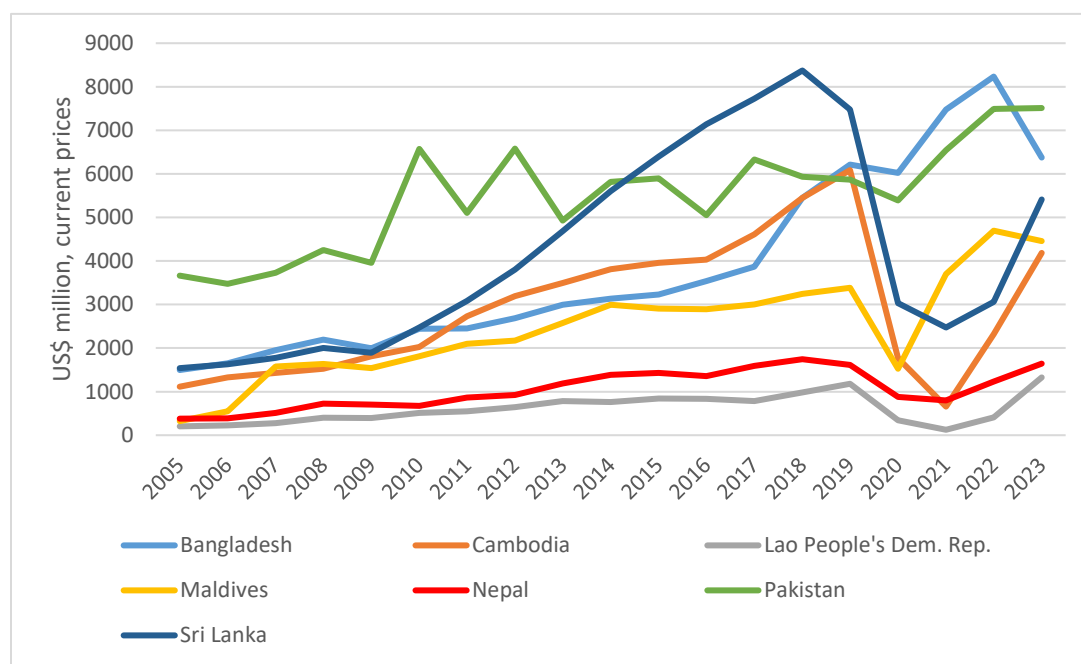
Like merchandise exports, services exports of Nepal are subpar. When compared to other South Asian countries such as Bangladesh, Pakistan, the Maldives and Sri Lanka, as well as Southeast Asian LDCs like Cambodia, Nepal's exports of services are small, valued at US\$1.6 billion in 2023 (Figure 8). Services exports accounted for around 62 percent of Nepal's total exports in 2023, whereas in the previous year, in 2022, the share was around 48.6 percent¹².

Nepal's services sector, especially IT and tourism, offers substantial growth opportunities. IIDS (2023) estimates that Nepal's IT services generated around US\$500 million in export revenue in 2022 and provided employment to at least 66,000 individuals. In 2023 Nepal welcomed a record one million international tourists. Tourism (domestic and international) is a cornerstone of Nepal's economy, contributing roughly US\$2.5 billion in revenue, or 6.6 percent of the country's GDP, and generating employment for 1.19 million people in 2023 (WTTC 2024), underscoring its vital role in both revenue generation and job creation. Together, these sectors offer Nepal a pathway to expand its services exports, boost economic growth and create jobs.

¹² UNCTADstat.

International education is a major service import category for Nepal, with a significant number of Nepali students pursuing studies abroad. In FY 2023/24, 112,593 students were issued No Objection Certificates (NOCs)¹³ to study abroad, up from 110,2017 in the previous year¹⁴. Further, in the first 11 months of FY 2023/24, Nepali students exchanged NPR117 billion to pay for higher education abroad. An increasingly popular destination for Nepali students is Japan, which attracted 34,731 students from Nepal in 2023/24, a 60 percent increase over the previous year's 21,641. In 2023/24, the number of Nepali students going to South Korea nearly doubled, reaching 6,889 compared to the previous year. There was also a significant increase in students choosing the US and the UK during this period. Although visa restrictions led to a decline in the number of students going to Australia in FY 2023/24,¹⁵ the country remains among the top three popular destinations for Nepali students, with around 62,000 Nepali students studying there in 2023¹⁶.

Figure 8: Services exports—Nepal and comparator countries



Source: UNCTADstat

¹³ NOC is a mandatory certificate from the Ministry of Education that the students must have/get for going overseas to study.

¹⁴ Ministry of Education, Science and Technology through <https://nepalitimes.com/news/brain-gain-into-brain-drain> accessed on 8 October 2024.

¹⁵ <https://nepalitimes.com/news/brain-gain-into-brain-drain>

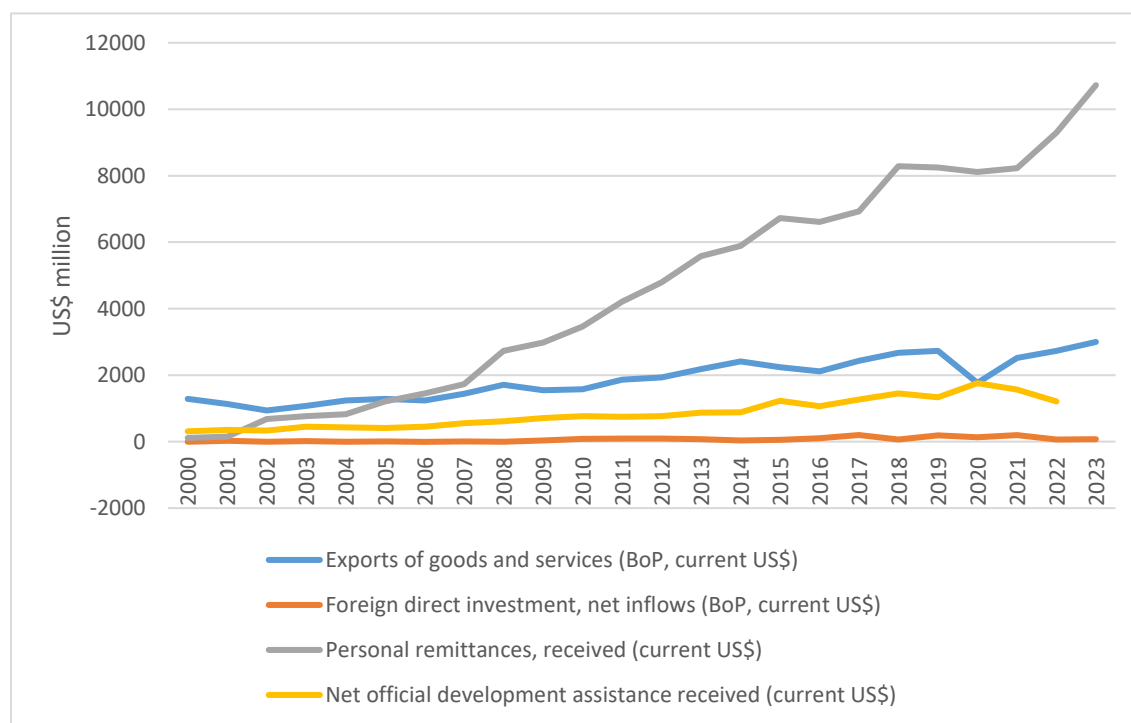
¹⁶ Department of foreign affairs and trade, Australian government.

Migration and remittances

Remittances are an essential form of external financing for Nepal, playing a pivotal role in the economy and serving as a significant source of foreign exchange. Since the early 2000s, there has been a dramatic increase in remittances, with growth continuing at a rapid pace. They now represent a crucial external financing source for Nepal, surpassing the combined financial inflows from exports of goods and services, ODA, and FDI (Figure 9). Remittances have consistently amounted to a significant proportion of Nepal's GDP, with 26.22 percent recorded in 2023. Nepal's remittance inflows, as a percentage of GDP, far surpass those of its South Asian neighbours (Figure 11). Even during the COVID-19 pandemic, remittance levels remained largely stable, showing a minimal decline from pre-pandemic figures.

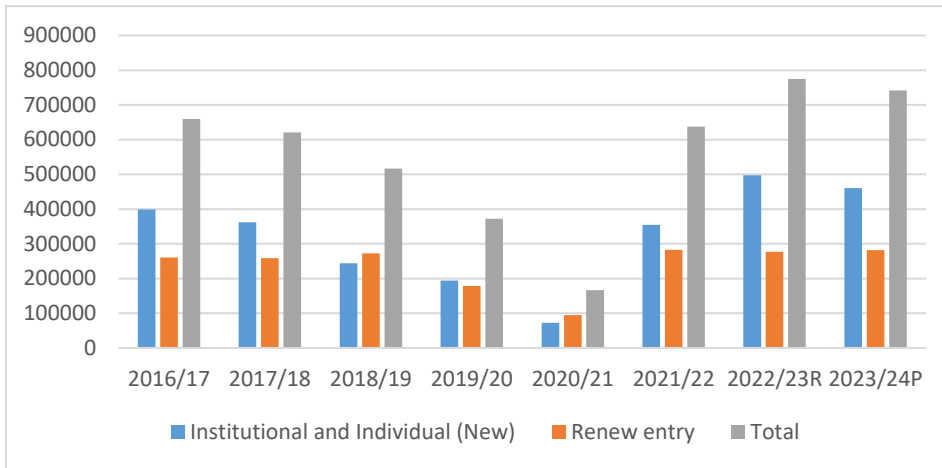
At least 30 percent of Nepalese households receive remittances from abroad (Kharel, 2019), with at least 2.8 million Nepalis working abroad, as per an estimate based on the 2017/18 national labour force survey (Baniya et al., 2020). The number of Nepalis seeking employment abroad has steadily increased over the years, with the number crossing 700,000 in FY 2022/23 and remaining above that level in FY 2023/24 (Figure 10).

Figure 9: Nepal's sources of external finance



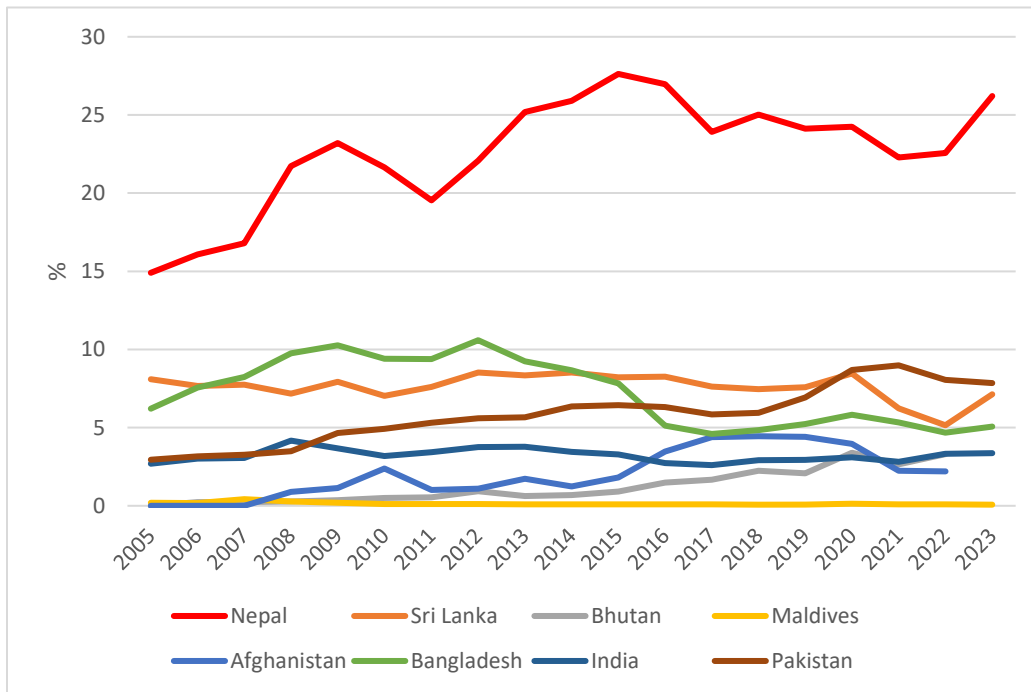
Note: 2023 data for net official development assistance received (current US\$) are not available
Source: World Development Indicators (WDI), World Bank

Figure 10: Number of Nepalis going abroad for foreign employment



Source: Current macroeconomic and financial situation (various years), Nepal Rastra Bank

Figure 11: Remittances as a proportion of GDP in South Asia



Source: World Development Indicators (WDI), World Bank

Investment

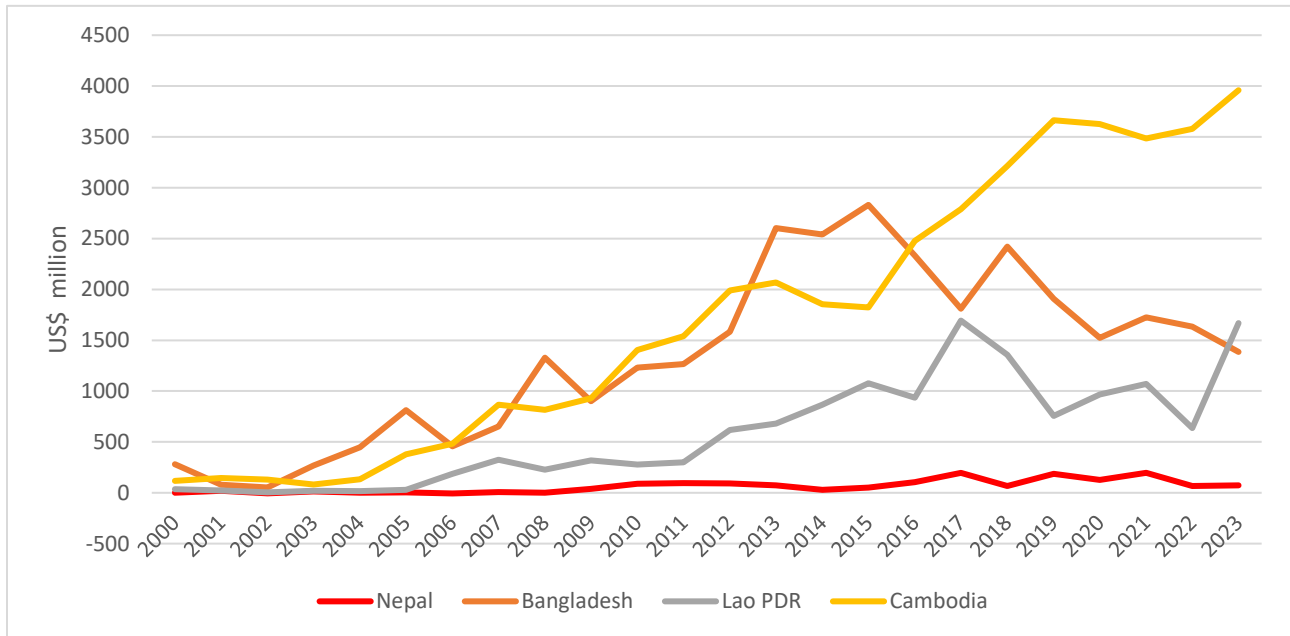
Nepal's foreign direct investment (FDI) inflows have historically been low. FDI inflows as a percentage of GDP remained below one percent in the past two decades (Figure 13). Nepal's FDI inflows significantly lag behind those of other LDCs like Bangladesh, Lao PDR and Cambodia (Figure 12). For instance, Nepal received around US\$73.8 million in FDI, while Cambodia received a significantly higher amount, with FDI inflows totaling US\$3,958.8 million, the largest among the four countries in 2023.

A substantial gap also exists between the FDI approved and what Nepal actually receives. In FY 2022/23, the country received net FDI of approximately NPR six billion, which is only about 19.4 percent of the approved amount (Figure 14). Over the decade from 2013/14 to 2022/23, Nepal received on average just 40 percent of the FDI that had been approved. From 1995/96 to 2022/23, actual net FDI inflows amounted to around 35 percent of total FDI approvals.

India is the largest source of FDI stock in Nepal. As of mid-July 2023 (FY 2022/23), FDI stock in Nepal from India amounted to NPR103.45 billion, accounting for 35 percent of total FDI stock of Nepal. India is followed by China, which has an FDI stock of NPR35.46 billion, representing a 12 percent share, and Ireland with NPR22.62 billion, accounting for 7.7 percent. Australia ranks as the fourth largest FDI contributor in Nepal, with a stock valued at NPR19.1 billion, making up 6.4 percent of the total FDI stock.

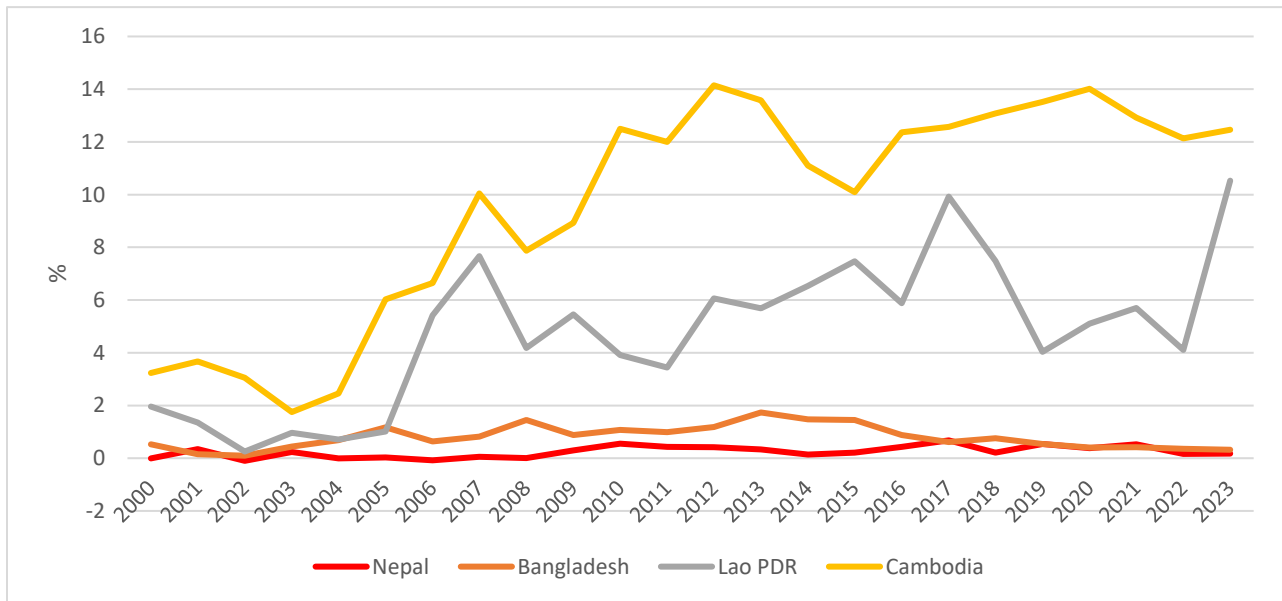
Most of the FDI received by Nepal is in industry and services. As of mid-July 2023, industry comprised 59.7 percent of the FDI stock, services 40.2 percent and agriculture a meagre 0.1 percent. India's FDI is primarily concentrated in three sectors—manufacturing (38.4 percent); electricity, gas, steam, and air conditioning (34.5 percent) (mostly explained by hydropower projects); and financial and insurance services (20.6 percent). Similarly, China's FDI is largely focused on electricity, gas, steam, and air conditioning (77.6 percent) (mostly explained by hydropower projects), followed by manufacturing (38 percent). Similarly, Australia's FDI stock is heavily concentrated in services (95.7 percent), with industry representing less than 5 percent.

Figure 12: Net FDI inflows in Nepal and comparator countries



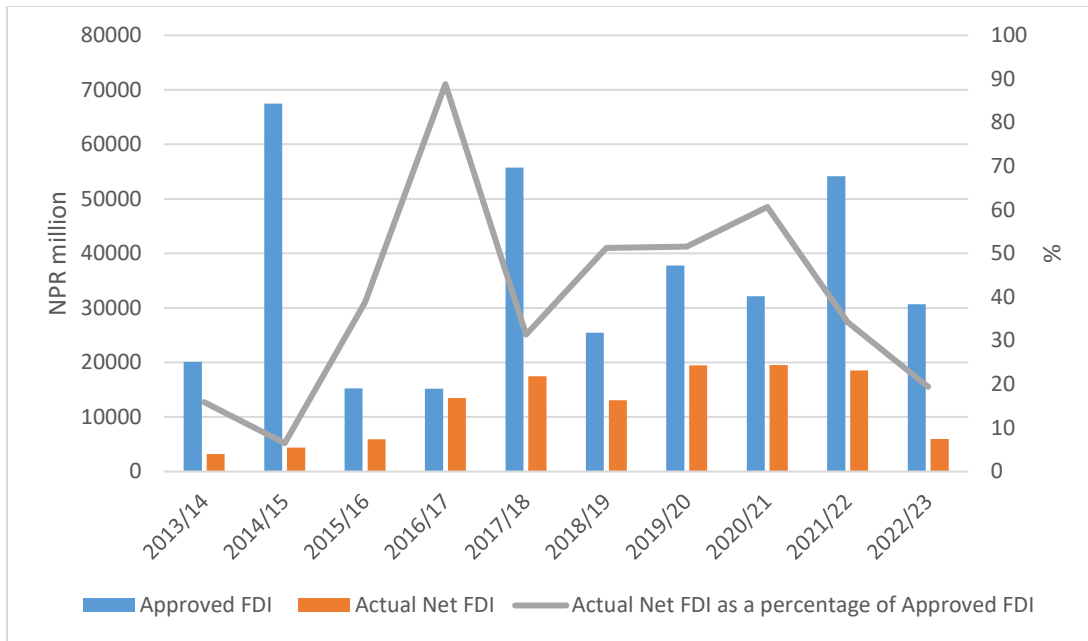
Source: World Development Indicators (WDI), World Bank

Figure 13: Net FDI inflows, % of GDP



Source: World Development Indicators (WDI), World Bank

Figure 14: Approved and actual net FDI inflows



Source: Survey report on FDI, 2022/23, Nepal Rastra Bank

4. An overview of Nepal-Australia diplomatic and economic ties

Nepal and Australia established diplomatic relations on 15 February 1960. The relationship is founded on a strong history of development cooperation and close people-to-people connections and ties. Australia set up its residential Embassy in Kathmandu in 1984 at the chargé d’Affaires level, which was elevated to Ambassadorial status in 1986. Nepal established its residential Embassy in Canberra in March 2007, officially inaugurating it in September of the same year. Nepal also has Honorary Consulates General and Consulates in cities like Brisbane, Melbourne, Sydney, Perth and Adelaide.

Australia provided an estimated A\$27.2 million in official development assistance during the financial year 2023-24.^{17,18} In February 2024, a Trade and Investment Framework Arrangement (TIFA) was signed on the sidelines of the Indian Ocean Conference, which seeks to deepen economic relations, including through facilitation and promotion of trade and investment, between Australia and Nepal. The TIFA stipulates the establishment of a Joint Australia-Nepal Trade and Investment Committee responsible for, *inter alia*, promotion of bilateral cooperation and related activities, particularly economic cooperation, to strengthen trade and investment in key sectors of mutual interest. The Committee is to endeavour to

¹⁷ This is based on Australian financial year which runs from July 1 to June 30 of the following year.

¹⁸ DFAT, Australian Government, Nepal country brief. <https://www.dfat.gov.au/geo/nepal/nepal-country-brief> accessed on 6 October 2024.

meet every second year. The TIFA identifies capacity building and technical cooperation in relation to sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) measures as one sector for bilateral cooperation. Meanwhile, Australia's Embassy in Kathmandu has established a Business Advisory Group to advance bilateral business ties.

In the financial year 2022-23, Nepal was Australia's 33rd largest trading partner, with bilateral trade valued at A\$3.9 billion.¹⁹ It was Australia's third largest trading partner in South Asia, behind Bangladesh at A\$4.1 billion and India at A\$45 billion. As Australia's third largest source of international students, Nepal ranked as the seventh largest market for services exports, with education services valued at \$3.4 billion in 2022-23. The Nepal-born resident population in Australia numbered about 179,000 in 2023, and there were around 62,000 Nepali students in the country. In 2022-23, Nepal exported A\$160 million worth of services to Australia, predominantly in the tourism sector. In addition, Australia ranked as Nepal's fourth largest source of FDI as of mid-July 2023, accounting for 6.4 percent of Nepal's overall FDI stock.²⁰

People of Nepali origin living in Australia form the fastest-growing migrant community and rank as the 10th largest migrant group in the country. In 2021, remittances from Australia to Nepal totaled US\$466.6 million, as reported by an Australian government source.²¹ The Australian Chapter of the Non-Resident Nepali Association (NRNA) is acknowledged by the Government of Nepal for its efforts to promote Nepali culture and to enhance trade and investment relationships between Australia and Nepal. The Federation of Nepalese Community Associations of Australia (FeNCAA) is the second largest Nepali diaspora organization in Australia.

The relationship between Nepal and Australia is built on a rich history of development cooperation and strong people-to-people links. The ongoing contributions of the Nepali diaspora in Australia, along with robust trade and educational exchanges, underscore the depth of this partnership. As they prepare to commemorate 65 years of diplomatic relations, both countries have the opportunity to further strengthen their ties.

5. Nepal-Australia trade: Trends, status, potential and challenges

Goods

Trends, patterns and composition

In 2023, the total merchandise exports of Australia to Nepal stood at US\$89.54 million (Figure 15). From US\$27.58 million in 2007, exports gradually increased until 2009 and then declined and reached US\$10.95 million in 2011 (Figure 15). Exports then increased and peaked at US\$144.22 million in 2021 and sharply dropped in 2022, at US\$81.65 million, before rising again in 2023. Australia's imports from Nepal are small but have been gradually increasing over the years. The increased from US\$2.31 million in 2000 to US\$7.4

¹⁹ Information obtained from Department of Foreign Affairs and Trade, Australian government, country profile, Nepal <https://www.dfat.gov.au/geo/nepal/nepal-country-brief>, accessed on 06 October, 2024.

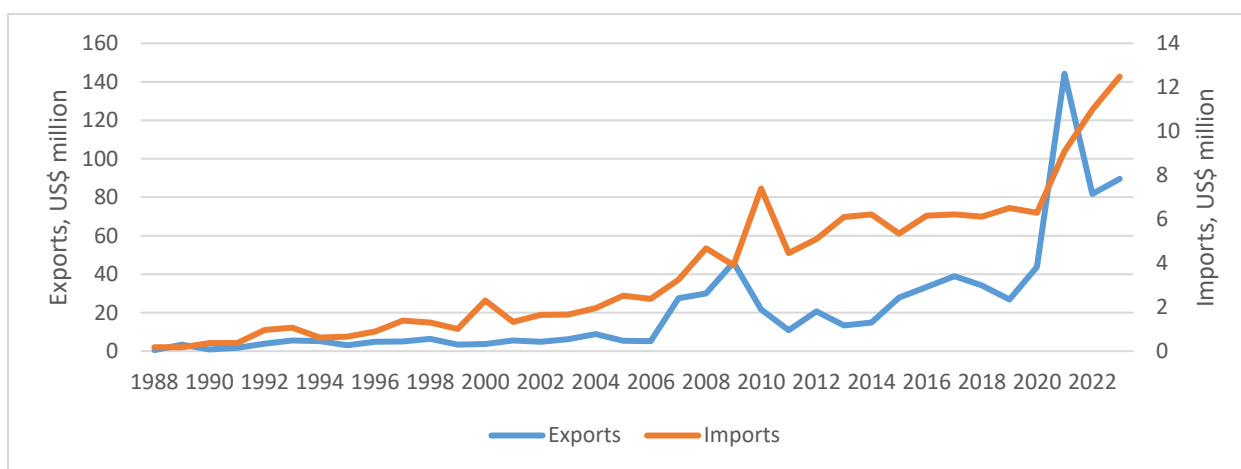
²⁰ Survey Report on Foreign Direct Investment in Nepal, 2022/23, Nepal Rastra Bank.

²¹ <https://www.dfat.gov.au/geo/nepal/nepal-country-brief>

million in 2010, US\$10.98 million in 2022 and US\$12.49 million in 2023 (Figure 15). While exports to Nepal recorded a compound annual growth rate of about 21 percent during 2013-2023, imports from Nepal grew by 7.4 percent per annum.

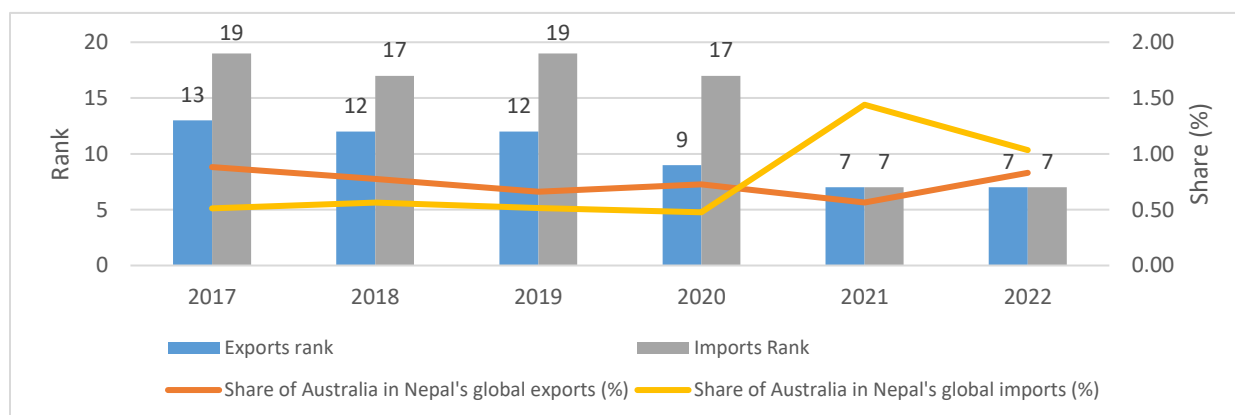
Nepal ranked 58th among Australia’s export markets and 103rd among Australia’s import markets in 2023, with a 0.02 percent share in Australia’s global exports and a 0.004 percent share in its imports. For merchandise trade, Australia is an important partner for Nepal. With two thirds of Nepal’s global trade concentrated in India, Australia could be a significant market for Nepal’s trade diversification. Australia ranked 7th in both Nepal’s global exports and imports in 2022, absorbing 0.83 percent of Nepal’s global exports and supplying 1.03 percent of its global imports (Figure 16). The rank of Australia in Nepal’s global merchandise trade has improved over time (Figure 16).

Figure 15: Australia’s merchandise trade with Nepal



Note: Based on trade data reported by Australia
Source: WITS, World Bank

Figure 16: Rank and share of Australia in Nepal’s total merchandise exports and imports



Note: Based on trade data reported by Australia
Source: WITS, World Bank

Australia's exports to Nepal

Australia's exports to Nepal, averaging US\$65.68 million during 2017-23, are concentrated in a few products in terms of value. Oil seeds, lentils and chickpeas accounted for more than 90 percent of exports to Nepal (Table 3).

Fruits and vegetables; oil seeds, fats and oils; chemicals; and metals and minerals are the most significant exports from Australia to Nepal in terms of product categories (Figure 17). The 'fruits and vegetables' category consists of 5 products at the HS 6-digit level, the 'oil seeds, fats and oil' category has 6 products, and the 'metals and minerals' category has 31 products²². The highest number of products at the HS 6-digit level is under the 'electrical machinery and electronic equipment' category, at 80, but with an export value of just US\$0.45 million. HS chapters 07 and HS 12 account for more than 90 percent of Australia's total exports to Nepal (Figure 18).

There is a considerable discrepancy in exports to Nepal reported by Australia and imports from Australia as reported by Nepal, which goes beyond the differences in transport and related costs, although both are drawn from the UN Comtrade database accessed through the World Integrated Trade Solution (WITS) web portal. The difference is especially stark in coal trade, with Nepal reporting a substantial value of coal imports from Australia (US\$25 million on average during 2017-22) and the latter reporting a much smaller value (less than US\$1 million on average during 2017-23).

Total merchandise imports from Australia reported by Nepal are higher than exports reported by Australia by about 63 percent²³. The trade data reported by Nepal shows 'low erucic acid rape or colza seed, coal, chickpeas', and lentils as the top products imported from Australia, accounting for more than 85 percent of all imports from Australia on average during 2017-22 (Table 4). In terms of HS chapters, Chapter 07 (Edible vegetables and certain roots and tubers) had a 32.83 percent share with a value of US\$32.98 million; Chapter 27 (Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes) had a 29.69 percent share with a value of US\$29.83 million; and Chapter 12 (Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder) had a 27.11 percent share with a value of US\$27.84 million. These three chapters accounted for almost 90 percent of all imports from Australia. Within chapter 27, coal (HS 270119) alone accounted for almost 90 percent of all imports into Nepal from Australia.

The importance of coal in imports from Australia is also corroborated by import data accessed directly from a Nepal government dataset. In 2022, coal made up 25.78 percent of imports from Australia and amounted to NPR4.59 billion (Figure 19). In 2021, the share was more than 36 percent and the value was NPR9.91 billion.

²² It is important to note that under the category of 'fruits and vegetables' all the exports lie in the vegetables sub-category when we further disaggregate the data.

²³ For the period 2017-22, when the trade data reported by Australia is considered, the total average exports (2017-22) by Australia to Nepal are US\$61.7 million and when Nepal-reported data is considered, Nepal's average imports from Australia are US\$100.47 million. However, there is no significant discrepancy between total imports by Australia from Nepal and total exports from Nepal to Australia.

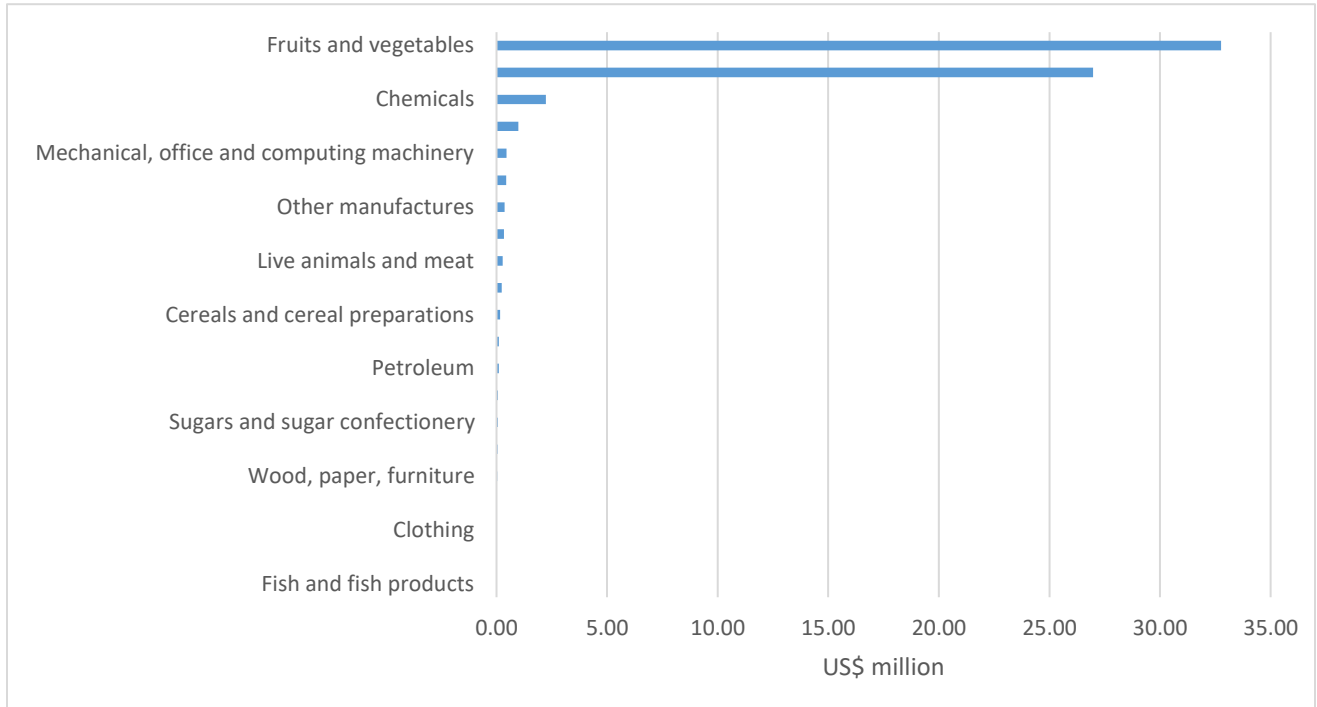
Table 3: Australia's top 10 exports to Nepal, as reported by Australia

HS	Product description	Avg. exports (2017-23), US\$ million	Number of times product was exported during 2017-23	Share (%)
120510	Low erucic acid rape or colza seeds "yielding a fixed oil which has an erucic acid content of < 2% and yielding a solid component of glucosinolates of < 30 micromoles/g	24.18	7	36.82
071340	Dried, shelled lentils, whether or not skinned or split	16.47	7	25.07
071320	Dried, shelled chickpeas "garbanzos", whether or not skinned or split	16.14	7	24.57
120590	High erucic rape or colza seeds "yielding a fixed oil which has an erucic acid content of >= 2% and yielding a solid component of glucosinolates of >= 30 micromoles/g", whether or not broken	2.55	6	3.89
320611	Pigments and preparations based on titanium dioxide of a kind used for colouring any material or produce colorant preparations, containing >= 80% by weight of titanium dioxide calculated on the dry matter	1.72	7	2.62
270112	Bituminous coal, whether or not pulverised, non-agglomerated	0.78	2	1.19
840710	Spark-ignition reciprocating or rotary internal combustion piston engine, for aircraft	0.29	4	0.44
880330	Propellers and rotors and parts thereof, for aircraft, n.e.s.	0.28	7	0.42
150210	Tallow of bovine animals, sheep or goats (excl. oil and oleostearin)	0.15	4	0.24
220421	Wine of fresh grapes, incl. fortified wines, and grape must whose fermentation has been arrested...	0.14	6	0.21
	Others	2.96		4.51
	Total	65.68		100.00

Note: The trade figures are reported by Australia

Source: WITS, World Bank

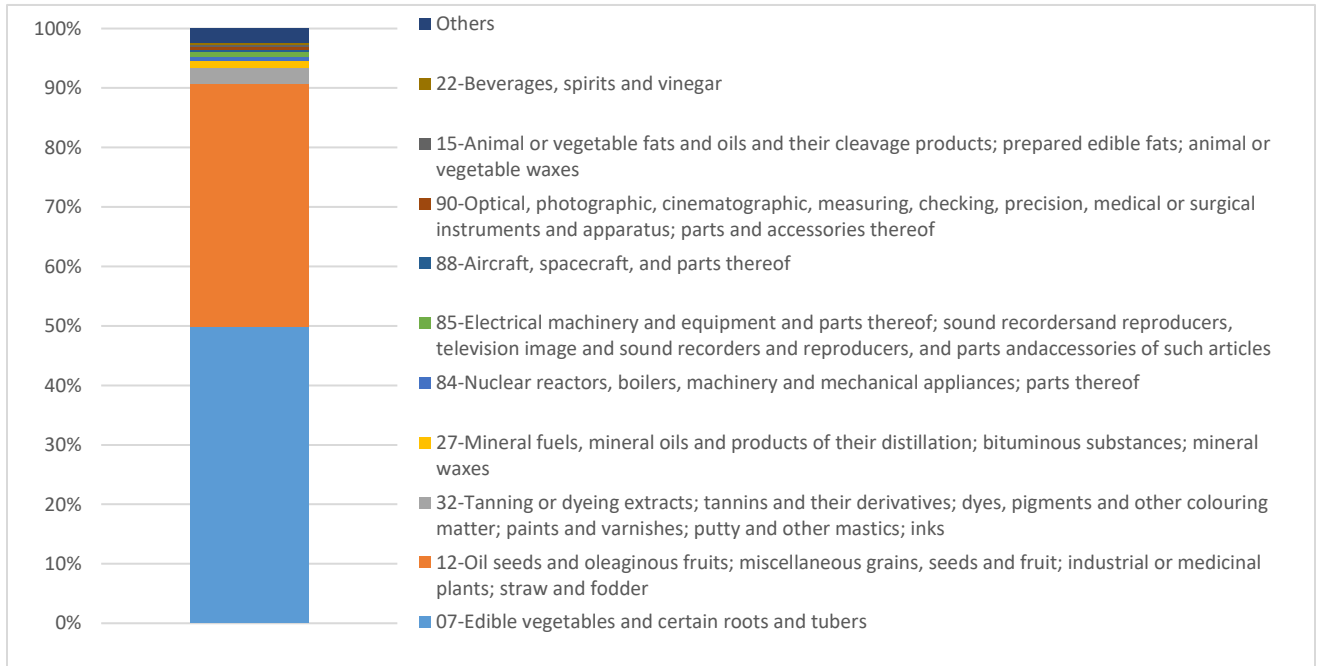
Figure 17: Australia's exports to Nepal by categories, average of 2017-23



Note: The figure is based on WTO's MTN category of HS 2017 classification and reported by Australia

Source: WITS, World Bank

Figure 18: Composition of Australia's exports to Nepal by HS chapters, average of 2017-23



Note: Trade data reported by Australia

Source: WITS, World Bank

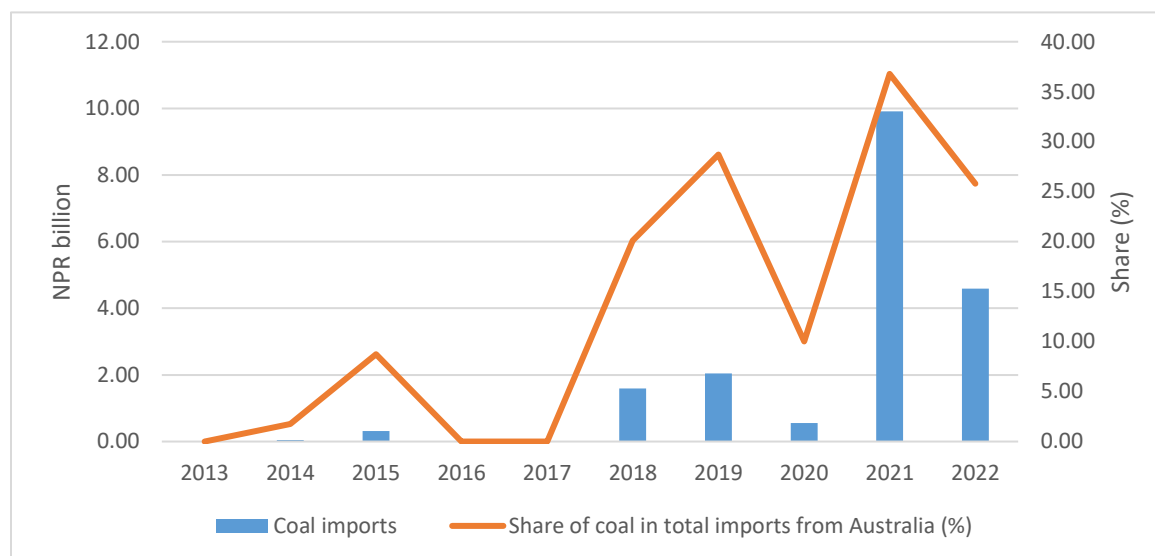
Table 4: Nepal's top 10 imports from Australia, as reported by Nepal

HS	Product description	Avg. imports 2017-22 US\$ million	Number of times product was exported during 2017-22	Share (%)
120510	Low erucic acid rape or colza seeds "yielding a fixed oil which has an erucic acid content of < 2% and yielding a solid component of glucosinolates of < 30 micromoles/g	27.04	6	26.91
270119	Coal, whether or not pulverised, non-agglomerated (excl. anthracite and bituminous coal)	26.31	5	26.19
071320	Dried, shelled chickpeas "garbanzos", whether or not skinned or split	17.74	6	17.66
071340	Dried, shelled lentils, whether or not skinned or split	14.17	6	14.11
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel, n.e.s.	3.52	6	3.50
320611	Pigments and preparations based on titanium dioxide of a kind used for colouring any material...	2.58	6	2.57
220410	Sparkling wine of fresh grapes	0.69	6	0.69
071310	Dried, shelled peas "Pisum sativum", whether or not skinned or split	0.53	3	0.53
852691	Radio navigational aid apparatus	0.44	3	0.44
790111	Unwrought zinc, not alloyed, containing by weight >= 99,99% of zinc	0.39	6	0.39
	Others	7.05		7.02
Total		100.47		100.00

Note: Trade data reported by Nepal

Source: WITS, World Bank

Figure 19: Coal imports by Nepal from Australia



Note: NPR- Nepali rupee. On August 15, 2024, 1A\$ = NPR 88.8. HS code of coal: 27011900. Trade data reported by Nepal

Source: Trade and Export Promotion Centre (TEPC), Government of Nepal

Australia's imports from Nepal

Australia imported US\$8.24 million worth of merchandise from Nepal annually on average during 2017-23 (Table 5). Australia's imports from Nepal are more diverse than exports to Nepal, with the top 10 products accounting for just over 50 percent of the total imports from Nepal (Table 5). Carpets are the top imported item with a 17.25 percent share and an import value of US\$1.42 million. In terms of broad product categories, the top five imports from Nepal include textiles; cereals and cereals preparations; clothing; minerals and metals; and other manufactures (Figure 20). They together account for more than 80 percent of total imports from Nepal. A total of 72 products at the HS 6-digit level are imported under the 'textile' category, valued at US\$2.73 million (Figure 20). The highest number of products are imported under the 'clothing' category, at 120, with imports of US\$1.34 million. This diversification is a reason why 49.16 percent of imports comprise products that do not feature on the top 10. In terms of chapters, HS 57 accounts for 25 percent of imports from Nepal, followed by HS 19 with a 14.33 share and HS 62 with a 11 percent share (Figure 21).

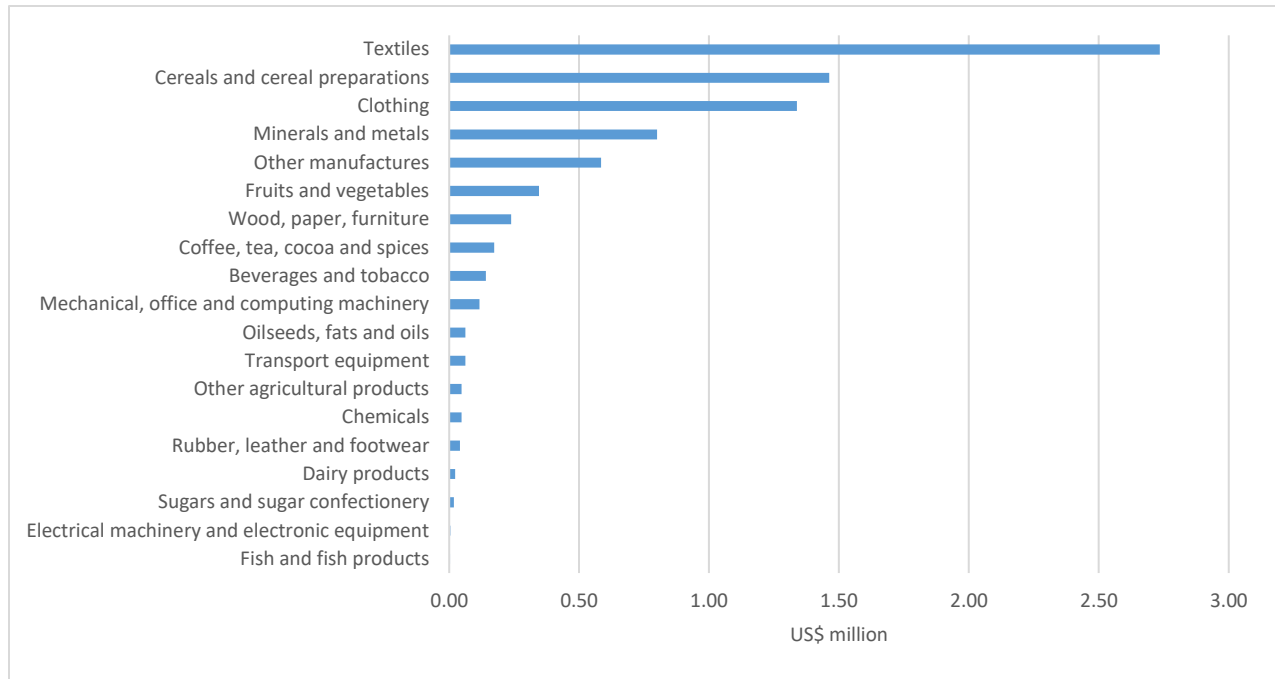
Table 5: Australia's top 10 imports from Nepal

HS	Product description	Avg. imports 2017-23, US\$ million	Number of times product was imported during 2017-23	Share (%)
570110	Carpets and other textile floor coverings, of wool or fine animal hair, knotted, whether or not made up	1.42	7	17.25
190230	Pasta, cooked or otherwise prepared (excl. stuffed)	0.66	7	7.96
711319	Articles of jewellery and parts thereof, of precious metal other than silver, whether or not plated or clad	0.39	7	4.74
570190	Carpets and other textile floor coverings, of wool or fine animal hair, knotted, whether or not made up (excl. those of wool or fine animal hair)	0.37	7	4.49
950300	Tricycles, scooters, pedal cars and similar wheeled toys; dolls' carriages; dolls; other toys;...	0.34	7	4.14
190219	Uncooked pasta, not stuffed or otherwise prepared, not containing eggs	0.30	7	3.70
630790	Made-up articles of textile materials, incl. dress patterns, n.e.s...	0.22	7	2.73
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excl. knitted...	0.22	7	2.65
200190	Vegetables, fruit, nuts and other edible parts of plants, prepared or preserved by vinegar or acetic acid (excl. cucumbers and gherkins)	0.13	7	1.63
210390	Preparations for sauces and prepared sauces; mixed condiments and seasonings (excl. soya sauce, tomato ketchup and other tomato sauces, mustard, mustard flour and meal)	0.13	7	1.56
	Others	4.05		49.16
	Total	8.24		100.00

Note: The trade figures are reported by Australia

Source: WITS, World Bank

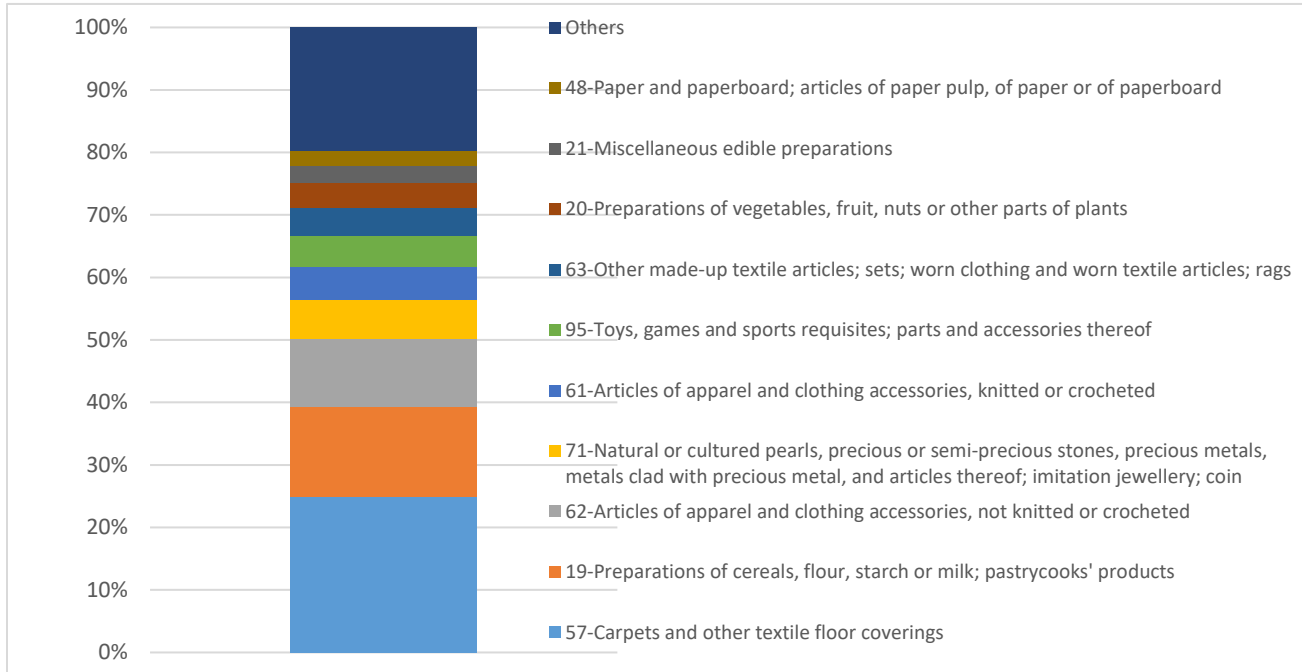
Figure 20: Australia's imports from Nepal by product categories, average of 2017-23



Note: Based on WTO's MTN category of HS 2017 classification

Source: WITS, World Bank

Figure 21: Composition of Australia's imports from Nepal by HS chapters, average of 2017



Note: Trade data reported by Australia

Source: WITS, World Bank

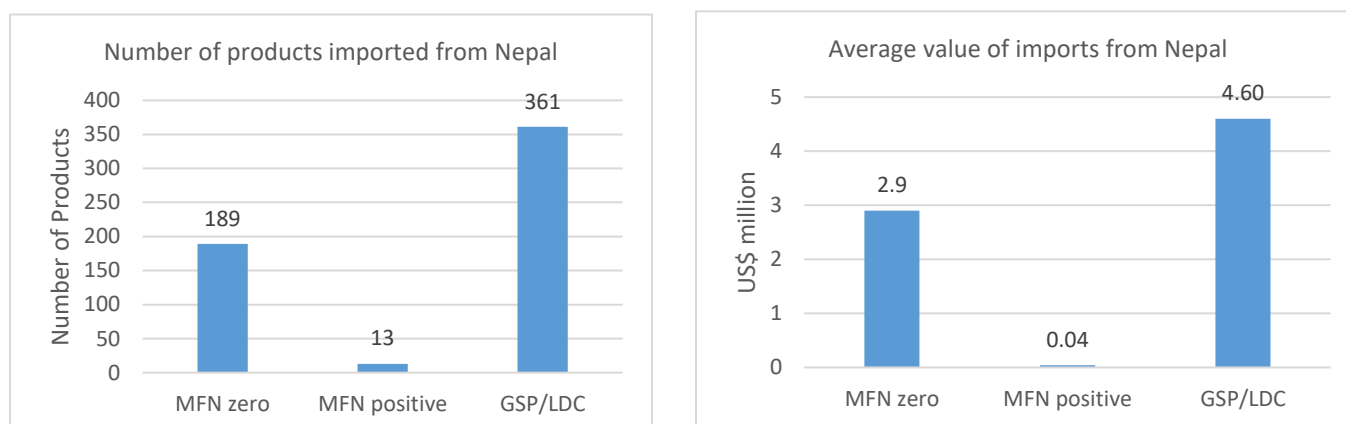
Tariff assessment

Tariffs in Australia

Of the 565 products at the HS 8-digit level (a level of product classification more detailed than the 6-digit level) imported by Australia from Nepal during 2017-23, 361 products²⁴ are on the list of trade preferences for LDCs and hence get zero-duty access. Their combined imports into Australia from Nepal averaged US\$4.6 million per annum (Figure 22)²⁵, or 61 percent of total merchandise imports from Nepal. These 361 products are also eligible to get zero-duty benefits under the GSP scheme, which is applicable to many developing countries. This implies that zero-duty access on the 361 products will be preserved even after Nepal's graduation from LDC status. The average preference margin for these 361 products is 5 percentage points (Figure 23).

An additional 189 products face zero most-favoured nation (MFN) tariffs—that is, tariffs which are not tied to preferential market access schemes—and represent Nepali exports to Australia worth US\$2.9 million per annum on average during 2017-23 (Figure 23). None of these were on the LDC/GSP list. Only 13 products, with combined exports of US\$0.04 million, faced positive tariffs.

Figure 22: Tariffs faced by Nepali products in Australia



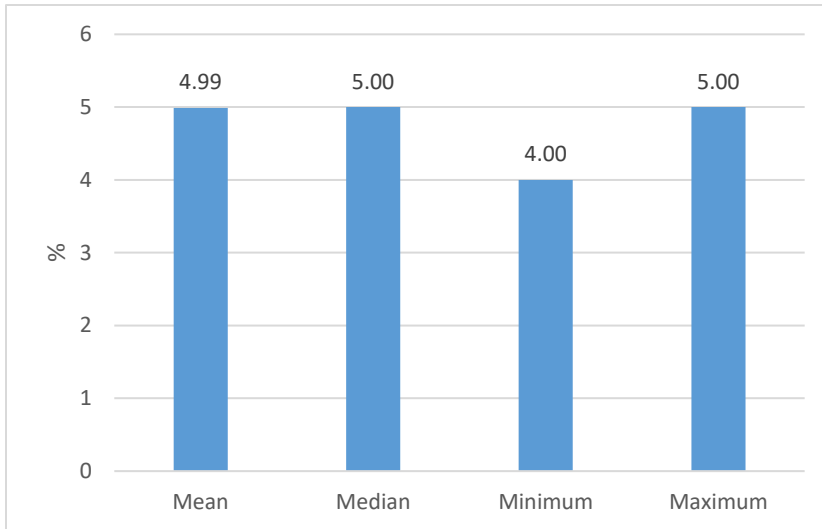
Note: Trade data are for the period 2017-23. Two products have missing tariff data (out of a total of 565 products imported into Australia from Nepal). The products attracting zero MFN tariffs are not on the list of GSP/LDC preferences. Trade data are based on HS 8-digit level classification of Australia. Tariff data are for the year 2022, with some missing tariffs replaced with values for 2021.

Source: Trade data from Trade Map, ITC and tariff data from Market Access Map, ITC

²⁴ Out of 565 products imported by Australia from Nepal, 2 products do not have tariff information. Hence, this analysis covers 563 products. However, the import value of these two products is negligible, a combined total of US\$0.001 million.

²⁵ Australia's imports from Nepal averaged US\$7.5 million per annum during 2017-23.

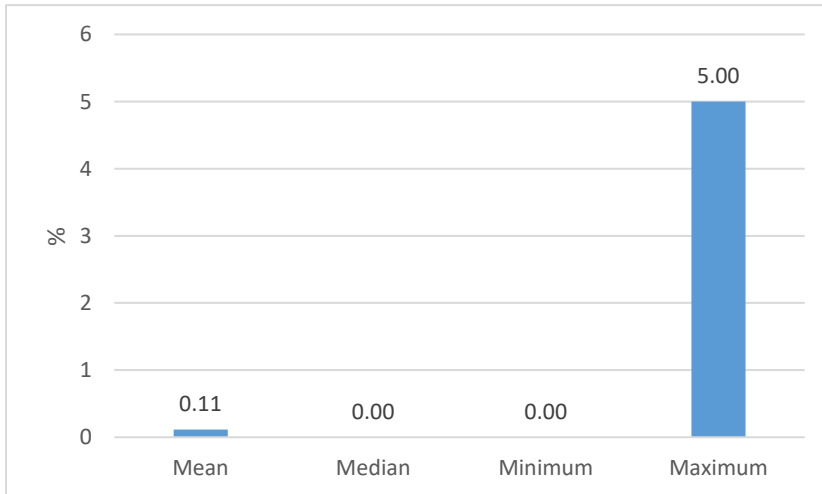
Figure 23: Preference margins for Nepal’s exports to Australia under LDC/GSP scheme



Source: Trade data from Trade map, ITC and tariff data from Market Access Map, ITC

Thanks to the zero duties offered to a huge number of products the LDC/GSP scheme, coupled with zero MFN tariffs on a considerable number of products outside of the LDC/GSP scheme, Nepali products exported to Australia face very low tariffs in general. The mean tariff is 0.11 percent, with the median tariff at zero and the maximum tariff at 5 percent (Figure 24).

Figure 24: Summary of tariffs applied by Australia on Nepali products (based on imports during 2017-23)



Note: Tariff data are derived from Market Access Map, ITC at the HS 8-digit level for the year 2022. Some missing tariff data for 2022 are replaced with values for 2021. The above analysis does not include the products (only 2) that have no tariff information in 2022 and 2021 datasets. It is based on 563 products imported by Australia from Nepal during 2017-23.

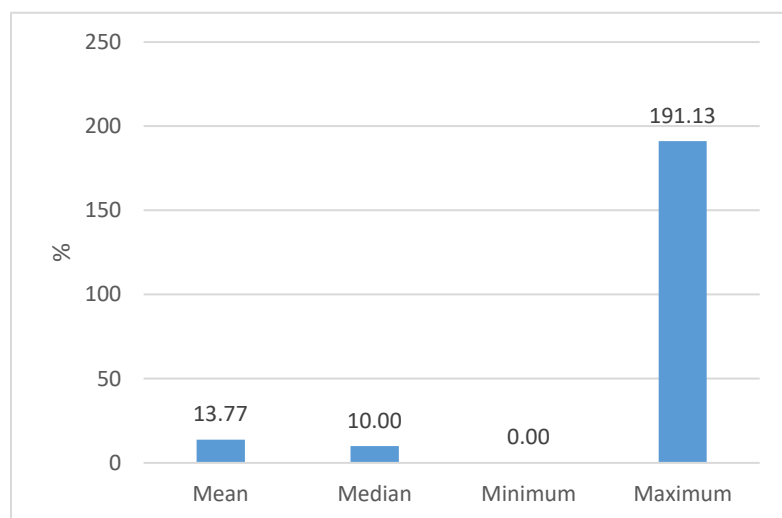
Source: Trade data from Trade Map, ITC and tariff data from Market Access Map, ITC

Of the 13 products that attract positive tariffs, one faces a 4 percent duty and the rest face a 5 percent duty.

Tariffs in Nepal

The mean and median MFN tariffs applied on imports from Australia by Nepal are 13.8 percent and 10 percent, respectively. Tariffs range from a minimum of 0 percent to a maximum of 191.13 percent (Figure 25) The maximum tariff of 191.13 percent is levied on HS 22083093 (“Whiskies of an alcoholic strength 30UP (39.94%)”). Some 37 products enter Nepal duty-free with an import value of US\$0.46 million (Figure 26). A 5 percent tariff is levied on 74 products with an import value of US\$47.03 million (Figure 26). Some US\$82.2 million worth of imports, represented by 66 products, are subject to a 10 percent tariff (Figure 26).

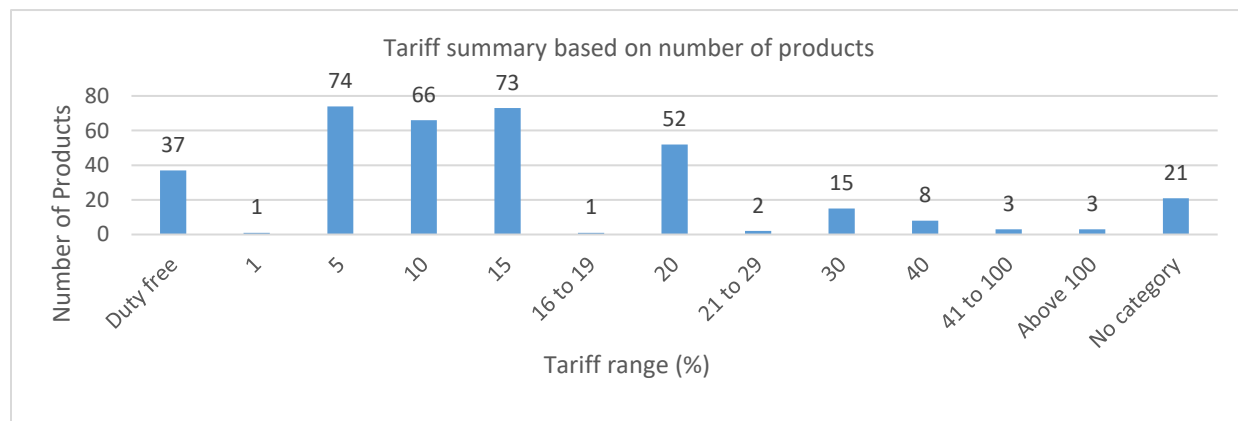
Figure 25: Summary of MFN tariffs levied by Nepal on Australian products, based on imports during 2020-22

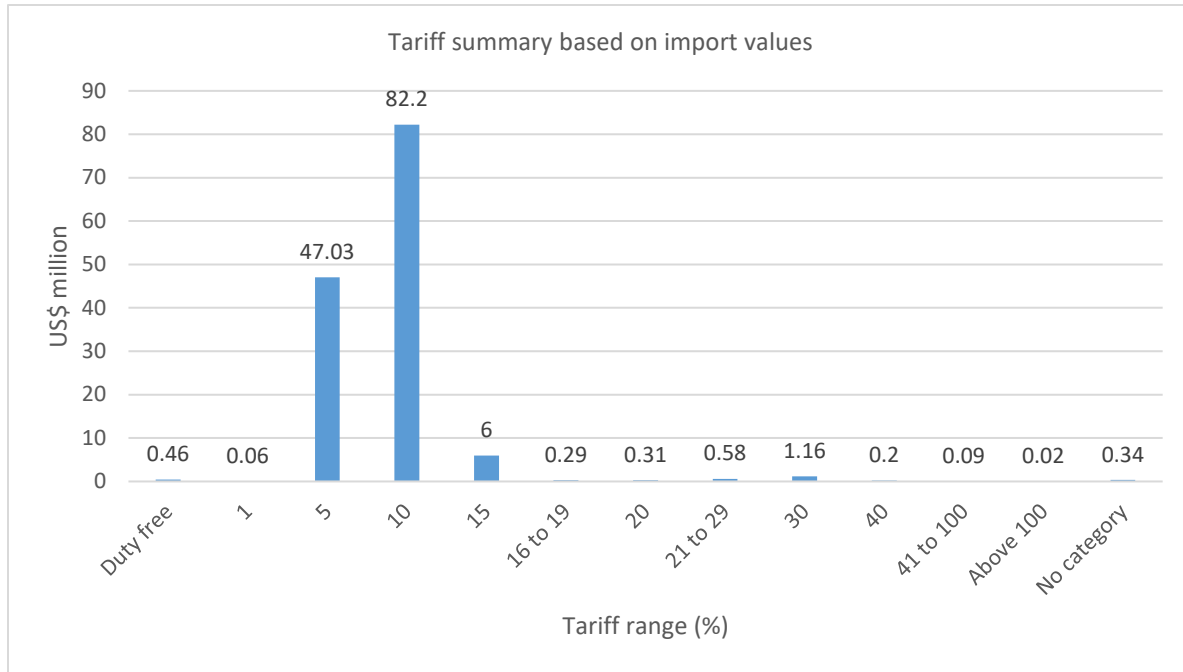


Note: Tariff data are derived from Market Access Map, ITC at the HS 8-digit level for the year 2022. Some missing tariffs for 2022 are replaced with tariffs for 2021. This analysis does not include products (21) that have no tariff information in either the 2022 or 2021 database. It is based on 335 products imported from Australia by Nepal during 2020-22 (The total number of products imported is 356, valued at US\$138.7 million, out of which tariffs are missing for 21 products with imports of US\$0.34 million).

Source: Trade data from Trade Map, ITC and tariff data from Market Access Map, ITC

Figure 26: Summary of MFN tariffs in Nepal, based on number of products and avg. imports (2020-22)





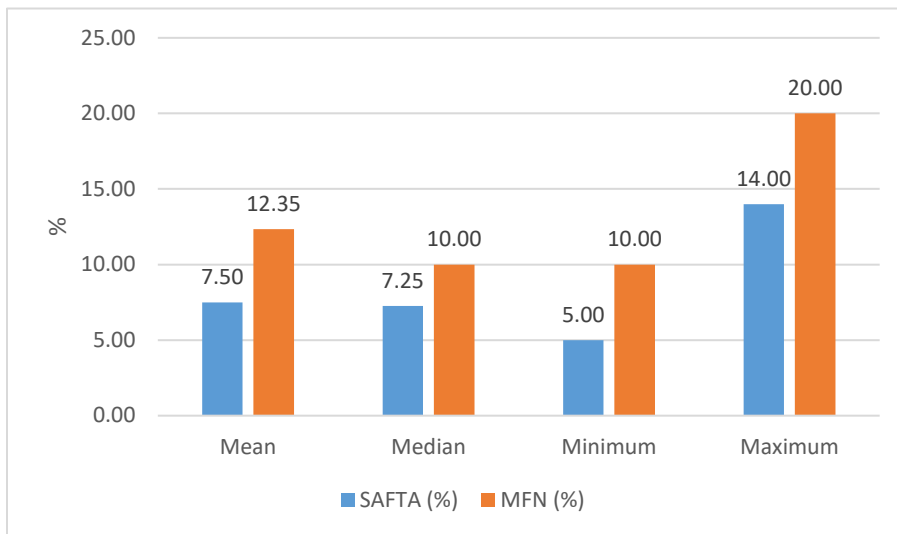
Note: Trade data are based on Nepal’s HS 8-digit level classification. Tariff data are for the year 2022; some missing tariffs are replaced with 2021 tariffs.

Source: Trade data from Trade Map, ITC and tariff data from Market Access Map, ITC

South Asian Free Trade Area (SAFTA) Agreement tariff rates

Nepal is a member of the Agreement on South Asian Free Trade Area (SAFTA), which counts as other members Afghanistan, Bangladesh, Bhutan, India, the Maldives, Pakistan and Sri Lanka, all of which are member states of the South Asian Association for Regional Cooperation (SAARC). Although overall tariff liberalization has been slow under SAFTA, with most members, including Nepal, maintaining long sensitive lists covering products with high import value, some tariff liberalization has taken place. Nepal’s SAFTA tariff rates on products it imports from Australia have a mean of 7.5 percent, a median of 7.25 percent, a minimum of 5 percent and a maximum of 14 percent. MFN tariff rates on the same products—that is, rates applicable to Australia—are higher, with mean, median, minimum and maximum of 12.35 percent, 10 percent, 10 percent and 20 percent, respectively (Figure 27).

Figure 27: Summary of SAFTA tariffs compared with MFN tariffs levied by Nepal on imports from Australia (based on import data for 2020-2022)



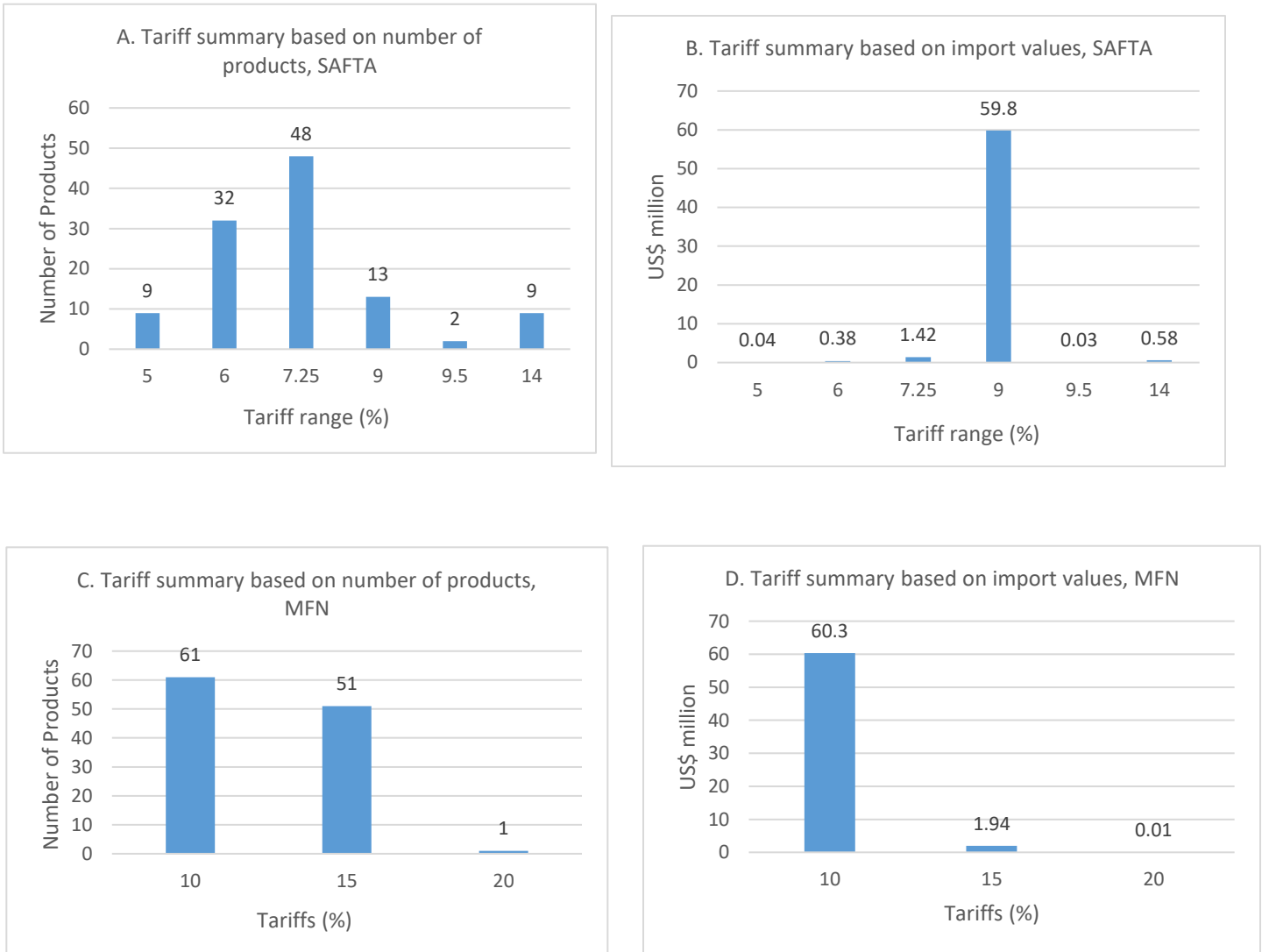
Note: Tariff data are from Market Access Map, ITC at the HS 8-digit level for the year 2022. Out of the 356 products imported by Nepal from Australia in the period 2020-2022, 114 products get SAFTA preferential tariffs if imported from SAFTA members. These products from Australia carry an import value of US\$62.25 million out of total imports of US\$138.72 million from the same country (that is, a share of 44.8 percent). As one product (HS 63090000) gets SAFTA preferential tariffs, but does not have exact tariff information. Hence, the analysis covers 113 products. Further, none of the products imported by Nepal from Australia enjoy SAFTA-LDC preferential tariffs when imported from SAFTA least developed countries.

Source: Trade data from Trade Map, ITC and tariff data from Market Access Map, ITC

Under SAFTA preferences, the largest number of products—48 out of 113—are subject to a 7.25 percent tariff, with their imports into Nepal from Australia valued at US\$1.42 million (or about 2.2 percent of imports from Australia of products covered by SAFTA preferences). Further, 13 products face a 9 percent tariff under SAFTA, with imports from Australia valued at US\$59.8 million, or almost all imports from Australia of products covered by SAFTA preferences (Figure 28). In contrast, 61 of the 113 products face a 10 percent MFN tariff, with an import value of US\$60.3 million, while 51 products face an MFN tariff of 15 percent, with an import value of US\$1.94 billion (Figure 28). It should be noted that the low imports from Australia corresponding to the MFN tariff of 15 percent could be due to the high tariff itself, and hence this should not be interpreted as high tariffs not having any impact on imports. The simple average preference disadvantage (difference between MFN tariff and SAFTA tariff) for Australia on products imported by Nepal from Australia is 1.64 percentage points, while the weighted average preference disadvantage is 0.53 percentage point.

Overall, based on the above analysis, the preference disadvantage for Australia vis-à-vis SAFTA members is small.

Figure 28: Summary of SAFTA and MFN tariff ranges in Nepal, based on number of products and average imports from Australia (2020-2022)



Note: Tariff data are for the year 2022. For MFN tariffs, some tariff data are taken from 2021 when tariff data for 2022 are missing.

Source: Trade data from Trade Map, ITC and tariff data from Market Access Map, ITC

LDC graduation

Nepal is set to graduate from the LDC category in 2026. The already weak export sector is further expected to suffer as graduation will lead to a loss of preferential market access in many destinations. Studies using partial equilibrium models project a decline in merchandise exports between 2.5 percent and 4 percent. LDC graduation is projected to have substantial impacts on exports to the European Union (EU), the United Kingdom (UK), Turkey and China.

Nepal currently enjoys duty-free access for most of its products in the Australian market thanks to the latter’s duty-free scheme for LDCs. Carpet, a major item in exports from Nepal to Australia, will continue to face zero tariffs in Australia after graduation because it faces zero tariffs under the GSP scheme and also faces zero MFN tariffs (Table 7). The top 10 products—in fact, most products—that Australia currently imports from Nepal will not face any tariff increment after graduating from the LDC category (Table 7). This is because the next-best trade preferences scheme for Nepal in Australia (the GSP scheme) offers a significant duty-free coverage while many products exported from Nepal to Australia not on the LDC or GSP scheme attract zero MFN tariffs (Pandey et. al. 2022 and Table 7 and Figure 22). NPC and UNDP (2020)’s projection of an export loss in the Australian market of 8.1 percent following LDC graduation may, therefore, be an overestimate, as it assumes MFN tariffs—not all of which are zero—as the next best tariffs.

Nepal underutilizes the available trade preferences in Australia. In 2023, the share of exports from Nepal to Australia eligible for LDC-specific preferences was 67.23 percent, and the rate of utilization of the preferences was 76.3 percent (Figure 29). Nepal’s utilization of LDC-specific preferences in Australia averaged 71.32 percent during 2019-23.

Duty-free access to Australia under the LDC-specific scheme is subject to rules of origin (Table 6). Nepal will face slightly different rules of origin under the GSP scheme for developing countries (Table 6), which will be the only unilateral trade preferences available for Nepal in Australia after graduating from the LDC category.

Table 6: Preferential rules of origin in Australia for GSP-LDC scheme and GSP scheme

Description	GSP-LDC	GSP
General rule	Regional Value Content (RVC) 25% (provided another RVC 25% comes from the qualifying area)	RVC 50%
Product-specific rules	None	None
Cumulation	Bilateral, LDCs, Qualifying area (Developing Countries, Forum Island countries and Australia)	Bilateral, Qualifying area (Developing Countries, Forum Island Countries, Papua New Guinea and Australia)

Source: Derived from Pandey et al. (2022)

Table 7: Top 10 products imported by Australia from Nepal and alternative tariff regimes

HS	Product description	Avg. imports 2017-23, US\$ million	Share in imports from Nepal (%)	MFN tariffs (%)	GSP tariffs (%)	Current/LDC tariffs (%)
570110	Carpets and other textile floor coverings	1.42	17.25	0.00	0.00	0.00
190230	Food preparations; pasta (excluding	0.66	7.96	5.00	0.00	0.00
711319	Jewellery; of precious metal (excluding...	0.39	4.74	5.00	0.00	0.00
570190	Carpets and other textile floor coverings	0.37	4.49	0.00	0.00	0.00
950300	Tricycles, scooters, pedal cars and	0.34	4.14	3.50	0.00	0.00
190219	Food preparations; pasta, uncooked	0.30	3.70	5.00	0.00	0.00
630790	Textiles; made up articles (including...	0.22	2.73	5.00	0.00	0.00
620462	Trousers, bib and brace overalls, b	0.22	2.65	5.00	0.00	0.00
200190	Vegetable preparations; vegetables...	0.13	1.63	5.00	0.00	0.00
210390	Sauces and preparations therefor; m...	0.13	1.56	0.00	0.00	0.00

Note: Trade data based on the HS 2017 classification are considered for the assessment. Tariff data for the year 2021 have been taken. Ad valorem equivalents are used in the case of non-ad valorem tariff. Tariff value represents simple average of tariffs applied at tariff lines within an HS 6-digit product.

Source: Trade data from WITS (reported by Australia), World Bank, and tariff data from Market Access Map, International Trade Centre (ITC)

Figure 29: Nepal's utilization of LDC trade preferences in Australia



Source: WTO Preferential Trade Arrangements (PTA) database, accessed on 12 August, 2024

Non-tariff measures (NTMs)

UNCTAD and WTO (2019) define non-tariff measures (NTMs) as “all policy interventions other than tariffs that can potentially affect the quantities and the prices of internationally traded goods.” NTMs encompass a range of measures such as Sanitary and Phytosanitary (SPS) regulations, Technical Barriers to Trade (TBT), price control mechanisms, subsidies, quotas, and others, each of which affects trade in different ways. NTMs, while serving important roles in public health, consumer and environmental protection, are also used as substitutes for trade policies, effectively getting around restrictions on tariffs imposed by multilateral trade agreements (UNCTAD 2010).

Nepal

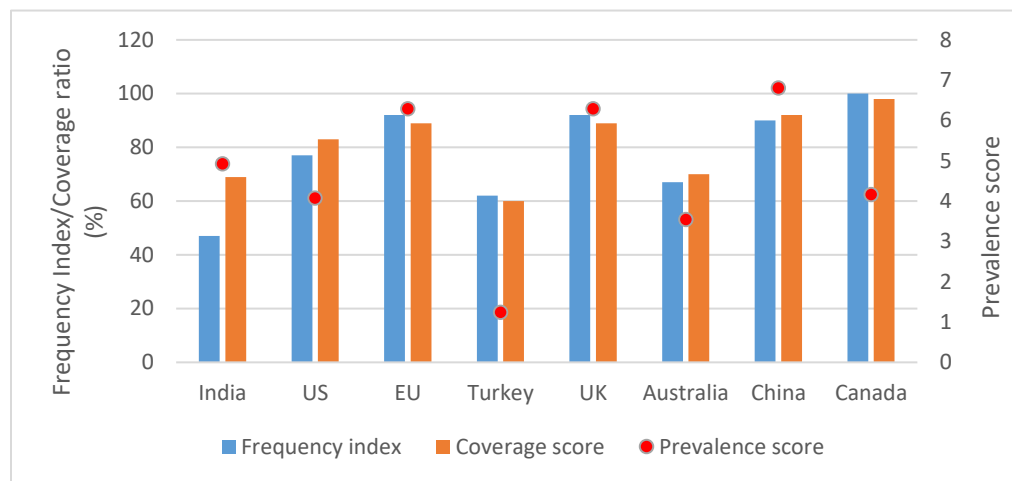
Nepal's NTM frequency index is 22 percent, with a coverage ratio of 44 percent, and a prevalence score of 0.37²⁶. Figure 30 shows that Nepal's export partners like the European Union, the United Kingdom, China and Canada have relatively high NTM coverage, frequency and prevalence. Compared to other South Asian countries and Southeast Asian LDCs like Cambodia and Lao PDR, Nepal's NTM metrics are relatively higher than those of Afghanistan and Pakistan but lower than other countries' (Figure 31). The NTM metrics of Australia are relatively low when compared to other export destinations of Nepal. Having said this, the higher values on NTM metrics do not necessarily mean higher levels of stringency.

ITC (2017), based on a survey of exporters of Nepal, identifies NTMs as a significant barrier to Nepal's exports. More than 51 percent of exporters reported having encountered problematic NTMs. These NTMs are more prevalent in agricultural exports than in manufacturing exports. More than 77 percent of companies in the agricultural sector reported difficult NTMs compared to 42 percent of exporters in the manufacturing sector. Nepal government's Nepal Trade Integration Strategy (NTIS) 2023 (Government of

²⁶ The frequency index measures “the percentage of products to which NTMs apply”; the coverage ratio measures “the percentage of trade subject to NTMs”; and the prevalence score (PS) measures “the average number of NTMs applied to products” (De Melo and Nicita 2018).

Nepal 2023) also points out that NTMs related to SPS and TBT are significantly impacting Nepal’s exports. Conformity assessment, including testing, product certification, quarantine and inspection, are more likely to be reported as burdensome NTMs by Nepali exporters (Table 8). Procedural obstacles are deemed more burdensome than the technical regulations per se (ITC 2017). The most significant NTM barriers are in India, the US, Japan and Germany, followed by other countries (Figure 30). The share of NTMs faced by Nepali exporters on account of Australian policies is relatively low, at 5 percent (Figure 32).

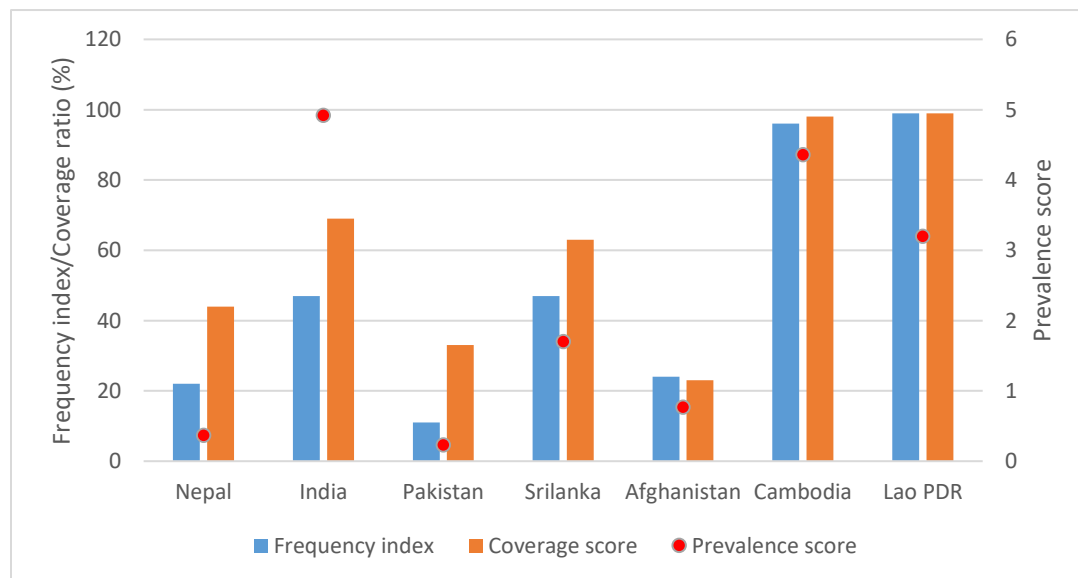
Figure 30: NTM metrics of Nepal’s key export partners including Australia



Note: For the European Union (EU), the indexes/score of Germany are taken into consideration

Source: UNCTAD TRAINS <https://trainsonline.unctad.org/home>, accessed on August 24, 2024

Figure 31: NTM metrics of Nepal, South Asian countries and relevant LDCs



Note: The data for Bangladesh, Bhutan and Maldives are not available

Source: UNCTAD TRAINS <https://trainsonline.unctad.org/home>, accessed on 17 September 2024

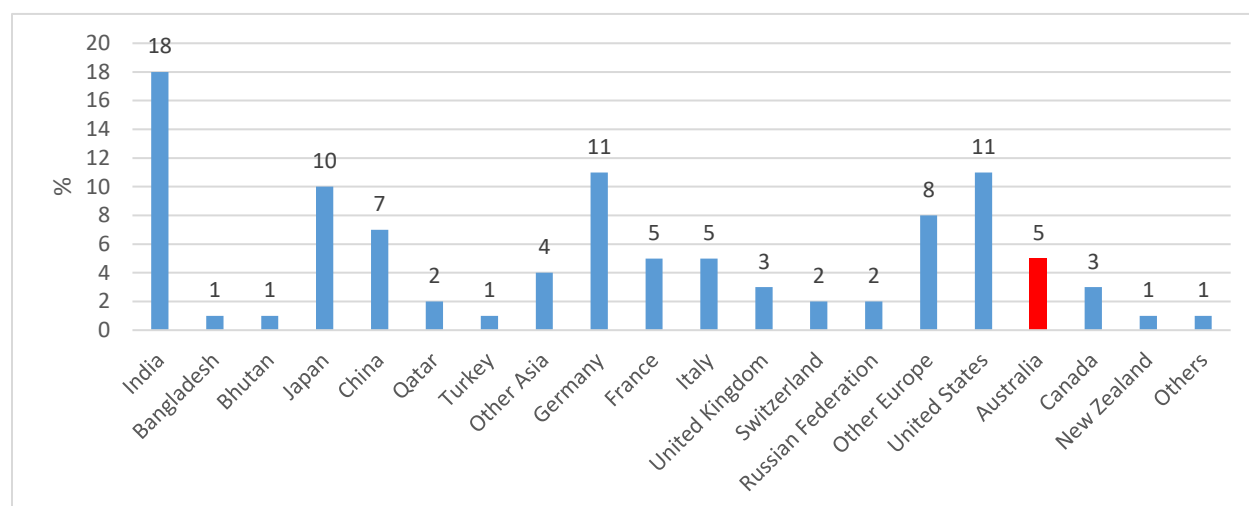
Table 8: Different types of NTMs reported by Nepali exporters as burdensome

NTM type	NTM measure	Share of NTMs (%)
Technical requirements	Tolerance limits for residues of or contamination by certain substances	7
	Fumigation	4
	Prohibitions or restrictions of products or substances	2
	Other (labelling, product characteristics, etc.)	1
Conformity assessment	Testing	22
	Product certification	22
	Quarantine	4
	Inspection requirement	2
	Others	1
Pre-shipment inspection and border clearance	Pre-shipment inspection and border clearance	3
Trade remedies	Trade remedies	1
Quantity control measures	Quantity control measures	2
Charges, taxes and price control measures	Charges, taxes and price control measures	1
Anti-competitive measures	Anti-competitive measures	1
Rules/Certificate of origin	Rules of origin and related certificate of origin	4
Export related measures	Export inspection	9
	Certification required by the exporting country	3
	Other	9

Source: ITC (2017)

While Nepal's exports are impacted by NTMs imposed by destination countries, Nepal itself imposes some NTMs on exports. If 77 percent of the reported NTMs resulted from regulations applied by Nepal's export destination, 21 percent of the reported problematic NTMs are due to regulations in Nepal (ITC 2017). Export inspection, certification for exporting certain items of religious, historical, or cultural significance, hassles associated with advance payment requirement for exports, among others, constitute the major export-related NTMs applied by Nepal (Table 9) (ibid.).

Figure 32: Share of burdensome regulations applied by partner countries/regions



Source: ITC (2017)

Table 9: NTMs applied by Nepal

Export inspection	Certification Difficult and slow processing, informal payments, and arbitrary behaviour in the issuance of certificates by the Department of Archaeology to certify that products have historical, religious, or cultural significance
Mandatory advance payment Receipt of advance payment required before shipment of goods	Duties on re-importation Import duties applied on goods that are returned by foreign buyers

Source: ITC (2017)

In recent years, Nepal has resorted to significant quantitative restrictions on imports, citing depletion of foreign exchange reserves. These measures were not targeted at a particular country, though. From April 2022 to January 2023, Nepal government banned the imports of a variety of goods such as smart phones costing more than a certain threshold; automobiles, including motorcycles, of a certain engine capacity range; readymade alcohol (except as raw materials); cigarettes; tobacco; potato chips; television; toys; playing cards; and diamonds (except as raw materials) (Khadka 2023). Likewise, in a bid to arrest burgeoning imports, the central bank introduced in December 2021 a “cash margin” rule requiring importers to maintain at least 50 to 100 percent of cash equivalent to the value of imports in their bank accounts in order to obtain the Letter of Credit (LC) for the import of a wide set of goods (ibid.). The requirement, covering goods as varied as readymade garments and automobiles, was lifted a year later. Since 2019 Nepal government has banned the import of energy drinks and flavoured synthetic drinks,

citing health concerns²⁷, while allowing them to be manufactured in Nepal.²⁸ It also banned imports of beetle nuts, dates, pepper corns and dried peas beginning in 2020 and currently restricts their imports through quotas.²⁹ The re-export of these items imported from third countries to India through the open border with the southern neighbour, evading tariffs, also motivated the import restrictions.³⁰ Since February 2024 it has banned the import of dairy products in response to the swelling of inventories in the domestic dairy industry amid weak sales.³¹

Nepal's enforcement of intellectual property rights needs improvement. The Department of Industry has been awash with trademark, patent and design infringement complaints, and settling infringement-related cases can take years or even decades.³²

Nepal's logistics performance is poor, with the logistics performance index (LPI) consistently ranking Nepal below 100 (Table 10)³³.

²⁷ <https://kathmandupost.com/money/2019/06/24/government-bans-import-of-red-bull-and-flavoured-synthetic-drinks> ; <https://myrepublica.nagariknetwork.com/news/red-bull-s-manufacturer-files-case-against-nepal-in-wto-against-ban-on-import-of-energy-drinks/>

²⁸ <https://ekantipur.com/feature/2024/01/21/red-bull-production-in-nepal-to-replace-imports-55-29.html>

²⁹ <https://clickmandu.com/2024/11/352593.html> ; <https://bizmandu.com/content/20231011123022.html>

³⁰ <https://www.nayapatrikadaily.com/news-details/78734/2022-01-18>

³¹ <https://bizmandu.com/content/20240229061936.html> ; <https://bizmandu.com/content/20241022133554.html>

³² <https://kathmandupost.com/money/2024/04/27/nepal-awash-with-trademark-patent-infringement-plaints> ; <https://kathmandupost.com/money/2021/09/16/buy-mountain-dew-you-get-maintan-dew-trademark-infringement-is-on-the-rise>

³³ The logistics performance index (LPI) is the weighted average of country scores on six dimensions:

efficiency of the clearance process (i.e., speed, simplicity and predictability of formalities) by border control agencies, including customs; quality of trade- and transport-related infrastructure (e.g., ports, railroads, roads, information technology); ease of arranging competitively priced shipments; competence and quality of logistics services (e.g., transport operators, customs brokers); ability to track and trace consignments; and timeliness of shipments in reaching destinations within the scheduled or expected delivery time.

Table 10: Logistics Performance Index (LPI) of Nepal and comparator countries

Countries	2018		2016	
	Overall LPI score	Overall rank	Overall LPI score	Overall rank
India	3.18	44	3.42	35
Lao PDR	2.70	82	2.07	152
Maldives	2.67	86	2.51	104
Sri Lanka	2.60	94	NA	
Cambodia	2.58	98	2.8	73
Bangladesh	2.58	100	2.66	87
Nepal	2.51	114	2.38	124
Pakistan	2.42	122	2.92	68
Bhutan	2.17	149	2.32	135
Afghanistan	1.95	160	2.14	150

Note: The latest data released by the World Bank for the year 2023 does not include the data for Nepal. Hence, 2023 data is not included. The table is arranged on the basis of ascending rank of the countries considering 2018 data.

Source: World Bank

Australia

UNCTAD (2020) shows that there are 1,897 NTMs in place in Australia as of 2016, 54.6 percent of which are technical barriers to trade and 24.6 percent of which are export-related measures. Sanitary and phytosanitary measures account for 15.39 percent of the total NTMs imposed by Australia (Table 11). Further, the 1,897 NTMs stem from 504 NTM-related regulations identified in Australia. Of these, 75 percent are import measures and 25 percent are export measures (UNCTAD 2020).

Table 11: Types of non-tariff measures imposed by Australia

	Type of NTMs	Number of Coded NTMs	Percentage of Total NTMs (%)	Number of affected products (national tariff lines)	(%)
A	Sanitary and phytosanitary measures	292	15.39	6184	100
B	Technical barriers to trade	1035	54.56	6184	100
C	Pre-shipment inspection and other formalities	6	0.32	6184	100
D	Contingent trade-protective measures	0	0		
E	Non-automatic licensing, quotas, prohibitions and quantity control measures other than for sanitary and phytosanitary measures or technical barrier to trade reasons	18	0.95	185	2.99
F	Price control measures including additional taxes and charges	77	4.06	6184	100
G	Finance measures	0	0		
H	Measures affecting competition	0	0		
I	Trade-related investment measures	0	0		
J	Distribution restrictions	0	0		
K	Restrictions on post-sale services	0	0		
L	Subsidies (excluding export subsidies under P7)	0	0		
M	Government procurement restrictions	0	0		
N	Intellectual property	1	0.05	43	0.70
O	Rules of origin	0	0		
P	Export-related measures	468	24.67	6184	100
		1897	100	6184	100

Source: Replicated from UNCTAD (2020)

Potential and opportunities in merchandise trade between Nepal and Australia

Product-level trade potential between Nepal and Australia is assessed through several approaches. First, we consider products with revealed comparative advantage (RCA), subject to a couple of conditions on trade value.³⁴ Second, we take products with high export potential as identified by the export potential map of the International Trade Centre (ITC).³⁵ Third, we consider products with high export potential as identified by the Observatory of Economic Complexity (OEC) using a gravity model of international trade that adapts measures of bilateral relatedness developed in Jun et al. (2020).³⁶ Fourth, we take emerging products driven by Nepali diaspora demand.

Revealed comparative advantage (RCA)-based analysis of Nepali products

Based on the RCA-based analysis, around 184 products of Nepal at the HS 6-digit level are found to have export potential.³⁷ Nepal's global exports of these products averaged US\$879.29 million during 2017-22 while Nepal exported just US\$6.3 million worth of these products to Australia (Table 12). Australia imported US\$9.7 billion worth of these goods from the world (Table 12). Nepal's exports of these products

³⁴ RCA is defined as $RCA_i^k = (X_i^{k_w} / X_{iw}) / (X_w^{k_w} / X_{ww})$, where RCA_i^k is the revealed comparative advantage for product k exported by country i , $X_i^{k_w}$ is the value of exports of product k from country i to the world, X_{iw} is country i 's total exports, $X_w^{k_w}$ is the total global exports of product k , and X_{ww} is the total value of global exports. RCA condition for Nepal: RCA greater than 1; Nepal's average exports to world are greater than US\$100,000; Australia's average imports from world are greater than US\$1 million. RCA condition for Australia: RCA greater than 1; Australia's average exports to the world are greater than US\$1 million; Nepal's average imports from the world are greater than US\$100,000. Both trade and tariff data are at the HS 6-digit level.

³⁵ The export potential map identifies products, markets, and suppliers with (unrealized) export potential as well as opportunities for export diversification. Based on the ITC export potential methodology (Decreux, Y. and Spies, J (2016). Export Potential Assessments: A Methodology to Identify Export Opportunities for Developing Countries. (https://umbraco.exportpotential.intracen.org/media/cklh2pi5/epa-methodology_230627.pdf), the export potential map evaluates export performance, target market demand, market access conditions, and bilateral linkages between the exporting and importing countries to provide a ranking of unrealized opportunities. For the analysis here, export potential is derived from the top 50 products, based on the export potential map as on September 12, 2024. Further, the export potential shown here does not reflect post-graduation tariffs (applicable to Nepal which is going to graduate from the LDC status in 2026). When assessing the unrealized export potential, the platform by default identifies the top 50 products having export potential. However, the platform may display some products which have no remaining export potential. As a result, the number of products identified as having unrealized export potential may be less than 50.

³⁶ See <https://oec.world/en/blog/export-potential>. Jun et al. (2020) consider three measures of bilateral relatedness: (i) product relatedness, and asks whether a country already exports many similar products to a destination; (ii) importer relatedness, and asks whether the country exports the same product to the neighbors of the target destination; and (iii) exporter relatedness, and asks whether a country's neighbors are already exporting the same product to the destination.

³⁷ Removing exports of four products related to palm oil and soybean oil in the "Oilseeds, fats and oils" category, which rely on tariff arbitrage rather than genuine comparative advantage, will not qualitatively alter the analysis of this subsection.

to Australia account for just 0.1 percent of Australia’s total imports of these products, and make up 0.7 percent of Nepal’s total exports of these products to the whole world (Table 12).

Table 12: RCA assessment for Nepal

MTN description	Number of products with RCA>1 in each MTN category	Nepal's exports to world (average 2017-22, US\$ million)	Nepal's exports to Australia (average of 2017-22, US\$ million)	Australia's imports from world (average of 2017-22, US\$ million)
Beverages and tobacco	6	39.11	0.007	319.38
Cereals and cereal preparations	7	14.79	1.721	688.41
Chemicals	13	38.80	0.012	1096.37
Clothing	32	67.66	1.503	1713.66
Coffee, tea, cocoa and spices	10	75.57	0.054	129.90
Dairy products	1	0.49	0.000	39.34
Fruits and vegetables	3	7.82	0.001	29.44
Mechanical, office and computing machinery	2	1.30	0.000	126.90
Minerals and metals	31	51.84	0.241	1231.74
Oilseeds, fats and oils	5	300.58	0.000	170.23
Other agricultural products	12	51.89	0.028	1090.04
Other manufactures	11	12.94	0.194	381.97
Rubber, leather and footwear	5	8.46	0.017	286.32
Sugars and sugar confectionery	1	0.61	0.002	4.20
Textiles	25	198.39	2.498	509.04
Transport equipment	3	1.42	0.008	1091.27
Wood, paper, furniture	17	7.62	0.019	772.86
Total	184	879.29	6.304	9681.06

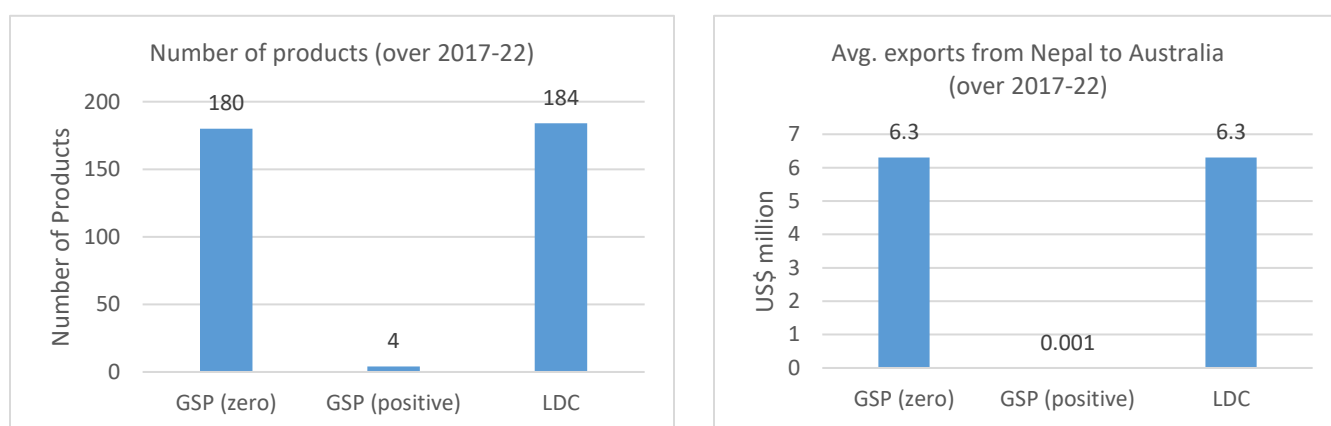
Note: WTO’s Multilateral Trade Negotiations (NTM) categories based on HS 2017 classification

Source: WITS, World Bank

All 184 of these products are eligible for duty-free access under the LDC scheme (Figure 33). All except four are also eligible for duty-free access under the GSP scheme available to many developing countries, implying that zero-duty access will be retained for most of them even after LDC graduation. Four products will attract a 5 percent tariff post LDC graduation, and their existing exports from Nepal to Australia are negligible.

The MFN tariffs for 68 of the 184 products are also zero. This means LDC graduation will have no impact on these 68 products, whose combined exports averaged US\$2.37 million per annum during 2017-22. At the same time, this means that these products currently do not enjoy any preference margin. For the remaining 116 products that have positive MFN tariffs, with combined exports averaging US\$3.94 million, most exports (by number of products as well as value) enjoy a preference margin of 5 percent (Figure 34).

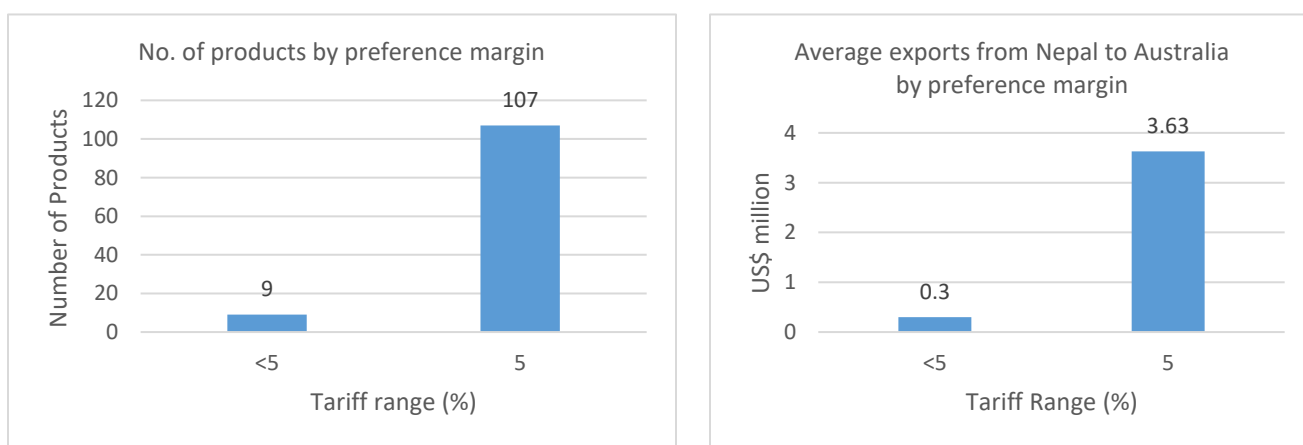
Figure 33: Tariffs faced by products identified through RCA assessment



Note: The 4 products that are on the GSP list but attract positive tariffs all face 5 percent tariffs, and the MFN duties on these products are also 5 percent.

Source: Trade data from WITS, World Bank and tariff data from Market Access Map, ITC

Figure 34: Preference margins for products identified through RCA assessment for which MFN tariffs are positive



Source: Trade data from WITS, World Bank and tariff data from Market Access Map, ITC

Revealed comparative advantage (RCA)-based analysis of Australian products

The RCA calculation for Australia identifies 142 products for Australia at the HS 6-digit level with existing exports of US\$178 billion, out of which Australia exports just US\$60 million to Nepal (Table 13). Nepal imports US\$1.1 billion worth of these goods from the whole world (Table 13).

Of the identified products, five, with a combined export value of US\$0.12 million, get duty-free access to Nepal (Figure 36). A total of 47 products attract a 10 percent tariff, and imports of these products into Nepal amount to US\$56.11 million, accounting for 94 percent of imports of the identified products from Australia into Nepal (Figure 36). The mean MFN tariff on the identified products is 11.22 percent and the median MFN tariff is 10 percent (Figure 35). The maximum tariff, at 80 percent, is levied on HS 930591 (“Of military weapons...”).

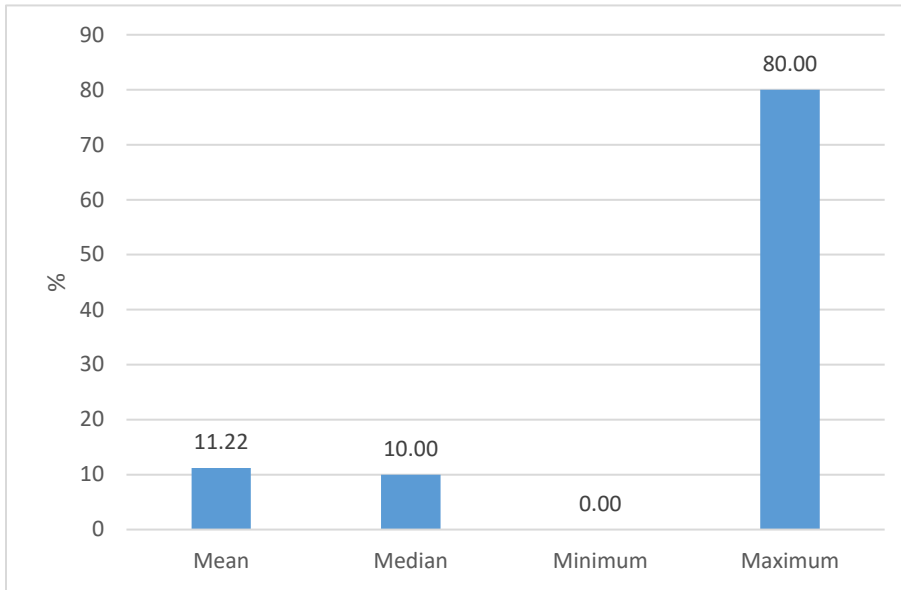
Table 13: RCA assessment for Australia

MTN description	Number of products with RCA>1 in each MTN category	Australia's exports to world (average 2017-22, US\$ million)	Australia's exports to Nepal (average 2017-22, US\$ million)	Nepal's imports from world (average 2017-22, US\$ million)
Beverages and tobacco	1	1445.74	0.13	0.11
Cereals and cereal preparations	10	7170.52	0.05	155.55
Chemicals	16	1681.71	1.85	93.79
Coffee, tea, cocoa and spices	1	2.26	0.00	0.18
Cotton, silk and wool	4	3796.89	0.00	12.71
Dairy products	6	1004.32	0.03	13.40
Electrical machinery and electronic equipment	4	167.06	0.12	3.08
Fish and fish products	2	13.11	0.00	0.60
Fruits and vegetables	9	2018.43	27.40	148.33
Live animals and meat	3	3963.50	0.09	12.11
Mechanical, office and computing machinery	12	361.79	0.19	28.30
Minerals and metals	25	149962.11	0.99	463.42
Oilseeds, fats and oils	7	2370.89	28.33	84.02
Other agricultural products	8	420.06	0.00	12.65
Other manufactures	17	1766.68	0.15	31.78
Rubber, leather and footwear	3	41.72	0.00	1.05
Sugars and sugar confectionery	1	43.46	0.00	0.14
Transport equipment	7	1243.82	0.33	27.89
Wood, paper, furniture	4	306.10	0.00	2.43
No category	2	121.44	0.00	0.90
Total	142	177901.61	59.67	1092.46

Note: MTN categories based on HS 2017 classification

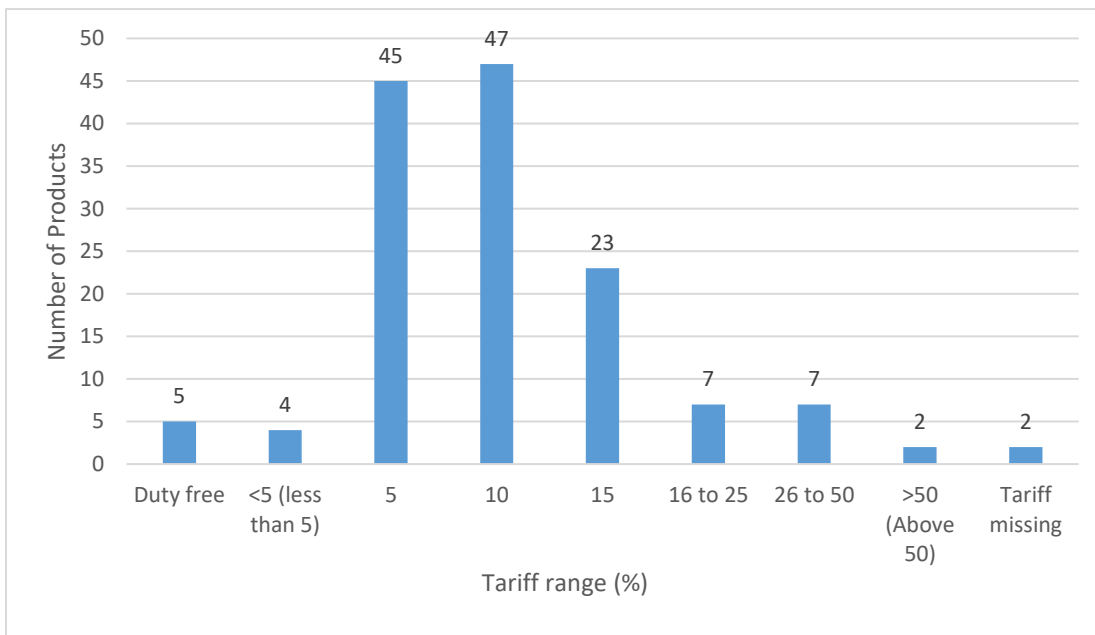
Source: WITS, World Bank

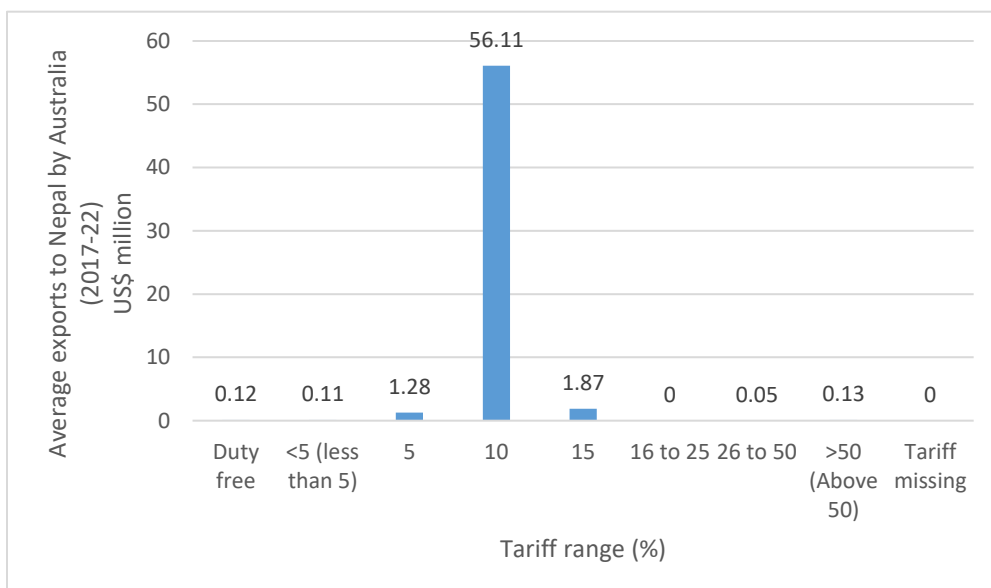
Figure 35: Summary of MFN tariffs in Nepal based on RCA results



Note: 2 products do not have any tariff information for 2021 and 2022; hence the analysis is for 140 products.
 Source: Trade data from WITS, World Bank and tariff data from Market Access Map, ITC, 2022

Figure 36: Distribution of products and trade value across MFN tariffs ranges in Nepal (based on RCA assessment)





Source: Trade data from WITS, World Bank and tariff data from Market Access Map, ITC, 2022

Export potential of Nepal in Australia based on ITC's Export Potential Map

Based on the ITC's Export Potential Map, Nepal has US\$3.4 million of unrealized export potential in 29 products in Australia (Table 14). "Other agricultural products" and textiles have unrealized export potential of US\$1 million each, jointly account for 58 percent of the total potential (Figure 37).

Table 14: Unrealized export potential of Nepal in Australia

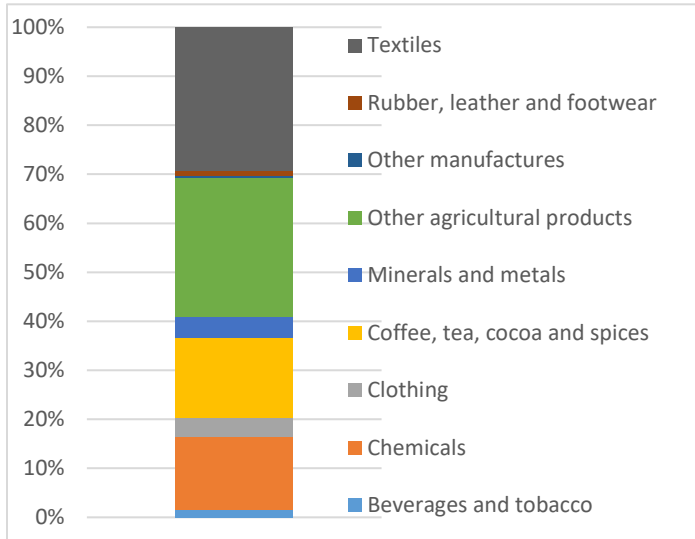
MTN category	Number of products in each MTN category	Unrealized export potential US\$ million
Beverages and tobacco	1	0.050
Chemicals	6	0.507
Clothing	3	0.136
Coffee, tea, cocoa and spices	3	0.550
Minerals and metals	4	0.149
Other agricultural products	4	0.959
Other manufactures	1	0.016
Rubber, leather and footwear	1	0.031
Textiles	6	0.998
Total	29	3.395

Note: WTO's MTN categories based on HS 2022 classification.

Only products with unrealized export potential considered. The unrealized potential of palm oil and soybean oil is not considered.

Source: Export Potential Map, ITC

Figure 37: Composition of unrealized export potential of Nepal in Australia

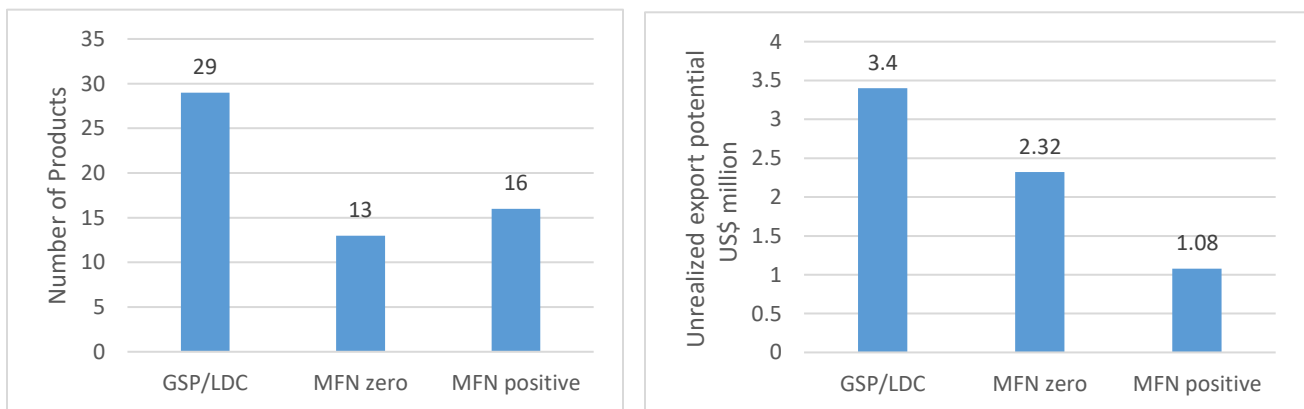


Note: WTO’s MTN categories based on HS 2022

Source: Export Potential Map, ITC

Nepal enjoys duty-free access, through the preferential scheme for LDCs, for all the export potential items (Figure 38). These products also get duty free benefits through GSP, implying that zero tariffs are likely be retained even after LDC graduation. Further, 13 of these products, with a combined unrealized export potential of US\$2.32 million (or two thirds of the total unrealized export potential), face zero MFN tariffs (Figure 38). These 13 products do not enjoy a positive preference margin and hence will not be affected by LDC graduation. For the 16 products that will attract positive MFN tariffs after LDC graduation, 13 (with an unrealized export potential of US\$0.73 million) will see a 5 percent tariff and three will see a tariff of less than 5 percent (Figure 39).

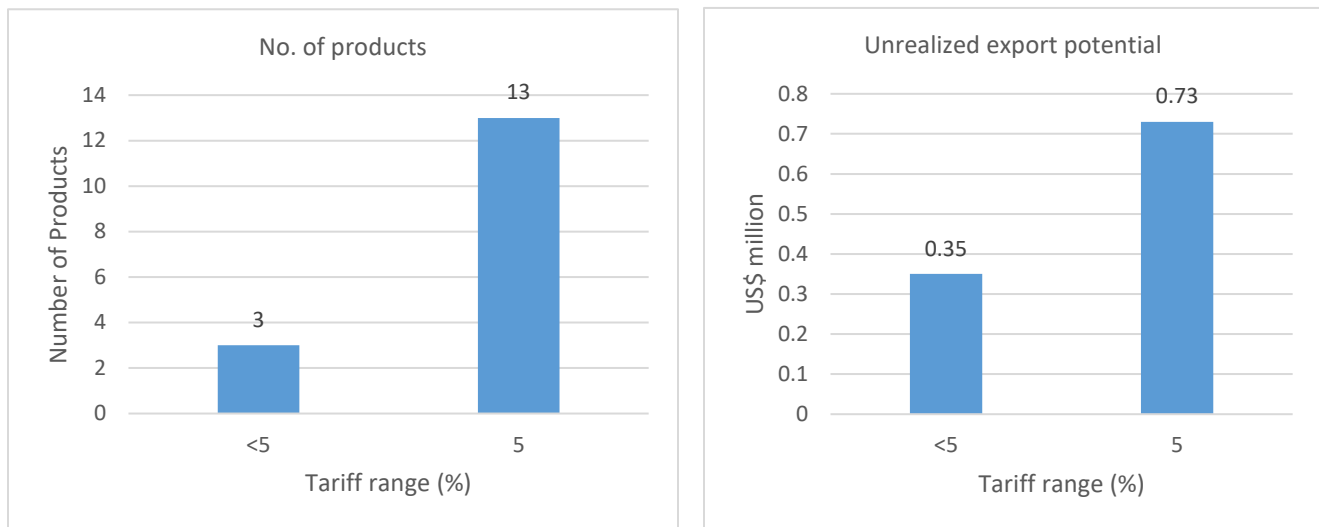
Figure 38: Tariffs faced by products identified from Export Potential Map



Note: All identified products (29) get duty-free benefits under GSP/LDC preferences.

Source: Unrealized export potential from Export Potential Map, ITC and tariff data from Market Access Map, ITC, 2022

Figure 39: Preference margins for products identified from Export Potential Map for which MFN tariffs are positive



Source: Unrealized export potential from Export Potential Map, ITC and tariff data from Market Access Map, ITC, 2022

Export potential of Australia in Nepal based on ITC's Export Potential Map

Based on the ITC's Export Potential Map, Australia currently has US\$100 million of unrealized export potential in Nepal (Table 15). Major categories of products by export potential are fruits and vegetables (mostly vegetables: e.g., potatoes, peas, beans, lentils, etc. among others); minerals and metals; oil seeds, fats and oils (Rape/colza seeds, <2% erucic acid), and cereals and cereals preparations (Table 15). Oil seeds, fats and oil (represented by a single product: HS 120510) have US\$34 million of unrealized export potential. Fruits and vegetables, and minerals and metals account for 14.6 percent and 16.2 percent of total unrealized export potential, respectively (Figure 40).

The mean MFN tariff in Nepal for these products (excluding those with missing tariffs) is 11.17 percent, the median tariff is 10 percent, the minimum tariff is 0 and the maximum tariff is 43.92 percent (Figure 41). The maximum tariff is levied on HS 220710 (Undenatured ethyl alcohol, >=80% alcohol). Further, 13 products face a 10 percent tariff and these products have an unrealized export potential of US\$52.19 million, accounting for more than 50 percent of Australia's total merchandise export potential in Nepal (Figure 42).

Table 15: Unrealized export potential of Australia in Nepal

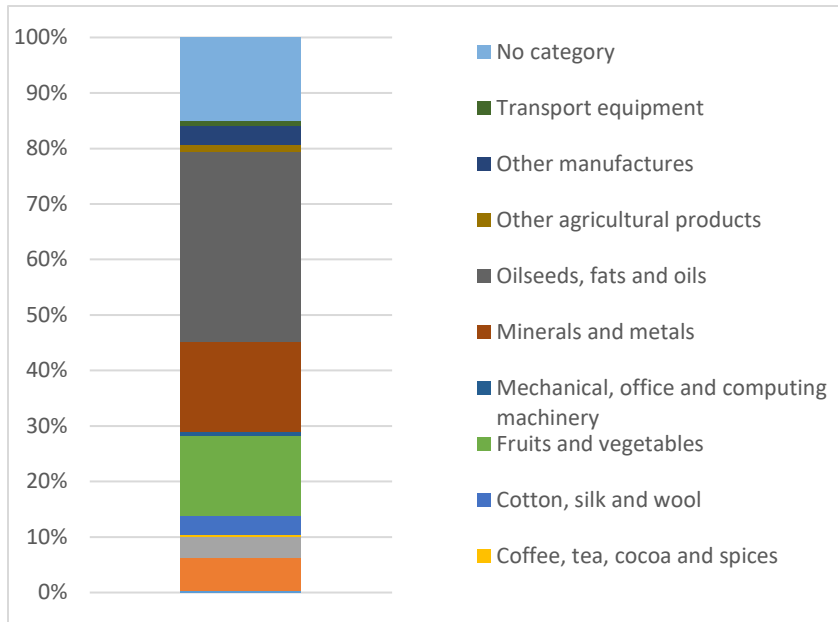
MTN category	Number of products in each MTN category	Unrealized export potential, US\$ million
Beverages and tobacco	1	0.216
Cereals and cereal preparations	5	5.906
Chemicals	2	3.921
Coffee, tea, cocoa and spices	1	0.199
Cotton, silk and wool	2	3.411
Fruits and vegetables	7	14.510
Mechanical, office and computing machinery	2	0.558
Minerals and metals	12	16.095
Oilseeds, fats and oils	1	34.000
Other agricultural products	3	1.456
Other manufactures	2	3.400
Transport equipment	1	0.776
No category	8	14.974
Total	47	99.422

Note: WTO's MTN categories based on HS 2022 classification.

No category includes 1001Xa-Durum Wheat; 1001Xb-Wheat and meslin; 1502-Bovine, sheep & goat fats, n.e.s.; 3002XX- Human & animal blood, blood fractions & immunological products; 30XXXX Medicaments for retail sale n.e.s.; 3822XX Diagnostic & laboratory reagents, n.e.s.; 88XXXX Powered aircraft; 90XXXX Medical instruments & appliances, n.e.s. Full HS codes (6 digits) are not shown in export potential map; hence tariff information could also not be obtained. Further, HS 880730 under the transport equipment category has tariff value missing.

Source: Export Potential Map, ITC

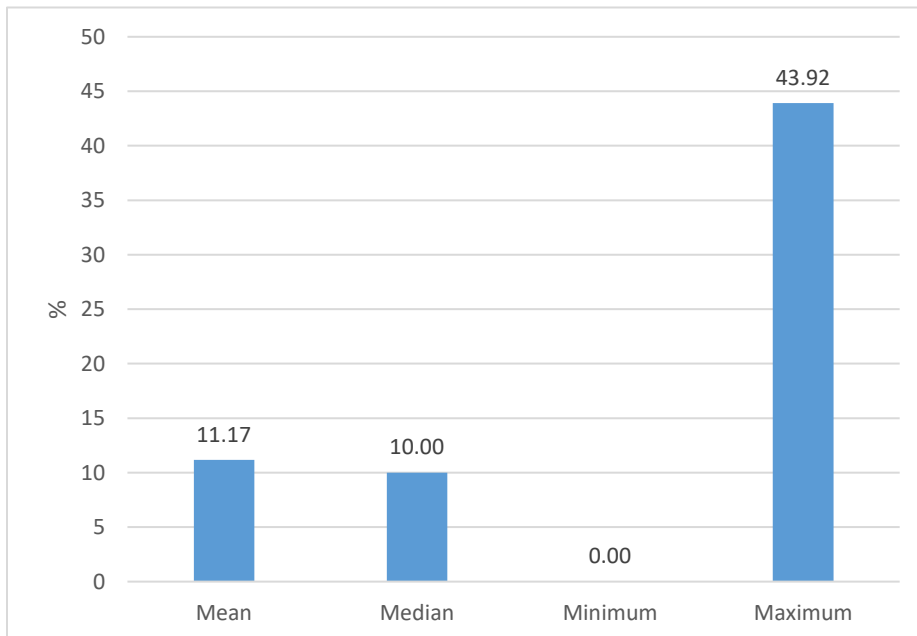
Figure 40: Composition of unrealized export potential of Australia in Nepal



Note: WTO's MTN categories based on HS 2022 classification

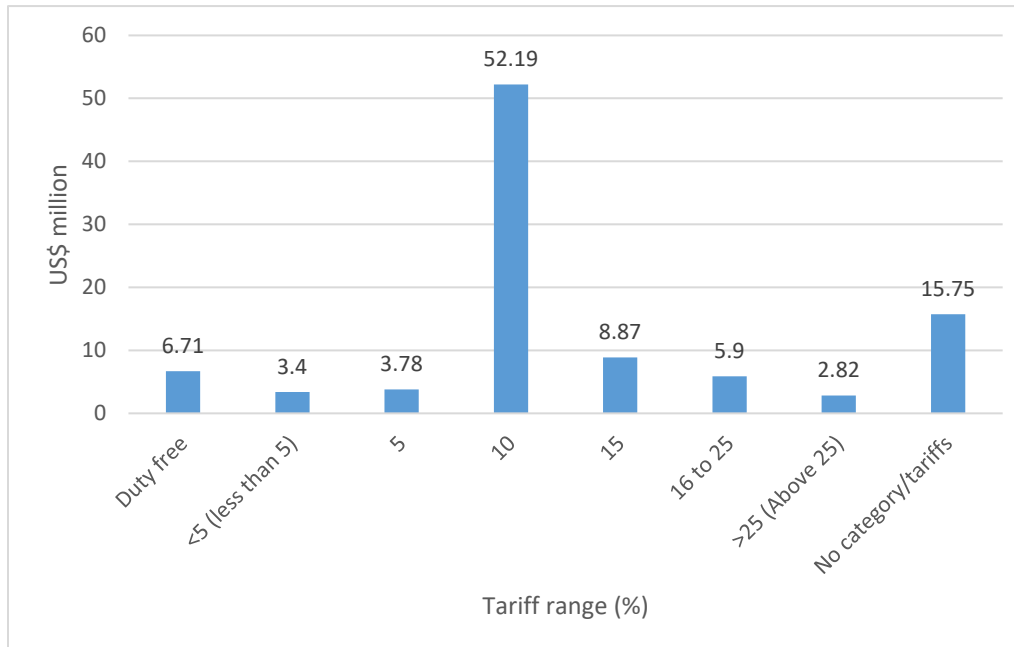
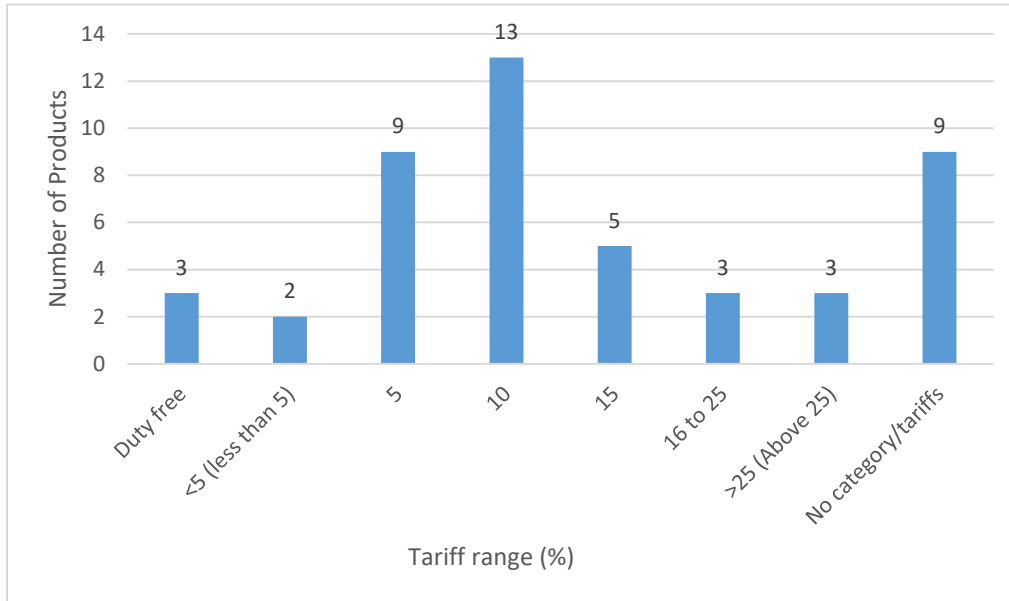
Source: Export Potential Map, ITC

Figure 41: Summary of MFN duties in Nepal for products identified from the Export Potential Map



Source: Unrealized export potential from Export Potential Map, ITC and tariff data from Market Access Map, ITC

Figure 42: Distribution of products and trade value across MFN tariffs ranges in Nepal (products identified from Export Potential Map)



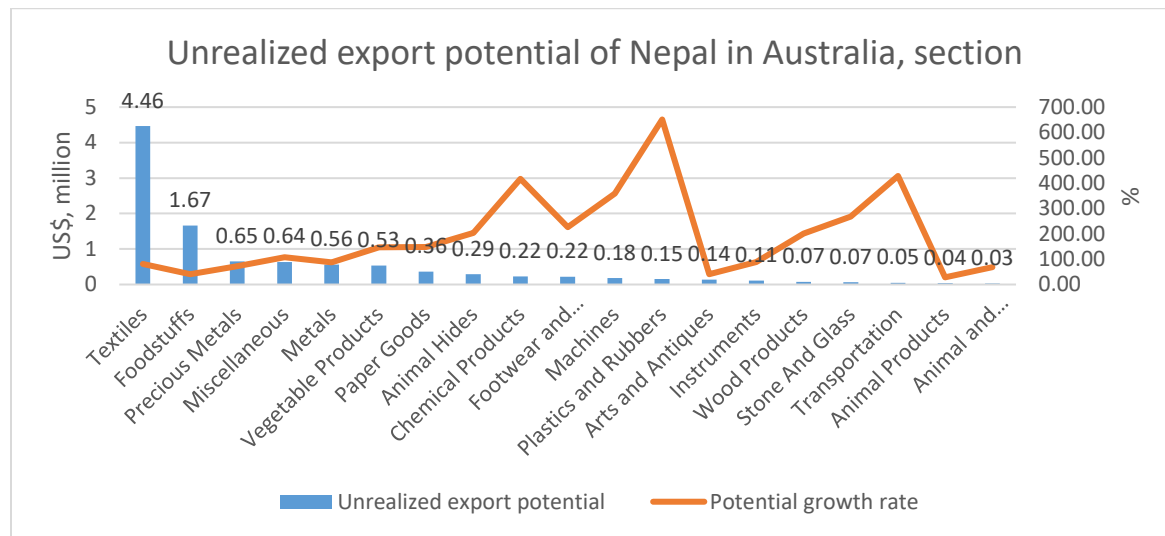
Source: Unrealized export potential from Export Potential Map, ITC and tariff data from Market Access Map, ITC, 2022

Export potential of Nepal in Australia based on OEC's estimation

Based on the OEC's export potential estimation that draws on Jun et al. (2020)'s extended gravity model, Nepal's unrealized export potential in Australia in 20 HS sections amount to US\$10.46 million in 2022,

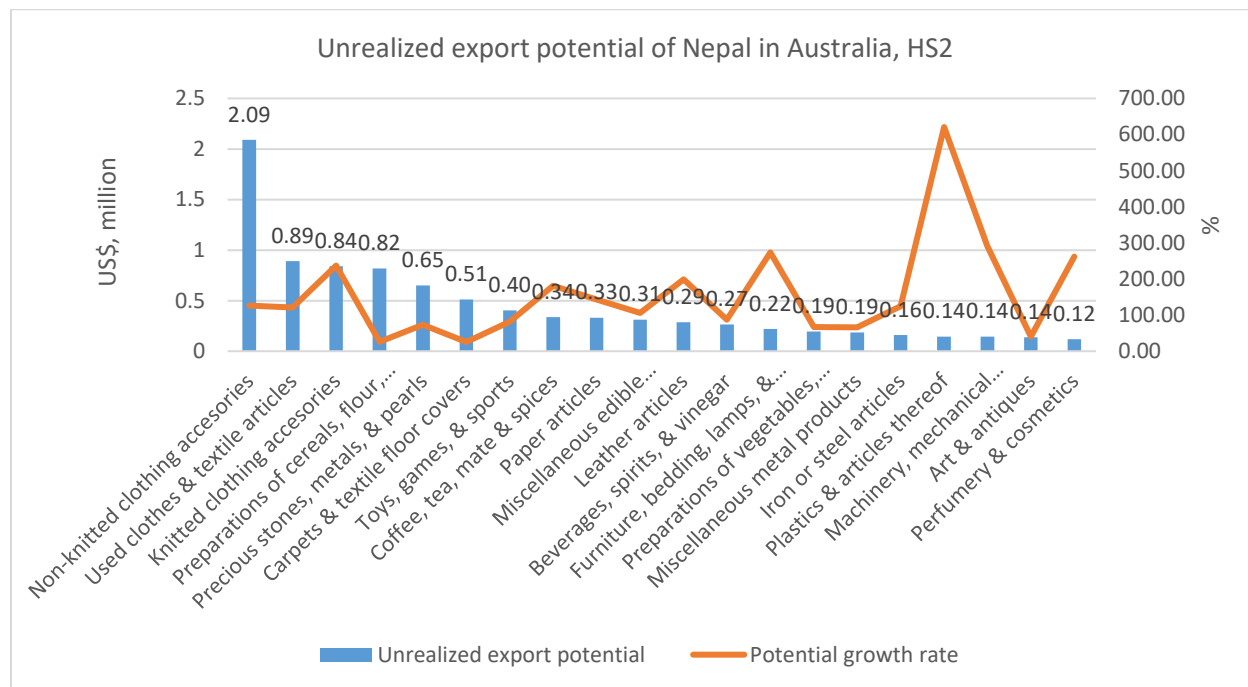
equivalent to 78 percent of existing exports (Figure 43). Two sections—Textiles, and Foodstuffs—make up nearly 60 percent of the untapped export potential. Figures 44 and 45 show the unrealized export potential in the top 20 HS chapters and 4-digit headings, respectively.

Figure 43: Unrealized export potential of Nepal in Australia in 2022, by HS section



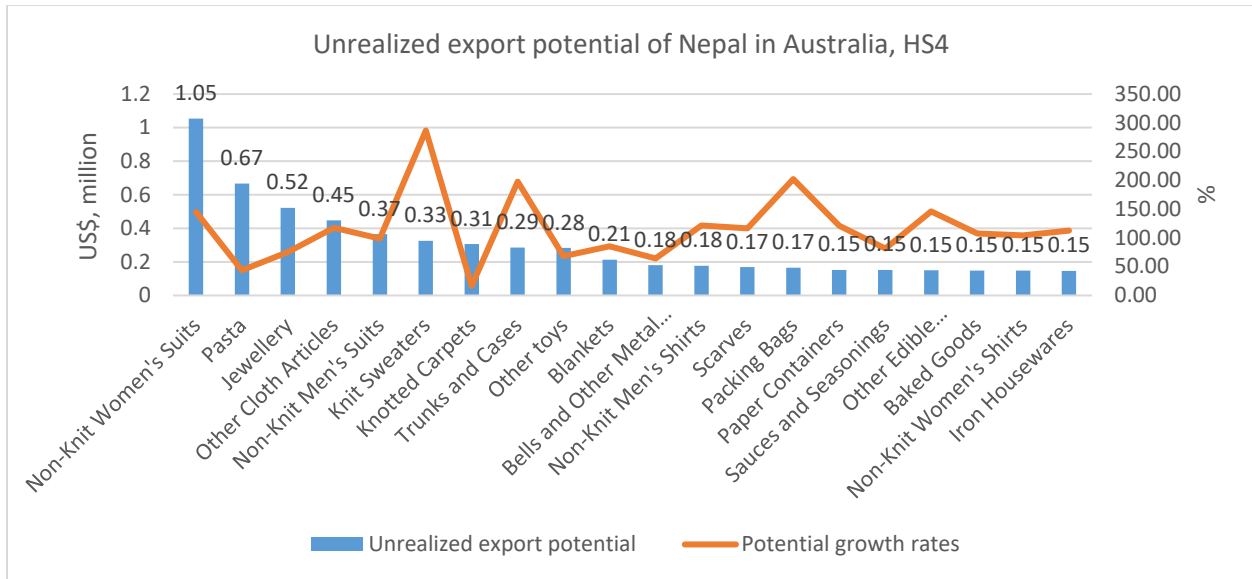
Source: Observatory of Economic Complexity

Figure 44: Unrealized export potential of Nepal in Australia in 2022, by HS chapter



Source: Observatory of Economic Complexity

Figure 45: Unrealized export potential of Nepal in Australia in 2022, by HS heading

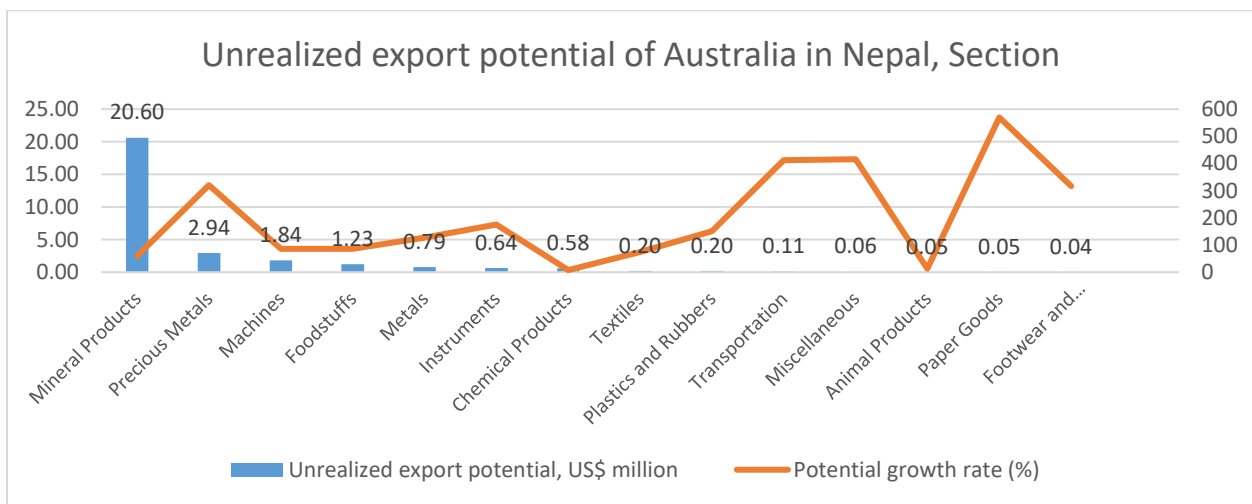


Source: Observatory of Economic Complexity

Export potential of Australia in Nepal based on OEC's estimation

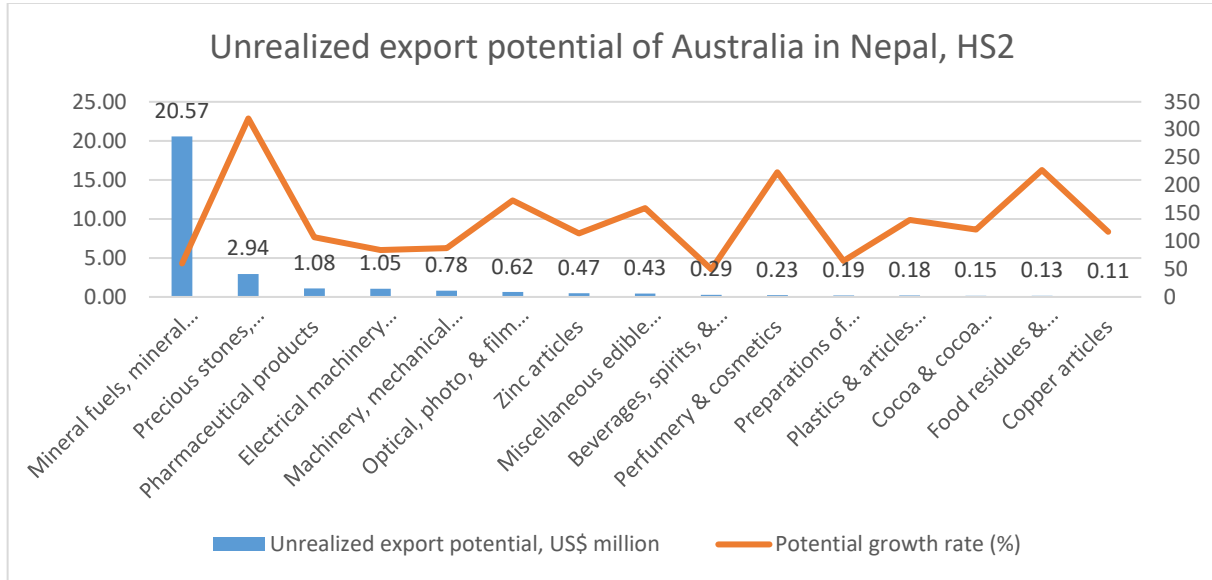
Based on the OEC's export potential estimation that draws on Jun et al. (2020)'s extended gravity model, Australia has unrealized export potential in Nepal in 15 HS sections amounting to US\$29.35 million in 2022, equivalent to 61 percent of existing exports in these sections (Figure 46). Mineral Products explain 70 percent of the untapped export potential. Figures 47-48 and show the unrealized export potential in the top 20 HS chapters and 4-digit headings, respectively.

Figure 46: Unrealized export potential of Australia in Nepal in 2022, by HS section



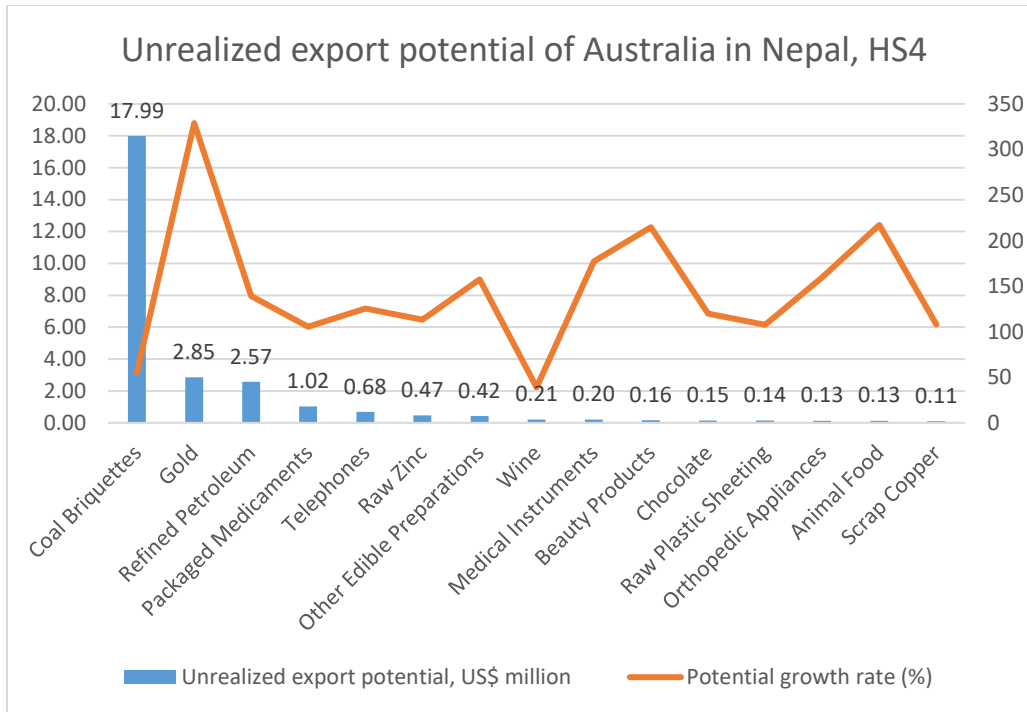
Source: Observatory of Economic Complexity

Figure 47: Unrealized export potential of Australia in Nepal in 2022, by HS chapter



Source: Observatory of Economic Complexity

Figure 48: Unrealized export potential of Australia in Nepal in 2022, by HS heading



Source: Observatory of Economic Complexity

Emerging exports driven by the Nepali diaspora

As mentioned in Section 4 and further explored in detail later, the Nepali community in Australia is expanding rapidly, boosted by the presence of Nepali students. This has led to an increased demand for Nepali products catering to these communities, and thus growth in exports of these products from Nepal. In addition, the presence and growth of migrant communities from India, Bangladesh, and Southeast Asian countries like the Philippines is a potential source of growth in demand for Nepali products.

Exports of food items to Australia are growing on the back of diaspora demand. Beaten rice (*chiura*), a staple in Nepali cuisine, has seen a notable increase in exports in recent years (Table 16). Other popular products include pasta, pickles and spices. Emerging export items include traditional garments like dhoti and lungi (HS 62114290), as well as cereal flour; bangles, tika, beads; buckwheat; bran; and black salt (*Sindhe Bire Kalo Noon* (Table 16).

Table 16: Emerging Nepali products in Australia

HS	Products	Export value in 2022	Export value in 2021	Export value in 2020	Export value in 2019	Export value in 2018
19049020	Beaten Rice (Chiura)	55836692.07	22494528.41	30682524.15	0	0
19023000	Pasta	23337753.47	9835950.5	2315840.5	2633457.25	7673498.81
21039020	Pickle	18590909.98	6817332.5	0	0	0
62114290	W&G Dhoti and Lungi, not knitted	17252706	0	0	0	0
21069099	Food preparations not elsewhere specified or included.	8503033.03	48472145.82	14647480.54	0	0
11029000	Cereal Flours	4827414.5	591569.6	0	0	0
09109990	Spices	4316036.61	0	0	255000.7	0
19049090	Other prepared cereals in grain form (excl. maize) nes.	2819904.97	0	7654080.52	0	0
70181010	Bangles, Tika, Tikuli & beads	927830.58	69491.48	2631.49	0	0
10081000	Buckwheat	784206.9	253253.28	0	0	0
23024000	Bran, sharps, and other residues of cereals	687217.67	2178886.19	0	0	0
07134090	Red lentils	662616.48	0	0	0	0
10059000	Maize corn	594738.46	166377.77	0	0	0
07139090	Other dried Leguminous Vegetables, Whole	515916.82	0	0	0	0
19059020	Potatoes chips	290029.38	0	0	0	0
04059010	Ghee	57953.75	0	0	0	0
25010020	Black Salt [Sindhe Bire Kalo Noon]	13524.31	0	0	0	0
11022000	Maize corn flour	7077.42	0	0	0	0
09109100	Fenugreek	1904.1	18353120.9	0	0	0

Note: Value in Nepali rupees (NPR), for comparison on August 15, 2024 1A\$ = NPR 88.8

Source: Trade and Export Promotion Centre (TEPC), Government of Nepal

Challenges and constraints in merchandise trade between Nepal and Australia

Sanitary and phytosanitary (SPS) measures in Australia present a challenge for Nepali exporters. Challenges in meeting testing and certification requirements are constraining exports. A weak quality infrastructure is at the heart of meeting SPS requirements. A lack of accredited laboratories and fumigation facilities is hindering exports (Gauchan et al. 2024).

A pioneer in exporting chhurpi, sold as dog chew, from Nepal says the SPS issue is at the core of lack of export diversification of the product, which has emerged as a key item in Nepal's export basket but whose exports are concentrated in the US. Specifically, the inability to obtain foot and mouth disease-free certification hinders exports to many potential destinations, including Australia. Whereas Nepal exported nearly US\$14 million worth of chhurpi (as dog and cat: HS 230910) on average during 2017-2022 and Australia imported on average US\$347.50 million worth of dog and cat food from the world, Nepal's exports to Australia of the product were zero. This product is among the products identified in the RCA-based analysis earlier.

High transport and other logistics costs also erode the competitiveness of Nepali products in Australia. The cold storage facilities at the Tribhuvan International Airport in Kathmandu are either expensive or do not have the required standards.

Some of the other major challenges when exporting goods from Nepal to Australia include high cost of production in Nepal as a result of high cost of imported raw materials, low economies of scale, poor access to technologies, lack of awareness of the Australian market, and inefficiencies in customs clearance (Gauchan et al. 2024).

Services

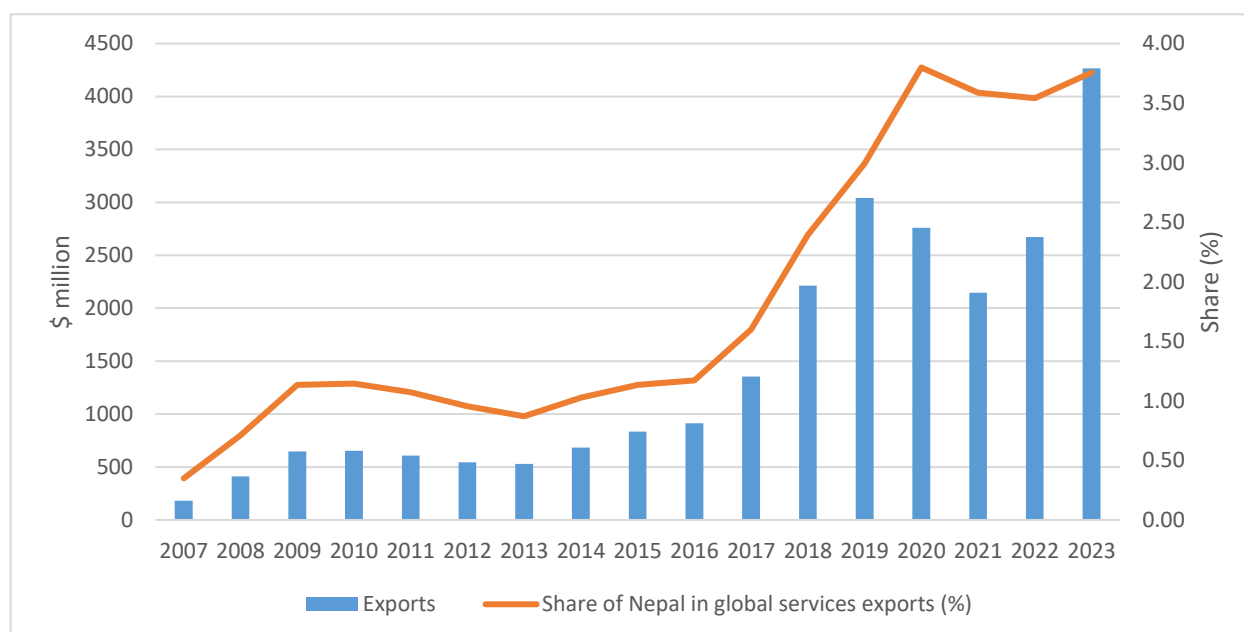
Trends, patterns and composition

Australia's services exports to Nepal

In 2023, the total services exports of Australia to the world were A\$113.52 billion, with exports to Nepal valued at A\$4.27 billion, accounting for 3.76 percent of its global services exports (Figure 49)³⁸. Nepal's share of Australia's global services exports has steadily increased since 2007, reaching a peak in 2009. Following a brief decline, the share began to climb rapidly from 2013 onwards, reaching a high of 3.8 percent in 2020 (Figure 49). Services exports to Nepal expanded at a compound annual growth rate of 23.2 percent during 2013-2023. During 2019-2023, Nepal consistently ranked as the seventh biggest country for Australia's services exports (Table 17).

³⁸ 1 Australian dollar is valued at 0.6761 US dollar as on 18 September, 2024

Figure 49: Australia's services exports to Nepal and Nepal's share in Australia's total services exports



Note: Values in Australian dollars

Source: Department of Foreign Affairs and Trade, Australian Government

Table 17: Position of Nepal in relation to other top services export markets of Australia

Countries \ Year	2019	2020	2021	2022	2023
China	19,186	12,490	9,145	9,550	14,651
United States	10,248	7,993	7,397	1,0138	12,114
India	7,532	6,896	5,007	5,617	9,975
United Kingdom	5,930	4,114	4,075	5,797	7,415
New Zealand	6,205	3,517	3,291	4,531	6,254
Singapore	4,959	3,515	3,146	4,667	5,510
Nepal	3,040	2,761	2,148	2,673	4,265

Note: Values in Australian dollar millions

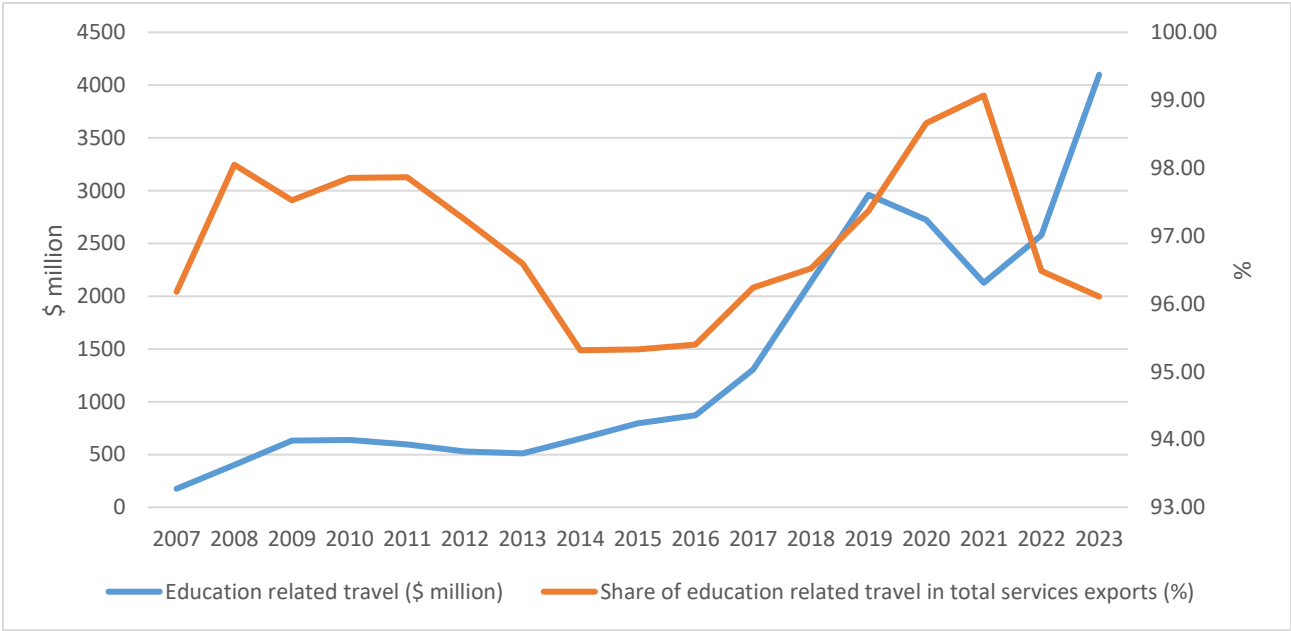
Source: Department of Foreign Affairs and Trade, Australian Government

Breakdown of services exports of Australia to Nepal

Australia's services exports to Nepal are primarily driven by the education services sought by Nepali students. Education-related travel constitutes over 95 percent of total services exports for most years (Figure 50). Out of the total travel exports valued at A\$4.24 billion, education-related travel recorded A\$4.1 billion in 2023 (Figure 50). Education services exports grew from A\$631 million in 2009 to A\$2.9

billion in 2019. The countries to which Australia saw the largest increases in education-related travel exports in 2023 were China (an increase of A\$5.4 billion, or 90.8 percent), India (A\$3.7 billion, or 83.9 percent), and Nepal (A\$1.5 billion, or 58.9 percent). As of 31 December 2023, Nepal is the third-largest source of international students on student visas in Australia, behind India and China. The total number of student visa holders in Australia reached 547,075, with 106,135 students from India, 64,747 from China, and 60,630 from Nepal. Additionally, the Philippines contributed 32,610 students, while Colombia supplied 24,700. Collectively, these five nations accounted for more than half (52.8 percent) of all student visa holders in Australia. Notably, Nepal comprised about 11.1 percent of the total international student population in Australia.³⁹ Similarly, when only travel exports of Australia are considered, Nepal is the third largest partner for Australia (Table 18), and as discussed previously, this is driven by education-related travel services.

Figure 50: Education services export and its share in total services export to Nepal



Note: Values in Australian dollars
 Source: Australian Bureau of Statistics and Department of Foreign Affairs and Trade, Australian Government

³⁹ “Student visa and Temporary Graduate visa program report”, Department of Home Affairs, Australian Government.

Table 18: Position of Nepal in relation to Australia's major sources of travel export earnings

2022	A\$ million	Share (%)	2023	A\$ million	Share (%)
China	6,119	17.2	China	13,525	19.3
India	5,096	14.3	India	9,425	13.4
Nepal	2,649	7.5	Nepal	4,244	6.1
New Zealand	1,483	4.2	New Zealand	2,478	3.5
United Kingdom	1,321	3.7	Vietnam	2,408	3.4
All other countries	18,865	53.1	All other countries	38,024	54.2
Total	35,533	100.0	Total	70,104	100.0

Source: Australian Bureau of Statistics

Australia's services imports from Nepal

Compared to exports of services, imports of services from Nepal are very small. They also grew at a much slower pace of 8.7 percent per annum during 2013-2023 than services exports to Nepal. At A\$180 million in 2023, services imports from Nepal were 0.5 percent of total services imports (Figure 51). Still, services imports from Nepal are more than 10 times larger than merchandise imports from Nepal.

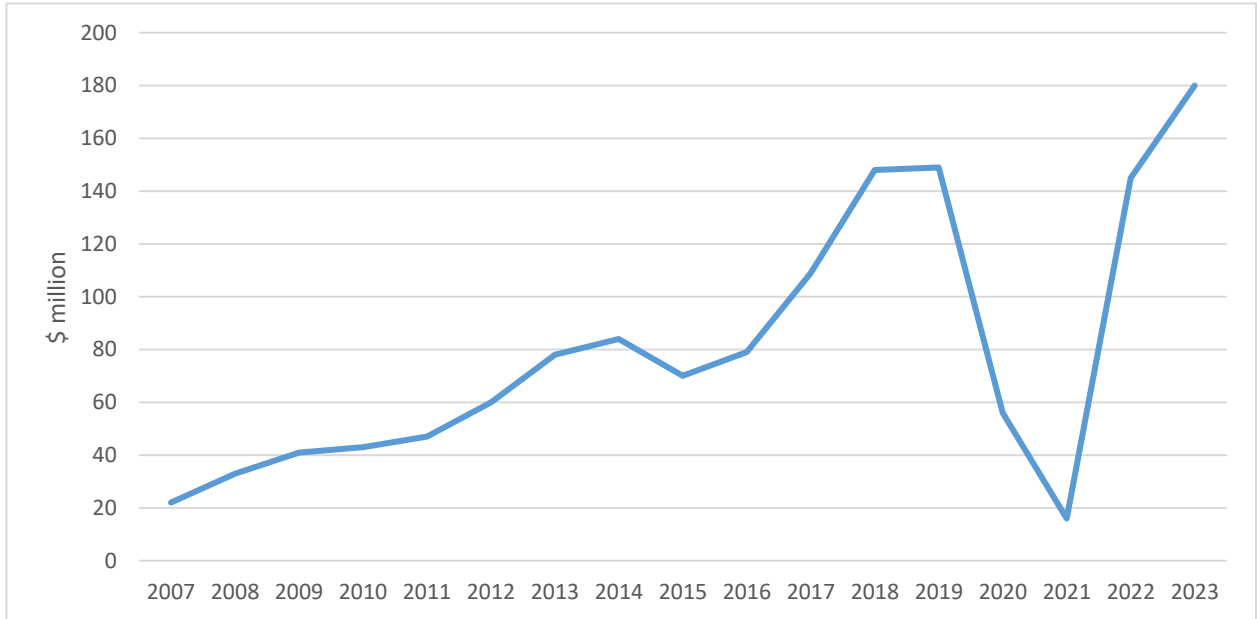
There has been a consistent rise in services imports from Nepal. In 2007, services imports from Nepal were A\$22 million, which in another seven years almost quadrupled to A\$84 million in 2014. They reached A\$149 million in 2019 and dropped significantly in 2020 and 2021 because of the covid-19 pandemic.

Breakdown of services imports of Australia from Nepal

Imports of services from Nepal are mostly personal travel (non-education-related) of Australians to Nepal, which got hit by the pandemic (Figure 52). The share of personal travel in total services imports from Nepal was above 80 percent till 2019, and fell to 69.6 percent and 43.8 percent in 2020 and 2021, respectively. Other imports include IT services.

In 2023, Nepal welcomed 38,798 Australian tourists, representing 3.8 percent of total tourist arrivals (Figure 53). In the previous year, 26,894 Australians visited Nepal, constituting 4.37 percent of all tourists and making Australia the fourth-largest source of visitors to Nepal in 2022 (Figure 53). In 2023, Australia's ranking shifted to sixth in terms of tourist numbers. Further, 18,635 Australian tourists visited Nepal in the first six months of 2024, accounting for 3.2 percent of total tourist arrivals in the country.

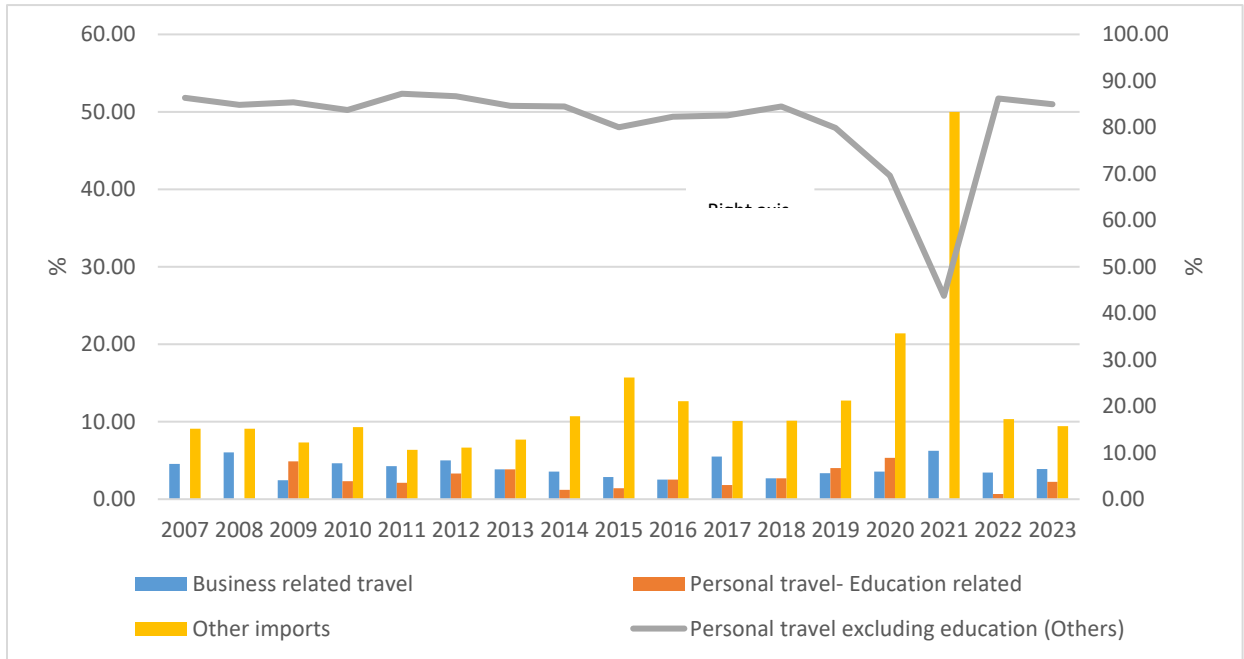
Figure 51: Australia's services imports from Nepal



Note: Values in Australian dollars

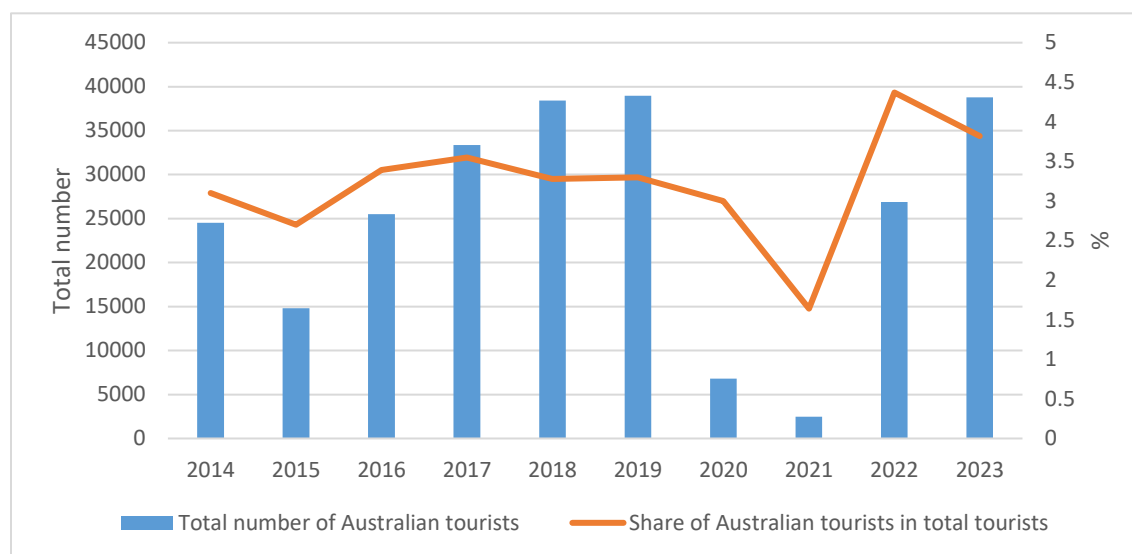
Source: Department of Foreign Affairs and Trade, Australian Government

Figure 52: Composition of services imports of Australia from Nepal



Source: Australian Bureau of Statistics and Department of Foreign Affairs and Trade, Australian Government

Figure 53: Trends of Australian tourist arrivals in Nepal



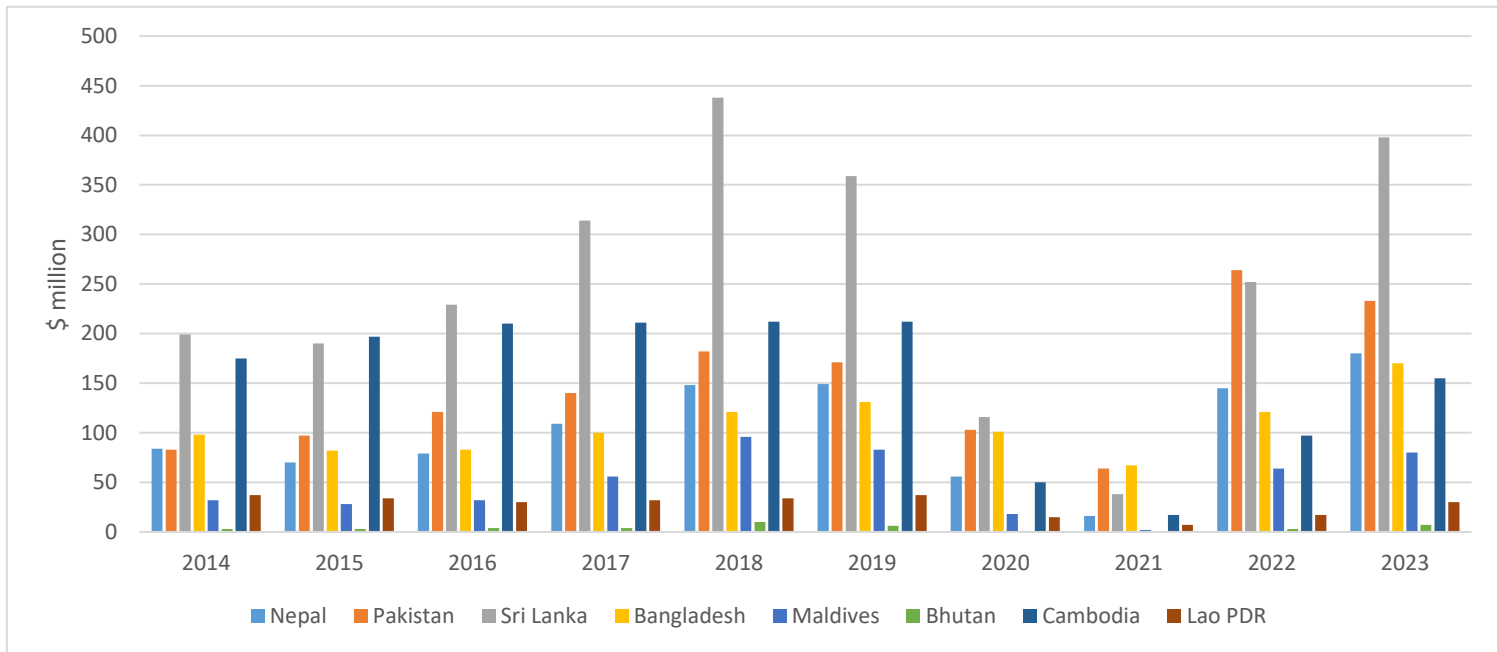
Source: Nepal Tourism Statistics, 2023, Ministry of Culture, Tourism and Civil Aviation, Government of Nepal

Potential and opportunities in services trade between Nepal and Australia

In 2023, Australia imported a staggering A\$112.8 billion in services from around the globe, with Nepal contributing a mere A\$180 million to this total (Figure 54). This substantial gap underscores the significant growth potential for Nepal in the Australian services market⁴⁰. When comparing Nepal's exports to those of other South Asian countries, Pakistan and Sri Lanka fared considerably better, with Australia importing A\$233 million and A\$398 million in services from them, respectively, in 2023 (Figure 54). Moreover, prior to the COVID-19 pandemic, Cambodia, an LDC like Nepal, consistently exported more services to Australia than Nepal, highlighting the need for Nepal to enhance its competitiveness (Figure 54). By leveraging sectors such as tourism and ICT services, where Nepal has competitive strengths, there is a room to tap Australia's market for Nepali services.

⁴⁰ During 2018-22, Nepal on average exported services worth US\$1.3 billion to the world (UNCTADstat) (US\$1.3 billion is equivalent to A\$1.92 billion at 1A\$ = US\$ 0.6761 as on 18 September, 2024).

Figure 54: Australia's services imports from Nepal and comparator countries



Note: Values in Australian Dollars

Source: Department of Foreign Affairs and Trade, Australian Government

Tourism

Tourism (covering both domestic and international tourists) plays a vital role in Nepal's economy, contributing US\$2.5 billion in revenue, accounting for 6.6 percent of GDP, and providing employment to 1.19 million people (or, 15.2 percent of the nation's total employment) in 2023 (WTTC 2024)⁴¹.

As discussed previously, the major services exports from Nepal to Australia are tourism-based services. In 2022, Nepal welcomed 26,894 Australian tourists accounting for 4.37 percent of all tourist arrivals and making Australia the fourth largest source of international tourists in Nepal. Looking at Australian tourist inflows to South Asian countries, in 2022, 376,898 Australian tourists visited India, 30,924 visited Sri Lanka and 25,049 travelled to the Maldives (Figure 55). Looking at the pre-covid data, in 2019, India saw 367,241 Australian tourists, Sri Lanka received 92,674, the Maldives attracted 39,928, and Nepal welcomed 38,972 (Figure 55). Meanwhile, Nepal's immediate neighbours, China and India, ranked 8th and 39th, respectively, in the World Economic Forum's 2024 Travel and Tourism Development Index⁴². In contrast, Nepal ranks

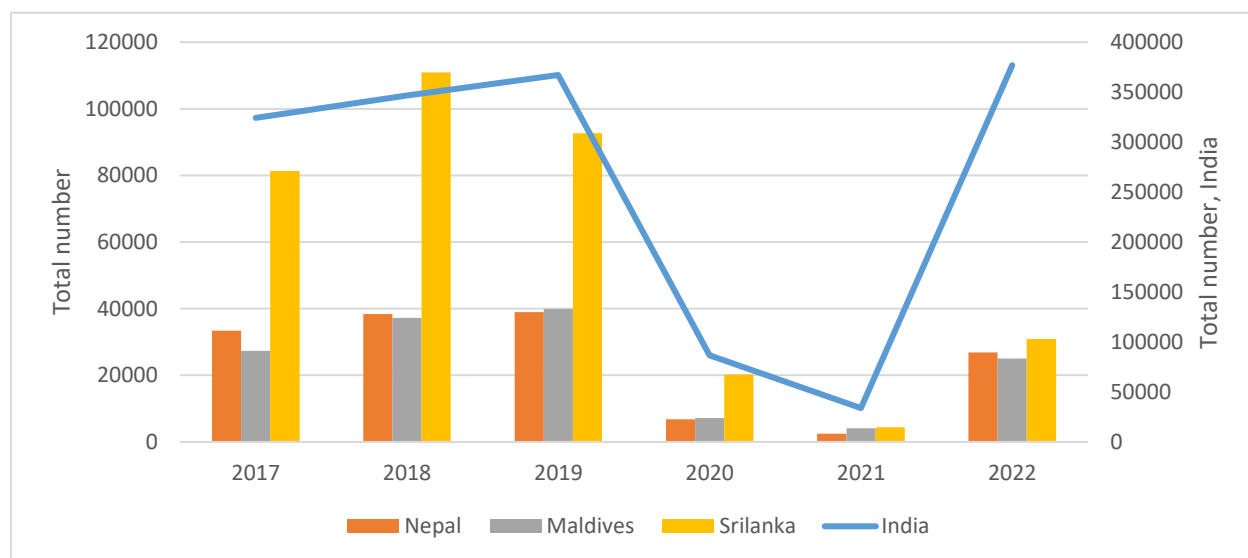
⁴¹ All values are in constant 2023 prices and exchange rates, as reported in March 2024.

⁴² The number of Australians visiting China was 675,100 in 2016, 734,300 in 2017, and 752,500 in 2018 (National Bureau of Statistics of China, <https://data.stats.gov.cn/english/easyquery.htm?cn=C01>, accessed on 23 December, 2024).

much lower at 105. Nepal has a potential to attract more tourists from Australia, including by capitalizing on Australians visiting its neighbourhood.

The number of Australians travelling abroad and their spending also indicate the potential value for Nepal’s tourism industry. In 2023, 1.43 million Australians visited Indonesia and 1.24 million Australians visited New Zealand, two of the most visited countries by Australians⁴³. In 2022, the total international tourism expenditure abroad of Australians was valued at US\$14.89 billion (in constant 2021 prices)⁴⁴. This suggests that Australians have a strong passion for travel, and a country like Nepal, abundant in natural beauty, art and culture, and also offering adventure opportunities, should aim to capitalize on this.

Figure 55: Australian tourists in South Asian countries including Nepal



Source: Data derived from respective countries’ tourism authorities/board database

Education

Education is another sector with opportunities for further engagement. The number of Nepali students going to Australia for their studies is rising every year. Nepal significantly contributes to Australia’s economy through its imports of education services. In 2023, Australia’s total services exports globally amounted to A\$113.52 billion, with exports to Nepal reaching A\$4.27 billion, representing 3.76 percent

⁴³For Indonesia, the source is BPS-Statistics Indonesia (<https://www.bps.go.id/en/statistics-table/2/MTgyMSMy/number-of-foreign-tourist-visits-to-indonesia-by-nationality.html>, accessed on 25 September, 2024). For New Zealand, source is Stas NZ (<https://www.stats.govt.nz/topics/tourism>, accessed on 25 September, 2024). The data for New Zealand is based on the year ending in July.

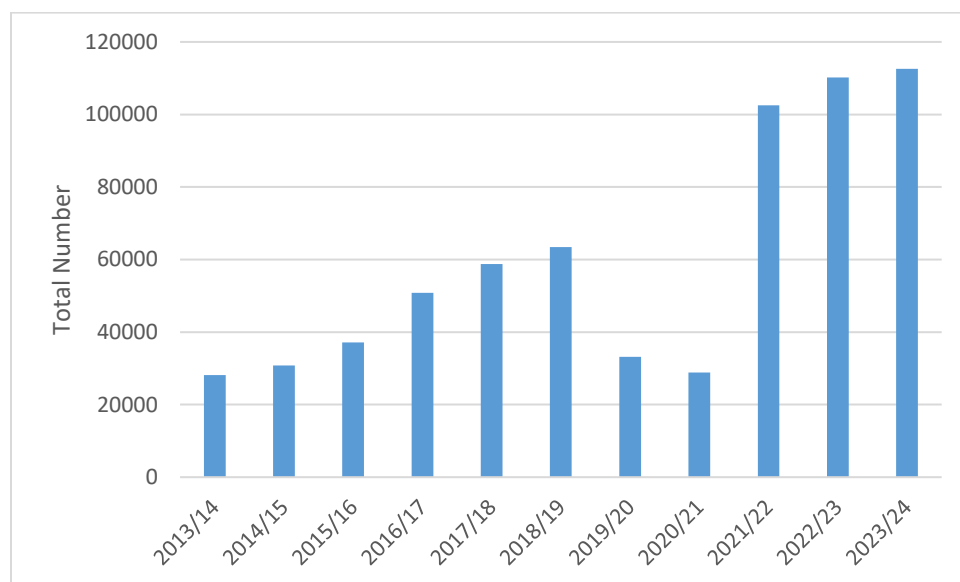
⁴⁴Our world in data (<https://ourworldindata.org/grapher/average-expenditures-of-tourists-abroad?tab=chart&country=~AUS>, accessed on 26 September, 2024).

of Australia’s overall global exports. Within this, the education sector alone accounted for A\$4.1 billion, making up over 95 percent of total exports to Nepal.

The number of Nepali students going abroad for their higher studies has been surging. In FY 2023/24, 112,593 students were issued No Objection Certificates (NOCs) to study abroad, up from 110,2017 in the previous year⁴⁵⁴⁶ (Figure 56). Australia is among the top three destinations for Nepali students, as per data for FY 2022/23 and FY 2023/24 (Figure 57). Despite a decline in student numbers due to visa restrictions in FY 2023/24,⁴⁷ the country continues to be a favourite destination, with about 62,000 Nepali students enrolled there in 2023.⁴⁸

The University of Melbourne recently opened the Melbourne Global Centre in New Delhi, India, and similar initiatives should be explored with regard to Nepal, given the growing number of Nepali students choosing Australia for higher education. Nepal is the third-largest source of international students in Australia, and the creation of such centres would enhance educational exchange, foster partnerships, and strengthen collaboration in teaching, research, and community engagement.

Figure 56: Number of No Objection Certificates (NOCs) issued by the Ministry of Education to Nepali students going abroad for studies



Source: Ministry of Education, Science and Technology through <https://nepalitimes.com/news/brain-gain-into-brain-drain>, accessed on 8 October 2024

⁴⁵ NOC is a mandatory certificate from the Ministry of Education that students must have/get for going overseas to study.

⁴⁶ Ministry of Education, Science and Technology through <https://nepalitimes.com/news/brain-gain-into-brain-drain>, accessed on 08 October, 2024.

⁴⁷ <https://nepalitimes.com/news/brain-gain-into-brain-drain>, accessed on 08 October, 2024.

⁴⁸ Department of Foreign Affairs and Trade, Australian Government.

Figure 57: Top destinations for Nepali students



Note: Annual flows.

Source: Ministry of Education, Science and Technology through <https://nepalitimes.com/news/brain-gain-into-brain-drain>, accessed on 8 October 2024

Information and communication technology (ICT)

ICT services are a budding sector generating exports from Nepal. IT exports in 2022 reached an estimated US\$515 million and supported a workforce of over 66,000 individuals, with exports amounting to 1.4 percent of the nation's GDP and 5.5 percent of foreign exchange reserves in the same year (IIDS 2023).

The WTO estimates Nepal's digitally delivered services exports at around US\$836 million in 2023, up from US\$469 million in 2013 (Figure 58)⁴⁹. On the other hand, global imports of these services by Australia have also consistently risen (Figure 58). In 2023, the import of these services by Australia from the world was valued at around US\$25.8 billion, up from US\$17.5 billion in 2013. Nepal's exports to the world—not just

⁴⁹ The WTO's Digitally Delivered Services Trade Dataset. These are estimates of services traded through computer networks, such as the internet, apps, emails, voice and video calls, and digital intermediation platforms, and the coverage of these digitally delivered services reflects the definition of the "Handbook on Measuring Digital Trade", by the IMF, OECD, UNCTAD and WTO ([IMF-OECD-UNCTAD-WTO Handbook on Measuring Digital Trade](#)), which defines digital trade as "all international trade that is digitally ordered and/or digitally delivered" and digitally delivered trade as "all international trade transactions that are delivered remotely over computer networks."

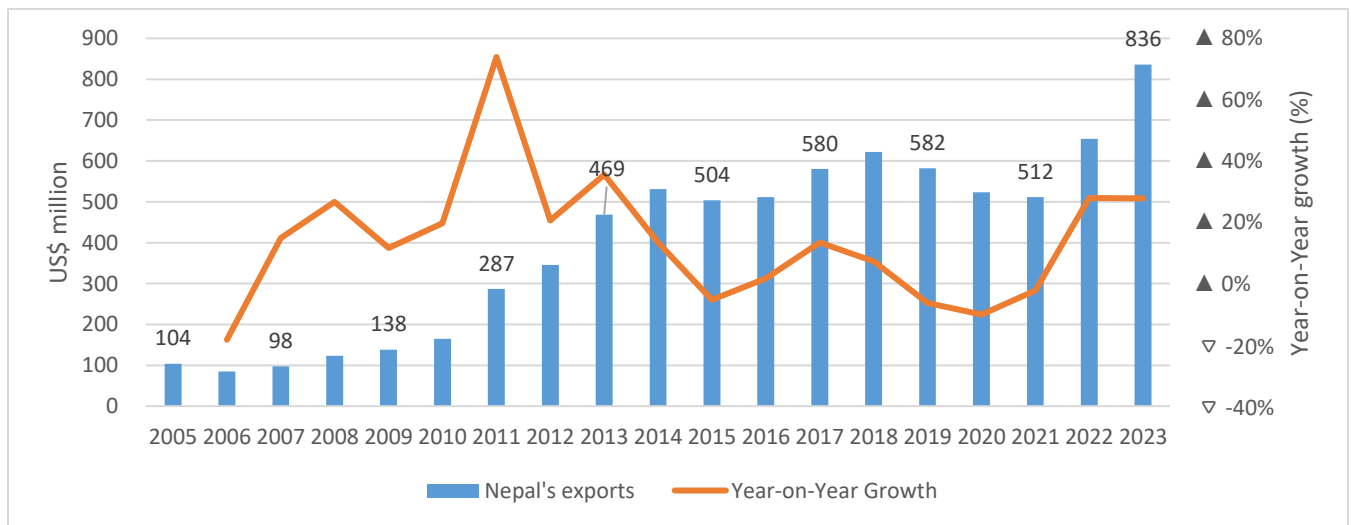
to Australia—are just 3.2 percent of Australia's imports from the global market. This indicates a significant opportunity for Nepal to expand these services' exports.

Further, based on a 2023 report by Australian Trade and Investment Commission (Austrade), Australia's tech sector, valued at A\$167 billion, has grown rapidly, expanding by 80 percent over the past five years and by 2030, technology is expected to contribute A\$250 billion to the Australian economy⁵⁰. Further, the report also states that in 2022, Australian businesses spent A\$117 billion on IT and the country has the highest number of new ICT students per capita among OECD nations and ranks second in ICT graduates per capita. Further, government spending on research and development in technology was valued at A\$3.6 billion in 2020-21. Additionally, Australia ranks fourth among the most attractive online consumer markets and ninth in digital readiness for a startup-friendly environment.⁵¹

The Government of Nepal has placed a strong emphasis on the IT and Business Process Outsourcing (BPO) sector in its policies—for example, this has been prioritized in the Nepal Trade Integration Strategy 2023, which identifies priority sectors with export potential and specifies actions to tap the potential. In an effort to attract foreign direct investment (FDI), the government has revised its policies specifically targeting the IT industry. In FY 2023/24, the government eliminated the minimum FDI threshold for the IT sector, while the threshold for other sectors is NPR20 million. Furthermore, in the same fiscal year, the government introduced a 50 percent income tax waiver on earnings from IT-related service exports, such as BPO, software development, and cloud computing, for the next five fiscal years.

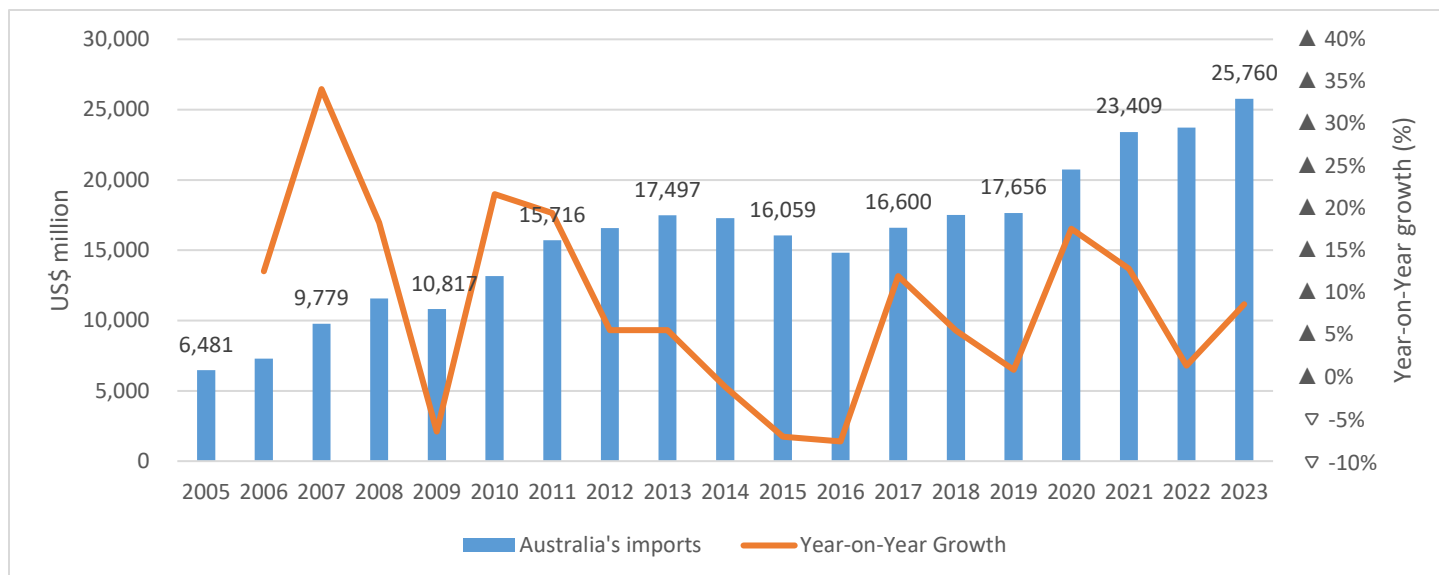
Nepal's burgeoning IT sector and Australia's enormous IT industry and capabilities offer a wealth of opportunities for Nepal to explore. The Nepali diaspora in Australia could play a pivotal role in helping Nepal capitalize on this potential, fostering economic growth and technological advancement.

Figure 58: Digitally delivered services trade: Nepal's exports to the world and Australia's imports from the world



⁵⁰ Australian Trade and Investment Commission's report "Why Australia Digital Technology, 2023".

⁵¹ Ibid.



Source: WTO, Digitally Delivered Services Dataset,

https://www.wto.org/english/res_e/statistics_e/gstdh_digital_services_e.htm, accessed on 6 October 2024

Challenges and constraints in services trade between Nepal and Australia

Despite having significant potential in the IT sector in Nepal, there are various challenges and hurdles that Nepal faces in exporting these services. IIDS (2023) highlights some of these challenges: limited skills and competencies of the IT workforce; academic institutions in the country struggling to produce human resources capable of competing in the global IT sector; inadequate infrastructure particularly with respect to internet connectivity, power supply, and electricity, alongside high costs for setting up physical offices and data infrastructure; lack of clear, updated policies tailored to the IT sector, especially regarding IT service exports; intellectual property protection being insufficient, with inadequate regulations for data privacy and security, while the proposed IT legislation hints at potential restrictions on cross-border data flows. Many IT companies and professionals lack comprehensive knowledge of relevant policies. There are also payment-related issues, such as challenges in receiving payments from international clients, delayed cost reimbursements, high transfer fees, nostro charges, lengthy verification processes, and unfamiliarity with SWIFT, that further hinder the sector’s growth (IIDS 2023). There is a notable gap in access to technology and digital skills between urban and rural areas (ibid.).

Additionally, the difficulties faced by internet service providers in making payments to their suppliers in foreign currency have further discouraged investor confidence⁵². A recent tax dispute in the IT sector

⁵² <https://kathmandupost.com/money/2023/12/21/isps-must-clear-tax-dues-to-access-foreign-exchange-regulator> accessed on 08 October, 2024.

wherein the Nepal government accused a company with foreign investment that exports IT services of evading taxes, including VAT, although services exports are zero-rated for VAT, has raised regulatory uncertainty in the budding IT export sector.⁵³

There are also various challenges impacting the tourism sector of Nepal. The tourism industry suffers from a lack of coordination across various sub-sectors such as marketing and branding, transportation, and hospitality (MCC 2014). Lemma et al. (2017) emphasize that inadequate infrastructure poses a significant threat to Nepal's tourism industry. The country's weak image as a tourist destination is largely attributed to a lack of proper infrastructure. Reis et al. (2015) point out that infrastructure deficits, including insufficient lodging systems, hinder the growth of the tourism industry. Security concerns and political instability may also deter tourists from visiting Nepal. Additionally, natural disasters and environmental degradation pose challenges to the development of sustainable tourism. The industry's ability to boost export performance is further constrained by a lack of skilled labor (ibid.). Kharel (2022) notes that inadequate infrastructure, such as poor road access, the limited capacity of the only operational international airport (with two newly opened airports currently non-functional for international flights), and subpar quality of tourist services and facilities, have significantly affected Nepal's tourism sector. Moreover, the frequent plane crashes in Nepal have adversely affected the tourism sector, raising safety concerns among potential visitors and undermining confidence in the country's aviation industry.

The government of Nepal has struggled to leverage the growing Nepali diaspora in Australia to promote Nepal as a tourist destination. It is essential for the Nepali diaspora in Australia, along with the embassy and consulates, to collaborate on initiatives that highlight Nepal's cultural and natural attractions. By organizing events, cultural exchanges, and promotional campaigns, they can effectively raise awareness about Nepal as a tourism hub, encouraging both the diaspora and international travelers from Australia to explore the country's rich natural beauty and cultural heritage.

Migration and remittances

Migration

Trends, patterns and composition

Nepal-born people living in Australia constitute one of Australia's fastest-growing migrant communities. The resident population of Australia born in Nepal grew from 7,980 in 2007 to 34.75 thousand in 2013, and then soared to more than 179,000 in 2023, an increment by over 5 times in a decade (Table 19 and Figure 59), the fastest among major origin countries. The share of Nepal-born people in Australia's total population was 0.2 percent in 2013, and expected to reach 0.7 percent in 2023 (Table 19). Further, Nepal is ranked ninth in terms of Australia's population based on overseas country of birth (Table 19). Nepal comes in third in terms of the largest increment of population based on overseas birth between 2013 and 2023, with the population surging by about 144,000, behind India with an increase of 467,000 and China

⁵³ <https://myrepublica.nagariknetwork.com/news/cotiviti-controversy-mars-investment-summit-in-nepal/#:~:text=Cotiviti%20Nepal%20is%20accused%20of%20leaking%20Rs%2010.36,avoidance%20of%20value-added%20tax%20%28VAT%29%20and%20income%20tax>, accessed on 08 October, 2024.

with an increase of 223,000. The Nepal-born population in Australia had the youngest median age among residents, including those born in Australia, with a median age of 28 years in 2013 and 29 years in 2023.

Table 19: Top 10 countries for Australia's estimated resident population by country of birth

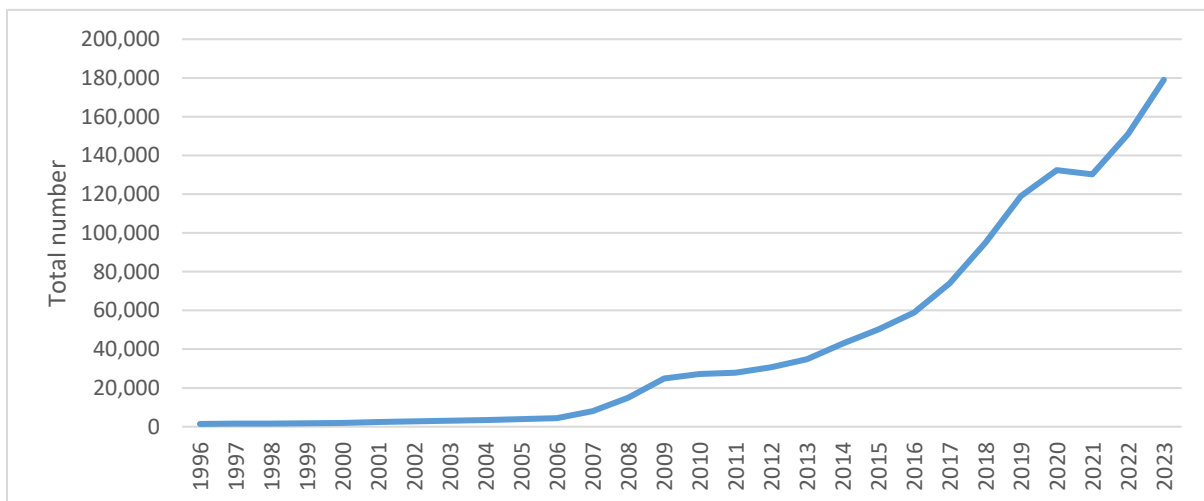
Country of birth	2013		2023	
	'000	Share in Australia's total population (%)	'000	Share in Australia's total population (%)
England	1,012.78	4.4	961.57	3.6
India	378.48	1.6	845.80	3.2
China	432.40	1.9	655.76	2.5
New Zealand	585.39	2.5	598.09	2.2
Philippines	218.87	0.9	361.86	1.4
Vietnam	219.94	1.0	298.96	1.1
South Africa	172.17	0.7	214.79	0.8
Malaysia	138.37	0.6	180.47	0.7
Nepal	34.75	0.2	179.05	0.7
Italy	200.67	0.9	158.99	0.6
Total overseas-born	6,408.74	27.7	8,175.64	30.7
Australian-born	16,719.39	72.3	18,473.24	69.3
Total population	23,128.13	100	26,648.88	100

Note: Population estimates for 2023 are preliminary

Data for China does not include special administrative regions of China and Taiwan

Source: Australian Bureau of Statistics

Figure 59: Estimated resident population by country of birth (Nepal) in Australia



Note: Data from 30 June 1996 to 30 June 2023. Estimated resident population by country of birth is final up to 2021, revised up to 2022 and preliminary up to 30 June 2023.

Source: Australian Bureau of Statistics

Breakdown of temporary migration

Temporary visa in Australia is meant for a temporary stay for different purposes that include study, medical treatment, visits, skilled work, working holidays or other specialist activities. The major categories of temporary visa include visitor visa, working holiday maker programme, student visa, temporary resident (skilled employment) visa, and other temporary visas. The bulk of temporary visas granted to Nepalis are student visas (Table 20). As of 31 July 2024, student visas accounted for 43.5 percent of all the 134,168 temporary visas granted. Growing student visas have resulted in more temporary graduate visas granted to students after completion of their studies, enabling them to work for a few years in Australia. As of 31 July 2024, temporary graduate visa holders from Nepal numbered 32,675. Table 20 provides data on the different types of temporary visa holders from Nepal in Australia.

Table 20: Temporary visa holders from Nepal

Visa category	12/31/2020	12/31/2021	12/31/2022	12/31/2023	3/31/2024	6/30/2024	7/31/2024
Bridging	14,260	24,759	11,723	9,119	14,432	17,021	17,083
Crew and Transit			27	60	57	29	19
Student	50,344	37,567	55,998	60,630	59,494	57,085	58,420
Visitor	2,587	1,756	15,798	19,276	15,221	15,888	14,720
Other Temporary	8	8	11	9	9	10	10
Temporary Resident (Other Employment)	346	1,020	6,998	11,237	9,613	8,359	7,547
Temporary Resident (Skilled Employment)	1,234	1,284	1,834	2,526	2,779	3,458	3,694
Temporary Protection	5	6	6	<5	<5		
Temporary Graduate	16,748	15,836	24,209	28,756	29,399	32,039	32,675
Grand Total	85,532	82,236	116,604	131,614	131,005	133,889	134,168

Note: Stocks of temporary visas over the years

Source: Department of Home Affairs, Australian Government

Further, in the 2023/24 programme year to 31 December 2023, the top five countries for student visa lodgments were China (53,149); India (44,889); Philippines (17,792); Nepal (16,779); and Colombia (14,026). The applications from these countries accounted for more than 50 percent of all visa lodgments

in the reporting period⁵⁴. Out of total applications for student visa from Nepal, 10,234 applications were granted visas accounting for more than 60 percent of total student visa lodgments from Nepal. On 31 December 2023, there were 547,075 student visa holders in Australia, of which 60,630 were from Nepal, accounting for 11.08 percent of the total and making Nepal third-ranked, after India (106,135) and China (64,747)⁵⁵.

Breakdown of permanent migration

The permanent migration visa consists of mainly three kinds of visas, namely skill stream visas, family and child stream visas and special eligibility visas. Skill stream visas are for workers who have the skills, education as well as technical competence needed in the Australian economy. Special eligibility visas allow former residents and certain people who served in the Australian Defense Force, whereas family and child stream visas are meant for close relatives of Australians, family members, partners, carers, etc.

In 2022/23, out of 12,041 permanent migration visas granted to Nepalis, regional visas accounted for more than 36 percent (4,380), state/territory-nominated visas accounted for almost 28 percent (3,367) and skilled independent visas accounted for 23 percent (2,763) (Figure 60)^{56,57}. These three categories are all based on skill stream visas and are the major visa categories through which Nepalis have got permanent residency visa over the years (Figure 60). Partner visas have also emerged as another important avenue for permanent residency in recent years (Figure 60).

Nepal ranks among the top 10 countries whose citizens receive permanent residency in Australia (Tables 21 and 22).

⁵⁴ The 2023/24 programme year included above is the time period from 1 July 2023 to 31 December 2023. In Australia, the financial year runs from July 1 to June 30 of the following year. The above data has been derived from the bi-annual report 'Student visa and Temporary Graduate visa program report' of 31 December 2023 published by the Department of Home Affairs, Australia.

⁵⁵ As of July 31, 2024, the total stock of student visa holders from Nepal is 58,420, derived from the dataset of Department of Home Affairs, Australian Government.

⁵⁶ Australia's financial year begins on 1 July and ends on 30 June of the next year.

⁵⁷ Regional visas are provisional visas for skilled workers who want to live and work in regional Australia. State/territory nominated visas, as the name suggests, are nominated or sponsored by the particular states or territories. Skilled independent visas are based on a point-based visa system that lets skilled workers with required skills to get permanent residency in Australia.

Table 22: Permanent Migration Programme outcomes over time: Top 10 countries of citizenship

Outcome	Rank			Total
	2020-21	2021-22	2022-23	
Citizenship Country	2020-21	2021-22	2022-23	2022-23
India	2	1	1	41,145
China, Peoples Republic of (excl SARs)	1	2	2	23,936
Philippines	4	4	3	13,085
Nepal	7	5	4	12,041
United Kingdom	3	3	5	11,439
New Zealand	11	7	6	10,853
Vietnam	5	6	7	6,571
South Africa	12	10	8	5,434
Pakistan	9	9	9	4,927
Sri Lanka	18	13	10	4,482

Note: Includes primary and secondary applicants

Top 10 grouping based on 2022-23 outcome

Source: 2022/23 Migration Program Report (Program year 1 July 2022 to 30 June 2023), Department of Home Affairs, Australian Government

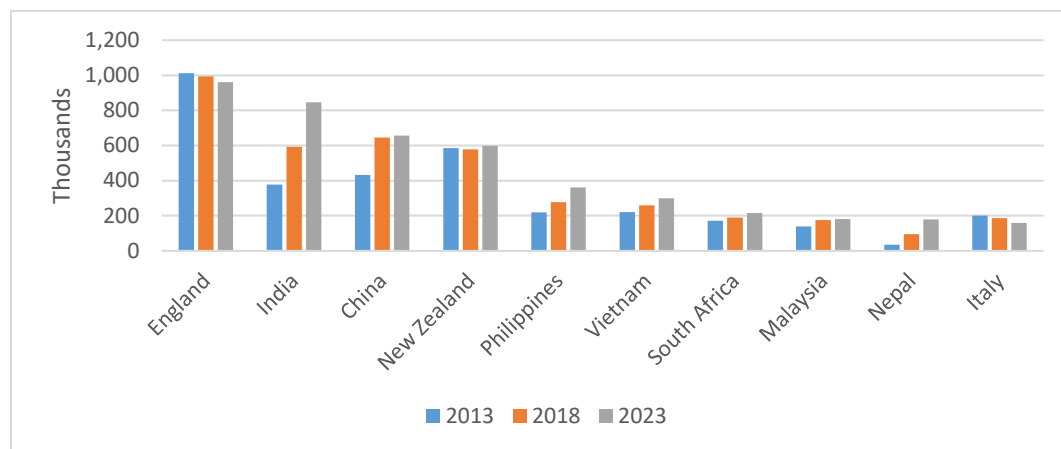
Potential and opportunities for leveraging migration

As of 30 June 2023, the Nepali-born resident population in Australia exceeded 179,000, placing it among the top 10 resident populations from all countries, accounting for 0.7 percent of the total population of Australia (Figure 61). The population of Nepali-born resident population grew fivefold from 2013 to 2023. The number of Nepali students in Australian universities and educational institutions has been growing fast.

The growing number of Nepalis in Australia, both as permanent residents and on temporary visas (notably students), is likely to foster stronger connections and enhance people-to-people interactions, thereby strengthening bilateral relations between the two countries. The Australian Chapter of the Non-Resident Nepali Association (NRNA) is officially recognized by the Government of Nepal. It could play a key role in expanding and deepening trade and investment relations between Australia and Nepal. The second largest organization representing the Nepali diaspora is the Federation of Nepalese Community Associations of Australia (FeNCAA), which advocates the welfare of the Nepali community in Australia. FeNCAA also serves as a significant voice for the community in lobbying Australian federal and state/territory governments, as well as facilitating education and information sharing among its members and stakeholders. These organizations can enhance the relationship between Nepal and Australia, further deepening economic and bilateral ties.

The governments of Nepal and Australia can utilize these organizations to foster trade and investment ties between the two countries. By leveraging the networks and expertise of groups like the NRNA and FeNCAA, the Nepali government can create targeted initiatives that encourage Australian businesses to explore opportunities in Nepal. Such partnerships can enhance outreach efforts, facilitate knowledge sharing, and provide support for Australian investors, ultimately contributing to stronger economic ties between the two nations. The Australian government can also engage with these organizations to promote collaboration and strengthen people-to-people connections and networks.

Figure 61: Estimated resident population by country of birth over the years, including Nepal



Note: China excludes SARs and Taiwan

Data as of 30 June 2023

Source: Australian Bureau of statistics

Challenges and constraints

As the number of students in Australia continues to rise each year, so do living costs, presenting significant challenges for international, including Nepali, students. The Australian government recently announced a substantial hike in student visa fees, which has rose to A\$1,600 effective from 1 July 2024—representing a 125 percent increase from the previous fee of A\$710⁵⁸. This change is likely to have a noticeable impact on many international students. Additionally, the new cap of 270,000 student visas per annum⁵⁹ could in principle affect Nepali applicants, although a leading figure in the educational consultancy sector specializing in helping Nepalis go abroad for studies is upbeat, saying that the cap will not significantly affect the flow of Nepali students to Australia. Sydney ranks as the second most expensive city in the world, with average housing prices reaching A\$1.3 million, while Melbourne, Adelaide, and Brisbane also rank among the costliest cities globally, with Melbourne in the 9th place, Adelaide in the 14th place, and

⁵⁸<https://monitor.icef.com/2024/07/australia-implements-immediate-225-increase-in-student-visa-application-fees/>

⁵⁹ <https://www.bbc.com/news/articles/cd734wed3y9o>

Brisbane in the 15th place⁶⁰. All these factors could impact Nepali students who want to study or are studying in Australia.

Remittances

Potential and opportunities

Nepal's economy relies heavily on remittances, and the rising trend of Nepali students seeking education abroad, including in Australia, opens up additional avenues for remittance inflows. This growing population of students in Australia not only has the potential to contribute significantly to remittance flows but also foster stronger connections between the two countries, enhancing economic ties and opportunities for investment in Nepal. In 2021, as per a World Bank estimate, Nepal received around US\$467 million in remittances from Australia, accounting for about 5.7 percent of remittances received from the world in the period⁶¹. In 2022/23, as per an estimate based on a national household survey in Nepal, Australia was the source of nearly 8 percent of external remittances received by Nepal (NSO 2024). Australia was the sixth largest source of remittances to Nepal in 2021, as per the World Bank estimate, as well as in 2022/23, as per NSO (2024).

Challenges and constraints

Remittances have played a pivotal role in Nepal's socio-economic progress, helping to offset the limited foreign exchange generated by the country's weak export sector. However, the country's heavy dependence on these remittances brings with it certain risks. Both at the macroeconomic and household levels, Nepal's reliance on remittance inflows makes it highly susceptible to potential disruptions in these financial transfers (IMF 2020). Such dependence increases the nation's vulnerability to external shocks, which could have far-reaching economic and social impacts, underscoring the need for a more diversified and sustainable economic strategy. Further, there are also concerns of the high cost of migration. Although the government's "Free Visa, Free Ticket" policy applies to labour migration to seven key countries, migrants still face significant expenses, particularly due to fees charged by recruitment agencies. These costs lead to elevated migration expenses and often result in households incurring debt (UNCDF 2023, CESLAM 2022).

In addition, huge amounts of remittances come to the country through informal channels. Informal channels such as the *hundi* system constitute a significant portion of Nepal's foreign remittance receipts—up to 20-30 percent in some of the corridors (MoLESS 2022, UNCDF 2022). Further, there are also concerns that remittance inflows are primarily directed toward consumption, with limited impact on business development and capital formation. For example, a survey by Nepal's central bank found that, on average,

⁶⁰ Demographia International Housing Affordability report, 2024

⁶¹ Bilateral Remittances Matrix data, World Bank. These estimates are computed using the methodology described in [Ratha and Shaw, 2007, "South-South Migration and Remittances."](#) Accordingly, inward remittances to a country are allocated to various source countries in proportion to its stock of migrants in those countries, the per capita income (in purchasing power parity terms) in the destination countries, and the per capita income (again in PPP terms) in the origin countries.

28 percent of remittances are saved (NRB 2016). Kharel, Dávalos, and Dahal (2021) point out that remittances had little impact on nonfarm self-employment among those staying back.

Investment

Trends, patterns and composition

Australia is the fourth largest source of foreign direct investment (FDI) stock when compared with all other countries Nepal receives FDI from (Table 23). As of mid-July 2023 (year ending 2022/23), the total FDI stock of Australia is valued at about US\$145 million, accounting for 6.4 percent of Nepal's total FDI stock (Table 23).

Table 23: Country-wise FDI stock in Nepal as of Mid-July 2023

FDI stock by major countries	FDI stock, US\$ million	Share in total FDI stock (%)
India	786.89	35
China	269.73	12
Ireland	172.09	7.7
Australia	144.95	6.4
Singapore	143.06	6.4
West Indies	109.50	4.9
South Korea	105.56	4.7
United Arab Emirates	93.44	4.2
United States of America	93.01	4.1
Hong Kong- China	55.03	2.4
Others	274.38	12.2
Total	2,247.64	100

Note: NPR values are converted into US\$ using the year-end exchange rate (average of buying and selling rates) reported by Nepal Rastra Bank.

Source: Survey Report on Foreign Direct Investment in Nepal, 2022/23, Nepal Rastra Bank

While Nepal has been receiving considerable volumes of foreign investments from Australia each year, year-on-year volumes of investments keep fluctuating. In FY 2022/23 it received US\$44.88 million (calculated by taking the difference between the FDI stock from Australia that year from the FDI stock from Australia the previous year), which was 18.93 percent of the total FDI received by Nepal that year (Table 24). Most of these investments from Australia are coming into the services sector (Table 25), which include subsectors such as accommodation and food services, education, financial and insurance services, human health and social work, information and communication, transportation and storage, and other services. Data on the distribution of realized investments across services subsectors are not available. When compared to other South Asian countries, the FDI receipts of Nepal are low and have potential for growth.

Table 24: FDI flow from Australia to Nepal (US\$ million)

Fiscal Year	2022/23	2021/22	2020/21	2019/20
Paid Up	9.34	22.22	2.56	12.46
Reserves	35.49	4.35	2.50	0.10
Loans	0.06	(18.81)	6.14	13.88
Total	44.88	7.76	11.20	26.44
Share in total FDI flow from all countries to Nepal	18.93%	2.73%	4.54%	20.45%

Note: NPR values are converted into US\$ using the year-end exchange rate (average of buying and selling rates) reported by Nepal Rastra Bank.

Source: Authors' calculation based on Survey Report on Foreign Direct Investment in Nepal, 2022/23, Nepal Rastra Bank

Table 25: Sector-wise FDI Flow to Nepal from Australia (US\$ million)

	2022/23	2021/22	2020/21	2019/20
Agriculture	-	(0.02)	-	-
Industry	1.18	0.25	0.42	0.18
Services	43.70	7.53	10.78	26.26
Total	44.88	7.76	11.20	26.44

Note: NPR values are converted into US\$ using the year-end exchange rate (average of buying and selling rates) reported by Nepal Rastra Bank.

Source: Authors' calculation based on Survey Report on Foreign Direct Investment in Nepal, 2022/23, Nepal Rastra Bank

As per media reports⁶², Australian investors have received approval for an investment of about NPR700 million in the first phase and NPR400 million in the second phase to develop a luxury resort in a scenic place near Rara lake in Mugu district. Data on approved investments from Australia in Nepal in recent years reveal that Australian investors are drawn to Nepal's tourism and ICT sectors (Table 26).

Table 26: Approved investments from Australia in Nepal

⁶² <https://newbusinessage.com/article/australian-investment-roped-in-for-building-resort-in-rara>

Fiscal Year	Category	Number of approved projects	Total amount of approved investment foreign (NPR million)	Estimated employment
2013/14	Agro and Forestry Based	1	4	28
	Service	1	5	18
	Tourism	2	34.5	74
	2013/14 Total	4	43.5	120
2014/15	Agro and Forestry Based	1	5	27
	Service	1	10	21
	Tourism	3	20	27
	2014/15 Total	5	35	75
2015/16	Service	2	18.3	44
	Tourism	4	59.5	76
	2015/16 Total	6	77.8	120
2016/17	Manufacturing	2	10.1	62
	Service	1	5	20
	Tourism	3	10.5	54
	2016/17 Total	6	25.6	136
2017/18	Service	5	40.23	175
	2017/18 Total	5	40.23	175
2018/19	Tourism	2	53	48
	2018/19 Total	2	53	48
2019/20	ICT Based	2	100	181
	2019/20 Total	2	100	181
2020/21	Tourism	1	50	20
	2020/21 Total	1	50	20
Grand Total		31	425.13	875

Source: Industrial Statistics, various issues, Department of Industry, Ministry of Industry, Commerce and Supplies (MoICS), Nepal

SMEC Australia, a construction engineering company, secured a contract from Nepal's Department of Electricity Development to deliver detailed engineering designs and conduct Environmental and Social Impact Assessments (ESIA) for the 20 MW Budhi Ganga Hydropower Project⁶³.

Potential and opportunities

Consistent with the global trend, Australia's outbound foreign investment stock grew in 2023 to reach a new height of A\$3,823 billion but at a slower pace than in previous years. Of the total foreign investments made, almost half was made in Asia Pacific Economic Cooperation (APEC) member countries. The United States (US) and United Kingdom (UK) together had received almost half of the total investment stock by 2023. Between 2013 and 2023, Australia's investment stocks in major Asian economies (China, Hong Kong (SAR of China), India, Japan, Republic of Korea, Taiwan) doubled from A\$221 billion to A\$442 billion⁶⁴. In India, with which Nepal shares a border and is Nepal's largest trade partner and source of investment, Australia had invested a total of A\$22.2 billion by the end of 2023, out of which A\$4.2 billion was received in 2023 alone.⁶⁵ In Sri Lanka, Bangladesh and Pakistan, Australian investment stocks had reached A\$115 million, A\$80 million and A\$1,660 million by 2023, respectively.

The Government of Nepal (GoN) has introduced and revised policies and acts—such as the Industrial Enterprises Act of 2020, the Foreign Investment and Technology Transfer Act of 2019, the Public Private Partnership and Investment Act of 2019—with several supportive measures aimed at promoting FDI inflows. GoN has also established a single-window mechanism (One Stop Service Centre) whose objective is to simplify the process of investing in Nepal for foreign investors. This dedicated centre was established on the premises of the Department of Industry on 15 May 2019 and aims to provide all essential services such as approval of foreign investment, recommendation for business visa, initial environmental examination, environment impact assessment, foreign currency exchange facilities and other related services from a single office. This centre has the representation of 14 different government organizations and 9 facilitation units under a single roof.⁶⁶

GoN through the budget statement of FY 2022/23 reduced the minimum FDI investment threshold to approximately USD 160,760 (NPR 20 million) from USD 401,900 (NPR 50 million) for all industries where

⁶³ SMEC has been active in Nepal since 1968, beginning with the 300 MW Karnali Hydropower Project, for which it provided project planning and conducted feasibility studies. Over the years, SMEC has contributed to various projects across Nepal, including a water resources and energy training programme for the Government of Nepal, the Rasuwagadhi Hydroelectric Project, the Kathmandu Sustainable Urban Transport Project, and the Sanjen (Upper) and Sanjen Hydroelectric Project, located around 160 km north of Kathmandu <https://www.smec.com/np/>, accessed on 27 September 2024.

⁶⁴ Australian Bureau of Statistics, 2023

⁶⁵ Ibid.

⁶⁶ "Foreign Investment in Nepal 2024 - A complete guide for investors", *Foreign Investment & Technology Transfer Section (One Stop Service Centre)*, 2024

foreign investment is allowed⁶⁷. This lower FDI threshold has opened new opportunities by attracting small and medium level foreign investors into the country. In the same year, GoN also announced the removal of the minimum threshold for FDI in the Information Technology (IT) sector with an objective to attract service-based companies that offer outsourcing services to international clients and do not require huge capital investments. Preliminary data indicate a promising start as there has been a significant growth in FDI commitments from small-scale foreign business ventures.⁶⁸

In a notable development, in 2021, Section 50 of the Foreign Investment and Technology Transfer Act 2019 introduced a provision opening the agriculture sector to foreign investment. The amendment allowed foreign investment in fisheries, beekeeping, fruits, vegetables, oilseeds, pulses, dairy and primary products of agriculture on the condition of exporting 75 percent of the output. Such foreign investment is allowed only in a large industry, defined by the Industrial Enterprise Act 2076 as having a fixed capital investment of over NPR 500 million.

In November 2024, Fitch ratings assigned Nepal a Long-Term Foreign Currency Issuer Default Rating (IDR) of 'BB-' with a stable outlook, the highest among all South Asian countries except India⁶⁹. This rating was driven by several factors. First, Nepal maintains a low, stable, and affordable debt profile. Nearly half of the total government debt consists of external borrowing, which is highly concessional. The debt-to-GDP ratio is projected to remain stable in the near term, with limited exposure to non-current contingent liabilities. Second, Nepal adheres to a strict fiscal framework, supported by a declining budget deficit and strong foreign exchange reserves. It strictly complies with fiscal rules on government borrowing. Finally, the country's economic growth is anticipated to recover following a policy-induced slowdown in FY 2023 and 2024.⁷⁰ The assigned rating of 'BB-' falls within the speculative grade category, indicating an elevated vulnerability to default risk, particularly in the event of adverse shifts in business or economic conditions over time. However, Nepal retains a degree of business and financial flexibility that supports the servicing of financial commitments.⁷¹ This rating presents potential international investors with an opportunity to invest at the safest possible level within the speculative category while benefiting from relatively high expected yields, thereby enhancing the country's attractiveness to foreign investment.⁷² By leveraging its

⁶⁷ Retrieved from: <https://investmentpolicy.unctad.org/investment-policy-monitor/measures/3968/reduces-the-minimum-capital-requirement-by-60->

⁶⁸ "Lowered FDI threshold lures small investors," *The Kathmandu Post*, January 23, 2024, <https://kathmandupost.com/money/2024/01/23/lowered-fdi-threshold-lures-small-investors>

⁶⁹ Based on the author's search on the Fitch Ratings website, accessed February 10, 2025, <https://www.fitchratings.com>.

⁷⁰ Fitch Ratings, "Fitch Assigns Nepal 'BB-' IDR; Outlook Stable," November 21, 2024, <https://www.fitchratings.com/research/sovereigns/fitch-assigns-nepal-bb-idr-outlook-stable-21-11-2024>.

⁷¹ Fitch Ratings, "Rating Definitions," accessed February 10, 2025, <https://www.fitchratings.com/products/rating-definitions#ratings-scales>.

⁷² Bloomberg, "Harnessing Bond Ratings to Unlock Opportunities," accessed February 10, 2025, <https://www.bloomberg.com/professional/insights/markets/harnessing-bond-ratings-to-unlock-opportunities>.

favourable credit rating, Nepal can implement investment-friendly policies to attract substantial foreign capital investment.

The International Monetary Fund (IMF) has revised its Asia growth outlook upward, anticipating improved economic performance in two key emerging economies, China and India.⁷³ The latest IMF projections expect Asia to grow at 4.6 percent, 4.2 percent and 4.3 percent in 2023, 2024 and 2025. In the same time period, China is expected to grow at 5.0, 4.2 and 4.1 percent while India is expected to grow at 6.3 percent each year.⁷⁴ Nepal shares a border and has strong economic ties with both China and India. The bilateral trade treaty between Nepal and India allows duty-free and quota-free access to each other's primary goods, and grants duty-free access to most manufactured goods from Nepal subject to rules of origin. Similarly, China has offered duty-free treatment to all LDCs including Nepal on almost 97 percent of the country's total tariff lines (8,036 out of 8,285 products at the HS 8-digit level). The huge size of the two neighbouring economies and the duty-free market access for Nepal present opportunities for Australia to boost its investment in Nepal targeting the Chinese and Indian markets.

China is Australia's largest two-way trading partner, accounting for 27 per cent of Australian goods and services trade with the world in 2023.⁷⁵ In recent years, trade and investment ties have been marred by serious frictions. Investors from Australia can leverage Nepal's open investment space to produce goods targeting the Chinese market. Australian investors have the opportunity to invest in the pork, poultry and horticulture sectors and export Australian-standard products to the Chinese market.⁷⁶

A significant amount of outbound FDI from Australia has gone into mining, manufacturing and services (Table 27). All these industries are also on Nepal's priority list for attracting FDI. GoN has recognized mining as a potential sector to attract more FDI into the country and it showcased an iron ore mining project in the Nepal Investment Summit of 2024.⁷⁷ Nepal's manufacturing sector has been attracting interest from foreign investors. Recognizing the potential of special economic zones (SEZs), export processing zones and industrial parks in promoting the manufacturing sector, Nepal has passed an SEZ Act, established two SEZs and is in the process of establishing more in different parts of the country. These

⁷³ <https://www.imf.org/en/Blogs/Articles/2024/04/29/asias-growth-and-inflation-outlook-improves-but-risks-remain#:~:text=The%20Asia%20growth%20forecast%20for,outlook%20are%20now%20broadly%20balanced.&text=Despite%20robust%20demand%20growth%2C%20inflation%20in%20Asia%20has%20continued%20to%20retreat>

⁷⁴ International Monetary Fund, *Regional Economic Outlook. Asia and Pacific: Challenges to sustaining growth and disinflation*, Oct 2023

⁷⁵ Australian Government. Department of Foreign Affairs and Trade, China country brief, <https://www.dfat.gov.au/geo/china/china-country-brief#:~:text=sister%20city%20relationships,Trade%20and%20investment,in%202023%2C%20totalling%20%24326.9%20billion>.

⁷⁶ Agricultural Competitiveness, Production and Market Pathways – Unlocking economic development in Nepal

⁷⁷ "Nepal plans its 'biggest' iron dig," *The Kathmandu Post*, May 7 2024, <https://kathmandupost.com/money/2024/05/07/nepal-plans-its-biggest-iron-dig>

policy support measures, coupled with the huge consumer markets of India and China, could attract foreign investors, including Australians, to Nepal.

Table 27: Outbound foreign direct investment flows from Australia by industrial sector (all values in million US\$)

Industrial sector	2017	2018	2019	2020	2021
Agriculture, forestry and fishing	c	c	c	c	c
Mining and quarrying	(465.17)	3,199.37	6,349.48	5,869.97	(799.10)
Manufacturing	5,078.55	4,804.66	9,158.27	(600.62)	(2,259.86)
Electricity, gas, steam and air conditioning supply	387.00	c	c	c	c
Water supply; sewerage, waste management and remediation activities					
Construction	586.25	793.31	c	198.14	291.40
Services	8,671.93	24,902.52	(682.56)	4,732.71	6,871.95
Wholesale and retail trade; repair of motor vehicles and motorcycles	(327.99)	2,477.78	131.37	406.61	391.29
Transportation and storage	(216.11)	96.36	182.80	328.86	570.03
Accommodation and food service activities	90.43	c	c	c	c
Information and communication	477.43	606.56	c	c	c
Financial and insurance activities	6,819.68	3,519.09	(5,211.65)	4,592.36	6,410.82
Activities of holding companies					
Real estate activities	2,277.57	733.55	(2,298.60)	(1,669.08)	(1,667.29)
Professional, scientific and technical activities	(248.30)	259.95	c	632.27	793.84
Administrative and support service activities	611.54	(10.46)	514.35	338.49	(87.12)
Public administration; activities of households and of extraterritorial organizations	-	-	-	-	-
Education	c	c	c	c	c
Human health and social work activities	c	307.76	1,370.68	267.63	(775.07)
Arts, entertainment and recreation	c	c	43.79	c	c
Other services	-	c	c	-	-
Not allocated and confidential	c	c	c	c	c
All FDI activities (Total outbound FDI flows)	7,799.07	7,139.02	9,856.82	9,938.08	9,221.18
- Zero values					
c - Confidential Data					

Source: OECD International Direct Investment Statistics (database): <https://doi.org/10.1787/idi-data-en>

One fourth of Nepal's total FDI receipts (from all countries) have been in the financial and insurance sector⁷⁸, while almost half of outbound FDI from Australia in 2020 and almost 70 percent of outbound FDI in 2021 were in finance and insurance. The Securities Exchange Board of Nepal (SEBON) issued Specialized Investment Fund Regulation, 2019, opening new avenues to bring FDI into the country through alternative funds such as private equity, venture capital and climate funds.⁷⁹ As per a report of the Nepal Private Equity Association, between 2012 and 2023, 16 funds made 96 investments in Nepal worth US\$101 million.⁸⁰

Challenges and constraints

FDI inflows to Nepal have been persistently low, averaging less than 1 percent of the country's GDP. In 2022, the net inflows of FDI as a percent of GDP were just 0.16, and in the decade from 2011 to 2022 as well, net inflows as a percent of GDP were less than 1 percent.⁸¹ This suggests that despite some policy-level and other support initiatives, the overall environment is not conducive to attracting significant levels of FDI into the country. Moreover, only a small fraction of FDI commitments gets realized. For instance, in FY 2022/23, out of the total committed and approved FDI of NPR 30.7 billion, only 19.6 percent, i.e., around NPR 6 billion, was actually realized or received by Nepal⁸². In the previous year of 2021/22, the actual net FDI received was around 34.3 percent of the total approved FDI⁸³. This shows significant challenges still exist to convert FDI commitments into actual receipts.

GoN has introduced many policies, and simplified rules, regulations and administrative procedures to attract foreign investments into the country. There exists huge potential in many sectors such as energy, tourism, information and communication technology (ICT), infrastructure, and agriculture. Nepal has a shared border and strong economic ties with, and enjoys duty-free access to, India and China. Despite all of these, Nepal has not been able to fully exploit its investment potential as several factors such as political instability, corruption, complex bureaucratic processes, and inconsistent enforcement of laws and regulations have discouraged potential investors⁸⁴.

Several specific obstacles to FDI inflows persist, including restrictions on investment in specific sectors, challenges in repatriating profits, and a regulatory framework that does not fully align with international

⁷⁸ Nepal Rastra Bank.

⁷⁹ Siddhant Raj Pandey, "Alternative investments to attract FDI", *Nepali Times*, June 2 2023, <https://nepalitimes.com/opinion/comment/alternative-investments-to-attract-fdi>

⁸⁰ Nepal Private Equity Association, "Market Snapshot", Volume II, July 2024

⁸¹ World Development Indicators (WDI), World Bank

⁸² Survey report on FDI, Nepal Rastra Bank

⁸³ Ibid.

⁸⁴ U.S. Department of State. 2024. "2024 Investment Climate Statements: Nepal." Accessed on September 23, 2024. <https://www.state.gov/reports/2024-investment-climate-statements/nepal/>

best practices.⁸⁵ Despite opening up most of the sectors for foreign investors, there still exist several sectors such as cottage and small industries, personal services, real estate, retail, and travel agencies where foreign investments are not allowed.

The FITTA Act of 2019 states that any foreign investor who wishes to repatriate foreign investment or earnings has to make an application to the foreign investment approving body for approval. Once it gets the approval, it has to apply to Nepal Rastra Bank, the central bank, for the final transfer of amount. The approving body has stated that it will take a maximum of 15 days to get its approval after submission of a complete application but in practice the application process is full of hassles.

The fluctuation of the Nepali Rupee's exchange rate vis-à-vis currencies other than the Indian Currency is another challenge to attracting FDI inflows to Nepal. Without viable currency risk mitigation measures, foreign investors are reluctant to invest in Nepal. GoN introduced a policy to provide hedging facilities to foreign investors in its budget statement of FY 2018/19, and developed a hedging regulation in 2018⁸⁶ with more revisions in 2020 and 2022. Despite this regulation, challenges exist: uncertainties regarding hedging fees, the roles of hedging service providers, the responsibilities of GoN and Nepal Rastra Bank in regulating and offering hedging facilities, as well as the criteria for identifying eligible projects or entities for these facilities. Other market-driven hedging instruments are available but have an expensive premium which makes investment in Nepal financially infeasible for many foreign investors.⁸⁷

Overseas development assistance (ODA)

The overseas development assistance (ODA) received by Nepal from Australia was A\$24.11 million in 2022/23. Nepal's ODA receipts from Australia are lower than those of other LDCs like Bangladesh, Cambodia and Laos, and several other South Asian countries (Figures 62 and 63).

According to the Development Cooperation Report of 2021/22, published by Nepal's Ministry of Finance, Australia supports six nationwide projects and another 103 projects that include all provinces of Nepal. Further, between 2012/13 and 2021/22, Australia disbursed US\$181.8 million for development projects, accounting for 1.32 percent of the total ODA disbursement to Nepal by all development partners.

Australia's ODA in Nepal mostly targets areas such as governance, climate and disaster resilience, gender equality, and social inclusion. Australia's development programme aims to support Nepal's development goals and its anticipated transition from LDC status in 2026. Its Subnational Governance Programme (SNGP) aims to aid Nepal's shift to federalism by strengthening institutional capacities. Through a Memorandum of Understanding on Water Resource Management, coordinated by Nepal's Water Energy Commission Secretariat, Australia provides its insights and expertise on topics of mutual interest, such as

⁸⁵ Ibid.

⁸⁶ "Govt enforces hedging regulation to minimize risk on foreign investment emanating from exchange rate fluctuation," *Republica*, September 10, <https://myrepublica.nagariknetwork.com/news/govt-enforces-hedging-regulation-to-minimize-risk-on-foreign-investment-emanating-from-exchange-rate-fluctuation/>

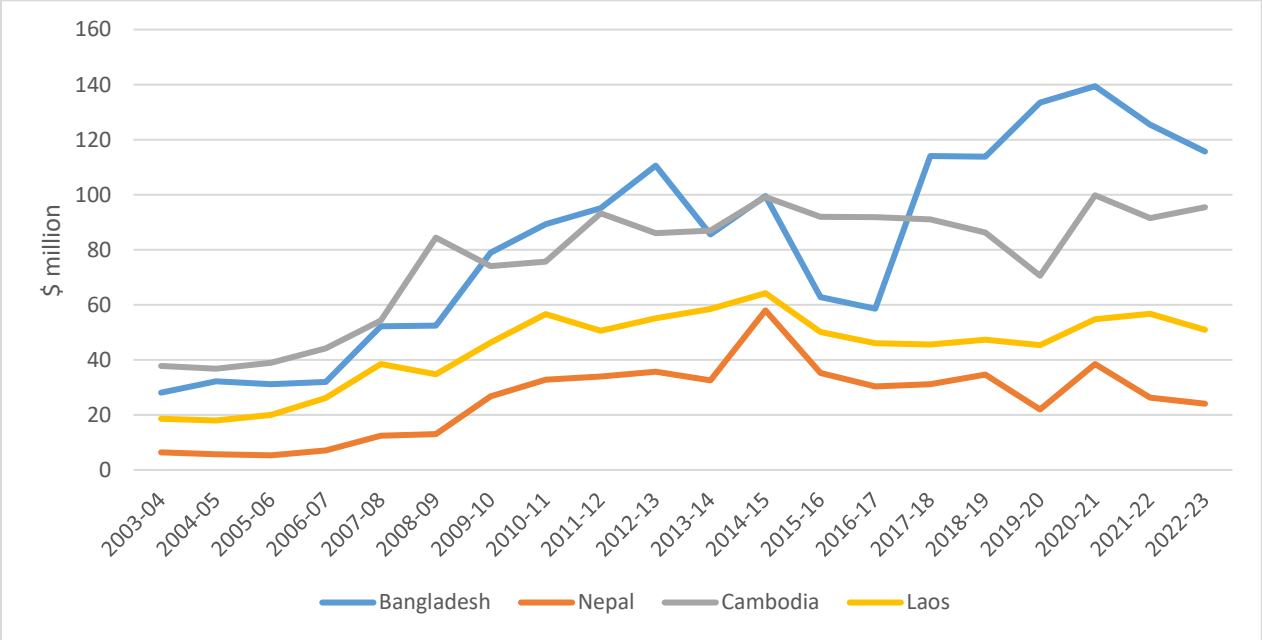
⁸⁷ Siddhartha Pant, "Foreign risk management: A must to attract FDI," *The Himalayan Times*, November 15, 2018, <https://thehimalayantimes.com/opinion/forex-risk-management-a-must-to-attract-fdi>

river basin planning and governance, the interplay between energy and water, climate change, and disaster risk reduction.

Further, in partnership with the International Centre for Integrated Mountain Development (ICIMOD), Australia is helping tackle the challenges faced by mountain communities in the Hindu Kush Himalayas. This effort supports and enhances the contributions of other development partners. A total of A\$5 million has been allocated for this initiative from April 2022 to March 2027. Through the Australian NGO Cooperation Programme, Australian NGOs in collaboration with local NGOs support over 40 projects in Nepal. These initiatives address a broad range of issues, such as communicable diseases, disability, disaster risk reduction, economic development, education, eye health, food security, gender equality, health care, human rights, livelihoods, microfinance, inequality reduction, and rural development.

The Australian Centre for International Agricultural Research (ACIAR) and The Commonwealth Scientific and Industrial Research Organisation (CSIRO) are engaged in Nepal, concentrating on enhancing the integration of soil, water, crops, livestock, and forestry elements within farming systems and river basin management. Additionally, more than one thousand Nepalis have participated in the Australia Awards programme to date with alumni contributing in Nepal’s economy.

Figure 62: Australia’s ODA disbursements to Nepal and other comparator LDCs

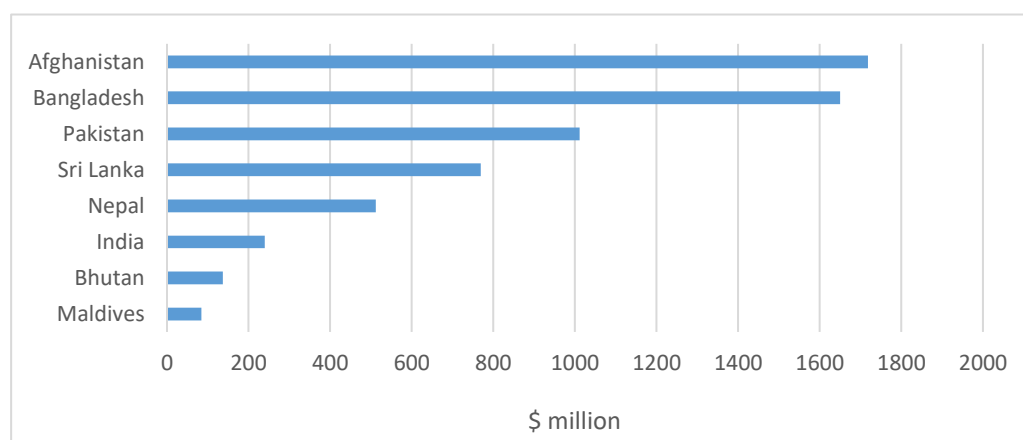


Note: Values in Australian dollars

Year 2020/21 includes COVID-19 temporary, targeted and supplementary measures

Source: Department of Foreign Affairs and Trade, Australian Government

Figure 63: Total ODA receipts by South Asian countries from Australia over 20 years (2003-04 to 2022-23)



Note: Values in Australian dollars

Year 2020/21 includes COVID-19 temporary, targeted and supplementary measures

The figure is based on the sum of total ODAs received over the period of 20 years (2003-04 to 2022-23)

Source: Department of Foreign Affairs and Trade, Australian Government

6. Insights from the private sector

This section presents a summary of the views of private sector actors in Nepal on Nepal-Australia economic ties.

Education services trade, migration and remittances

Students and former students who have obtained work visas are a key source of remittances from Australia to Nepal. Remittance inflows to Nepal from Australia could be as high as US\$1 billion per year. More than half of the remittances are transferred through hundi (that is, bypassing official banking/financial channels). The reasons for remitters' preference for hundi are lower transaction cost, better rate, and "not wanting to be on the books".

Students are a source of remittance inflows. Australia is getting workers to address labour shortages. The spending by Nepali students on college fees in Australia from the money they earn there is two to three times more than the amount they initially transfer from Nepal. This explains the huge difference between the Australia-reported earnings from education services exports to Nepal and the Nepal-reported total value of imports of education services from the world.

The cap on foreign student inflows recently introduced by the Australian government will have a limited impact on inflows from Nepal. Australia will continue to accept an extra 8,000-10,000 students from Nepal each year.

While the US gets the crème de la crème of Nepali students, Australia lags on this score despite featuring good universities as Nepali educational consultancies lack access to top Australian universities. Despite Nepal's position as the third largest source of foreign students in Australia, very few Nepalis are getting

country-level manager jobs representing top Australian universities for student recruitment in Nepal. A concerted inter-college exchange of students between Nepali and Australian educational institutions is also needed. Further, it is high time a separate representation of the Australian government's Department of Education was instituted at the Australian embassy in Kathmandu.

There is potential for hosting full Australian universities in Nepal, but the Nepal government needs to provide land and other infrastructure facilities. Kathmandu, Pokhara and Ilam are suitable locations for these educational institutions. Ilam's attraction stems from its scenic location and proximity to India, strengthened by the presence of Bagdora Airport across the border. Drawing in foreign universities can enable Nepal to attract 20,000 to 30,000 foreign students. At present, colleges in Nepal that have affiliation with foreign educational institutions are not monitored effectively, resulting in poor-quality education in many of them. A significant amount of money is flowing out of Nepal every year from these affiliates. Nepal should learn from India, Dubai, Sri Lanka and Malaysia with regard to hosting full campuses of Australian universities.

While a significant proportion of Nepalis who go to Australia on student visa would expect to meet the cost of their education by working there and strive to settle there and hence may not be interested in studying in an Australian campus based in Nepal, there are a sizeable number of students for whom working and settling down in Australia is not the main focus and are likely to opt for pursuing further studies in Australian campuses in Nepal if that option were available, as it would offer top-quality education at a much lower cost.

The Nepali diaspora in Australia is investing in Nepal. Non-resident Nepalis based in Australia are building a four-star resort in the remote but scenic Rara in Karnali Province, the province's first such resort.⁸⁸ Firms with investment from Australia are providing business process outsourcing (BPO) services, including exports, in the areas of educational consultancy, accountancy and real estate, among others. These firms are located in urban areas, including Kathmandu, Lalitpur, Pokhara, Chitwan, Jhapa and Butwal. One firm does marketing for a company in Australia through Whatsapp. Some 10,000 people might be employed in firms exporting BPO services to Australia. One such firm in Nepal providing services to an Australian real estate company has 200-300 employees. Another firm, which employs 30-40 employees and provides accountancy services to Australian clients, has the investment of a person of Nepali origin based in Australia. Wage cost advantage of Nepal, coupled with the entrepreneurship of the Nepali diaspora in Australia, is driving these investments and exports. The Nepali diaspora in Australia is also investing in Nepal's hydropower sector. Constraints to mobilizing FDI include impediments to repatriating earnings, and poor infrastructure and logistics.

Government of Nepal should be proactive in cultivating and deepening ties with Australia. A step in that direction would be to organize seminars and workshops in Nepal and Australia, and sponsor well-planned, impactful visits (e.g., familiarization trips) to Nepal and Australia of individuals in either country who can contribute meaningfully to bilateral economic ties. Nepal's importance to Australia as a source of students

⁸⁸ <https://abhiyandaily.com/article/krnnaalii-prdeshko-philoo-caartaare-risortt-nirmaann-shuruu-73-ropnii-kssetrphlmaa-enaaren-assttreliyaako-1-arb-lgaaniin>

and thereby service income must be disseminated to a wider audience there. Nepal's potential as an investment and tourism destination must be better marketed.

Education is a key sector of Nepal's interaction with Australia. It has generated both knowledge and financial transfers to Nepal. Australia-trained individuals who have returned to Nepal are contributing to society and economy in various fields.

Concerns are expressed in public and private discourse over the labour drain, brain drain and foreign exchange outflows attributed to the exodus of Nepali youths to foreign shores for education purposes, a sizeable portion of whom settle abroad. But one must not forget that this relationship yields high returns on investment, given the knowledge, opportunities and broader horizon that are accruing to Nepalis. The onus is on the Nepal government to strategize on utilizing Australia-trained Nepalis, whether they are abroad or in Nepal. Due to a lack of decent jobs and poor availability of basic amenities, Nepalis will continue to go abroad, including as students, and many students will continue to stay there. It could be that more than half of Nepali students going to Australia do not return. Nepal does not need all of them to return—that might even be impractical. All that Nepal needs is that a decent number of capable people, who have received valuable education, training and experience abroad, return and create jobs or contribute to the economy through other means. The sizeable resident population of Nepali origin in Australia is a potential source of soft power.

Tourism

Trekking, mountaineering, outdoor adventure and eco-tourism are a major draw of Nepal for Australian tourists. There is tremendous potential to bring in more tourists from Australia, especially those who seek to explore the wilderness.

In addition, there is an emerging segment of tourists from Australia carrying promising potential that goes beyond dollar earnings. Over the last two decades Nepal has become increasingly popular as a destination for excursion and cross-cultural learning for Australian school students. They come here as part of school-organized extra-curricular activities. They visit rural areas and heritage sites, trek, learn about Nepali culture and heritage, interact with locals, including students, and engage in small-scale community projects such as helping build/rebuild schools entailing light construction work. Some small-scale community projects also benefit from funds mobilized from within Australia by the visitors. Tour operators in Nepal have to maintain high safety and quality standards when dealing with school children. The trips are based on the principle of combining fun and learning in a safe environment. One tour operator conducts periodic training for its staff by bringing in international experts, including specialists of wilderness medicine.

Community schools in rural areas are reluctant to accept funds contributed by these visiting student groups when the amounts are not big enough to meet a significant portion of their needs as accepting the funds (and seeking the authorization of local governments to accept the funds) carries the risk of local governments withholding or reducing the disbursement of regular funds, citing the availability of foreign funds. While there may have been stray cases of misuse of such foreign funds, and monitoring their flow is warranted, a transparent and predictable arrangement needs to be set up to allow visiting foreign student groups to contribute financially to local schools as this contribution is a vital part of the experience

such trips are conceptualized to create. This nascent segment of Australian tourists must be nurtured for its far-reaching value. The experiences and impressions the young students acquire in Nepal, the bonds they forge here and the memories they take back home with them carry the potential of feeding a self-sustaining reservoir of goodwill in Australia towards Nepal and Nepalis that might as well transcend generations.

With the advent of federalism, local governments are imposing taxes on tourism businesses whimsically. The federal government is extending the application of the value added tax (VAT) to more and more activities and services in tourism, some of which are key inputs—from portage to air travel—raising the cost of Nepal’s tourism industry. A shortage of skilled labour, including licensed climbers, is a serious problem, with workers migrating abroad. Some trek and tour operators conduct their operations using another operator’s licence, do not have a proper office, have made little investment, and poach staff from operators that have incurred substantial fixed costs in setting up their business and invested considerably in training their staff.

Air safety concerns and poor road conditions are a deterrent to Australian tourists. For the last seven years or so, flights from Kathmandu to Lukla, a town in the foothills of Sagarmatha (internationally known as Everest), have been diverted to Ramechhap during peak trekking season. While tourists take a flight from Ramechhap to Lukla, the 143-km road to Ramechhap, which they cannot avoid, is in a poor condition. When Ramechhap-Lukla flights get cancelled, they face an additional hardship due to the absence of hotels of decent quality. Further, a transport syndicate charges an exorbitant NPR60,000 per jeep for a road trip from Ramechhap to Faplu in the event of flight cancellations. Hoteliers in remote destinations operate a syndicate, making room and board extremely expensive.

“Extreme” price discrimination against tourists in airfare for domestic flights contributes to making Nepal an expensive destination.

There are insufficient numbers of aircrafts and pilots to operate STOL (short take-off and landing) aircraft. Frequent accidents are dissuading investors and pilots from venturing into STOL operations. The economic feasibility of operating direct flights between Nepal and Australia has been confirmed more than once, but the issue has not made any headway. Direct flights would provide a major fillip to Australian tourist inflows to Nepal.

Australian tourists’ spend is higher than the average spend of tourists in Nepal. They are drawn towards buying hand-knotted carpets and handicrafts. Some buy climbing equipment, kits and bags, and jackets—mostly imported—as these items are much cheaper here than in Australia.

Internal connectivity—road and air—must improve to bring in more tourists. Road construction is excruciatingly slow.

Political instability is causing delays in reforms to policies, laws, regulations and institutions. No sooner does a tourism minister or secretary start to understand the pressing issues facing the tourism industry and, if they are sincere about helping the industry, start to take some actions than a new person replaces them. Political instability translates into policy instability; a new government is loath to continue the policies and decisions of the previous government even if they make sense.

Nepal as a tourist destination that has much to offer is yet to be effectively marketed in Australia, despite the fact that Nepal is a major source of students and immigrants in Australia. Neither the Australian government nor the Nepali government is making adequate efforts and spending sufficient resources to boost bilateral ties in the tourism sector. The private sector is doing its part, but government role is crucial. A major tour operator based in Australia organizes fam trips to Nepal from time to time. As part of its aid to Nepal, the Australian government should consider supporting more familiarization trips to Nepal in collaboration with the Nepal government and the Nepali private sector. The Australia government can also help by introducing reliable Nepali tour operators to Australians.

There is potential for joint ventures between Australia and Nepali businesses in high-value tourism.

Merchandise trade, and investment

Stringent sanitary and phytosanitary (SPS) measures in Australia serve as a bottleneck to exporting food and other agriculture and forest-based products.

Challenges in meeting testing and certification requirements are constraining exports.

SPS issue is at the core of lack of export diversification of chhurpi (a type of hard cheese), sold as dog chew, which has emerged as a key item in Nepal's export basket but whose exports are concentrated in the US. Specifically, the inability to obtain foot and mouth disease-free certification hinders exports to many potential destinations, including Australia. Whereas Nepal exported nearly US\$14 million worth of chhurpi (as dog and cat: HS 230910) on average during 2017-2022 and Australia imported on average US\$347.50 million worth of dog and cat food from the world, Nepal's exports to Australia of the product were zero.

There are instances of shipments of exports to Australia being returned for lacking the required fumigation certification. As Nepal does not have fumigation services in line with Australian requirements, fumigation is currently carried out in transit in India. However, uncertainty about its continued acceptance by Australia has led firms to stop exporting to Australia.

High transport and other logistics costs also erode the competitiveness of Nepali products in Australia. The cold storage facilities at the Tribhuvan International Airport in Kathmandu are either expensive or do not have the required standards.

Nepali products are in high demand among the Nepali diaspora in Australia. Recently, a company exported 50,000 bottles of pickles in a single consignment. The Nepali-speaking community in Australia is driving a portion of merchandise exports from Nepal such as beer.

Nepal is exporting flower bulbs to the US, Europe and Japan, among other destinations. Some firms export bulbs to Holland, where buyers repack and re-export the same to other countries, including Australia. An internationally accredited laboratory in Nepal would help increase exports of flowers, and also break into the Australian market. Currently, the flower market in Australia is impenetrable for Nepali businesses.

Subsidies to farmers and agri-business in other countries, including India, put Nepali producers and exporters at a disadvantage.

Support from the Australian government to help Nepali businesses understand the SPS requirements in Australia and to assist Nepal in upgrading its quality infrastructure to meet those requirements would be welcome. Trainings for Nepali business people organized by the Australian government as part of a tour of Australia have been helpful to understand the rules, regulations and other aspects of doing business with Australia.

There is potential for joint ventures between Australia and Nepali in the processing of medicinal and aromatic plants; and agriculture (including floriculture).

Australians have good design ideas. For example, beach tents (as easy sun shelters that can be opened with a button) designed in Australia and made in China are exported worldwide. Baby products are also exported from Australian-Chinese joint ventures in China, with Australians contributing especially in the design and post-production stages. Make in Nepal and Made in Nepal initiatives should explore ways to attract Australians to form joint ventures in Nepal.

Australian lambs, technology and knowhow could breathe new life into a sheep farm in Jumla, originally built in the 1960s with foreign aid. Sheep wool thus produced could supply Nepal's export-oriented pashmina industry, which relies almost entirely on imported wool. The Nepali private sector is exploring avenues of collaboration with Australian federal and state governments, farms and businesses for Boer goat rearing.

Meetings between the business communities of Australia and Nepal should be organized more often. In committees formed to promote business ties between Nepal and another country, business people (people who understand business) should be included. Fam trips to Nepal should include actual business people of Australia.

Shilajit, an organic mineral compound derived from high mountain rocks; medicinal and aromatic plants; essential oils; bedsheets made of Nepali textiles; handmade bags, mats and other textile products made from natural fibres, including thakar, allo, banana and cotton, hold potential for export to Australia. Nepal should look at products that India is exporting to Australia to get inspiration and ideas. For example, handmade mats being exported from Kolkata to Australia indicate the potential possessed by the traditional handmade mats of Nepal's Tharu community. Traditional tapari plates, made by stitching Sal leaves with thin bamboo sticks, can be sold in restaurants in Australia as a healthy and eco-friendly substitute for modern plates. Walnut oil derived from walnut produced in the remote Jumla district has been exported to Australia via Switzerland.

There is untapped potential in leveraging Australian expertise to develop an export-oriented agriculture sector in Nepal. Australian investments in agriculture will bring in technology and knowhow critical for producing high-quality and exportable pork, poultry and horticulture products. China and Northeast India are attractive markets for pork, and Ilam of east Nepal is a potential pork production hub. Poultry products are in high demand in West Asian countries. Poultry products are potential items to fill the currently grossly underutilized cargo space in Qatar Airways flights. Nepal should also explore the idea of drawing in Australian investment and expertise to develop vineyards and wineries, and cultivate nuts.

More engagement between Nepal and AusTrade (Australian Trade and Investment Commission) would be helpful. The posting of a representative of AusTrade in the Australian embassy in Kathmandu would be a good start.

7. Way forward

Government of Nepal should consider being more proactive in cultivating and deepening ties with Australia. Nepal's importance to Australia as a source of students and thereby service income must be disseminated to a wider audience there. Nepal's potential as an investment and tourism destination must be better marketed. The Australian government's support in this endeavour will be equally important.

Education is a key sector of Nepal's interaction with Australia. It has generated both knowledge and financial transfers to Nepal. Australia-trained individuals who have returned to Nepal are contributing to society and economy in various fields. Concerns are expressed in public and private discourse over the labour drain, brain drain and foreign exchange outflows attributed to the exodus of Nepali youths to foreign shores for education purposes, a sizeable portion of whom settle abroad. An alternative view is that this relationship yields high returns on investment, given the knowledge, opportunities and broader horizon that are accruing to Nepalis. The onus is on the Nepal government to strategize on utilizing Australia-trained Nepalis, whether they are abroad or in Nepal. The sizeable resident population of Nepali origin in Australia is a potential source of soft power. *Prima facie*, there is an opportunity for Australian universities to open campuses in Nepal, provided appropriate facilitation measures are taken by Nepal government. Investors, professionals and policymakers in the education sector should explore this idea in greater detail, and identify the precise support measures needed from the two governments.

Nepal taking determined steps to improve its quality infrastructure and Australia, as part of its aid for trade programme, helping Nepali exporters understand and prove compliance with its SPS and TBT regime, besides assisting Nepal in upgrading its quality infrastructure, are needed to unlock Nepal's export potential in goods, vis-à-vis not just Australia but the whole world. Nepal should continue with trade and investment policy reforms, emphasizing further transparency, clarity and predictability, as well as implementation of the minimum standard of protection for intellectual property rights.

There is untapped potential in leveraging Australian expertise to develop an export-oriented agriculture sector in Nepal. Australian investments in agriculture will bring in technology and knowhow critical for producing high-quality and exportable agricultural, food and forest-based products.

Direct flights would provide a major fillip to Australian tourist inflows to Nepal.

Continued and enhanced Australian support for improving connectivity in South Asia, with a meaningful component that addresses the special needs of landlocked countries of the region, would be welcome. The ambit of such support could include research, dissemination, capacity building and advocacy activities that will contribute to improved intra-regional and extra-regional connectivity in the medium to long run.

Meetings between the business communities of Australia and Nepal should be organized more often. More engagement between Nepal and AusTrade (Australian Trade and Investment Commission) would be helpful. The private sector feels that the posting of a representative of AusTrade in the Australian

embassy in Kathmandu would be a good start. Likewise, instituting a dedicated representation of the Australian government's Department of Education in Kathmandu would be commensurate with Nepal being a major source of international students for Australia. The Australian government could consider supporting more familiarization trips to Nepal in collaboration with the Nepali government and private sector.

Meetings of the Joint Australia-Nepal Trade and Investment Committee, expected at least once every two years as per the Trade and Investment Framework Agreement, would benefit from a clear agenda, diligent follow-ups on previous decisions, and a critical assessment of progress. Establishing sector- or theme-specific sub-committees with the participation of relevant government agencies and key stakeholders, backed by regular meetings and follow-ups, could help make the Committee more effective. The sub-committees would benefit from in-depth issue-specific research, some of which may be done jointly by researchers based in Nepal and Australia. Collecting and updating detailed data on bilateral trade, investment, migration and remittance flows and stocks are essential to fill data gaps that constrain informed policy- and decision-making.

The Australian Embassy Business Advisory Group can provide useful inputs to the Committee. Nepal government should strategically mobilize its embassy, consulates and honorary consulates general in Canberra and other cities of Australia to identify and implement actions for advancing economic ties—in the process, both informing the activities of and executing the decisions of the Committee.

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